Business Organisations

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Introduction

As an entrepreneur setting up a new business, I am producing this report for Barclays Bank 'new business start-up division' outlining my knowledge on business sectors and organisations.

1.1 Business Sectors

Organisations are divided into two main sectors: public and private.
The public sector is government owned, funded by taxpayers and mainly consist of services, such as the NHS.
The private sector comprises of different businesses, owned by individuals, partners or shareholders. Their main goal is to make profits and a return on invested capital.

The economy can further be divided into the following five business sectors: Primary, secondary, tertiary, quaternary and quinary.

- The primary sector is involved in the harvesting and extraction of raw materials. Some industries that are in the primary sector are fishing, agriculture and mining. British Petroleum and Shell are examples of companies that operate in the primary sector, as they are involved in the extraction of oil.
- The secondary sector process raw materials from the primary sector to produce consumable products with added value. Some examples of industry in the secondary sector are, manufacturing, food processing and oil refinery. Food production companies such as McVities Biscuits, Coca-Cola operate in this sector.
- The tertiary sector, also known as the service sector, is involved in the provision of services. These services may include transportation, distribution and sale of goods, as is with supermarkets such as ASDA and online stores such as Amazon. The services may also involve the provision of a direct service such as hairdressing, teaching and medical care.
- The quaternary sector is the knowledge-based extension of the tertiary sector. It includes services that help to discover and provide information. Some fields in this sector are archaeology, scientific research, and astronomy. NASA, Google, libraries and museums are examples of organisations in the quaternary sector.
- The quinary sector is also an extension of the tertiary sector. This is the sector involved in decision-making. Individuals that work in this sector are responsible for interpreting information and making decisions that have the most impact on the economy. Prime ministers and Presidents are some examples of

individuals in the quinary sector and the United Nations (UN) is an organisation in this sector.

1.2 Difference between Types of Business Organisations

A business organization is an individual or group of people that collaborate to achieve commercial goals (Kokemuller, Copyright 2018).

Some of the types of business organisations are:
Sole trader, partnership, limited liability partnership (LLP), limited company (Ltd) and public limited company (PLC).

A sole trader is a business owned by a single person. The owner may employ people to help with the running of the business but the owner makes all the decisions and is solely responsible for funding the business. A sole trader has unlimited liability, meaning that the owner is financially responsible for the business debts and may have to pay them off from their personal funds, if the business went bankrupt. Independent service providers such as barbers, plumbers and taxi drivers are examples of sole traders.
A sole trader is easy to set up; the owner has full control of the business and does not have to share profits. However due to it having Unlimited liability the sole trader could lose everything including their personal belongings. It could also be harder to source funding and if the owner lacks some knowledge, they do not have a partner to consult. That is where having a Partnership would be more Advantageous.

A partnership is unlike a sole trader in that it has two or more owners, who have equal power in decision making and financing the business. Some partnerships have, what is known as, sleeping partners who are not directly involved in the running of the business but have financially invested in it. Partnerships are more advantageous than sole traders because partners can share expertise and raise funds faster than a sole trader. However just like a sole trader partnerships have unlimited liability making the partners financially vulnerable to the business's debt but unlike a sole trader partnerships have to share profits and consult each other when making decisions, which can cause disagreements and disputes. Some Solicitors and dentists are examples of businesses that operate as partnerships.

Limited liability partnerships (LLP's) differ from partnerships in that the members of the partnership have limited liability. Therefore, the partners are only financially liable for business debts up to the amount they have invested in the business (gov.uk, 2018).

Limited companies (Ltd.'s) have a separate legal identity from the owners; therefore, the company can apply for credit and enter into contracts independently. It has limited liability and the ability to sell shares of the business, however shares are only sold at the discretion of the current shareholders, therefore they are not open to the public for sale. Compared to a sole trader and partnership a limited company is not as easy to set up, company information has to be made public and shareholders get a percentage of the profits. If the company sold too many shares, the owners could lose control of the business. Some examples of limited companies are Specsavers and The post office.

Public limited companies (PLC's) differ from limited companies in that anyone can buy their shares on the stock market and even more information about the business has to be made public. Some examples of public limited companies are, Vodafone and Apple.

1.3 Comparison and Contrast of Business Organisations

The three Organisations I am going to compare and contrast are, Google, the National Health Services (NHS) and British Petroleum (BP).

The National Health Services (NHS) is a British government owned, non-profit organisation that provides healthcare services. It is in the tertiary sector and is funded by taxpayers. Since it is not for profit there is no need for it to compete for customers, which may lead to poorer service compared to other private health care organisations such as Bupa.

Google is a technology company that specialises in internet related services. It is in the quaternary sector and unlike the NHS; Google is a public limited company, in the private sector. Funded by its shareholders and its main aim is to make a profit. In contrast to the NHS, Google work on, development of their services and expansion. While the NHS can only expand depending on the government budget allocation.

British Petroleum is an oil and energy supplier. It can be compared to Google in that it is a public limited company and its aim is to attain profits for its shareholders. However, it differs from both the NHS and Google in that it occupies more than one economic sector. As it is involved in the extraction of oil in the primary sector, oil refining in the secondary sector and retailing of oil in the tertiary sector.
BP is also involved in the quaternary sector, like Google, as it works on developing better fuel and sustainable energy.

2.1 Evaluation of the reasons why Business Organisations expand

It is desirable for business organisations to expand in order to reach more customers and in turn make more profits. Businesses such as Costa and

KFC have been able to reach a lot more customers by expanding internationally through franchising.

In some cases, a business might need to expand in order to survive. For example, local shops might need to expand into ecommerce or open new stores in different locations. If competition has grown too high in their current location. Expansion would help them keep up with the competition and meet their customers changing needs.

Businesses can also expand to have the ability to cut out the middlemen, have more control over their products quality and attain profits from more than one sector. Either by starting a new business in a different sector or integrating with businesses in the sector that precedes or follows them, which is known as, backward vertical integration and forward vertical integration, respectively.

Expanding into a range of sectors also enables businesses to control prices and therefore have more control over the market. Companies that have expanded in this way are BP and Shell who are in all the sectors of the energy business.

Expansion helps businesses spread out risk. By diversifying, a business can stay afloat even when one part of their business fails. Most superstores e.g., Tesco and ASDA, have diversified into insurance, pharmacies and fuel stations, therefore they are at a lower risk of losing everything, if there were to be a disaster in the grocery business, than

Having looked at the reasons why businesses expand, I shall now evaluate why some businesses may choose not to expand.

- Businesses might not grow to avoid diseconomies of scale. In cases where the businesses revenue does not grow in proportion to its expenses. Especially in service based businesses the bigger the business grows the more employees it would need which would result in more expenses going out in wages and salaries.
- Businesses may find it difficult to maintain coordination as they grow. The more products and markets a business has to manage the harder it may be to sustain efficient processes and consistency.
- Businesses may not want the hassle of recruitment and human resources. As a business grows, it may have to employ more staff and this may make communication and staff motivation a bit more complicated.
- A business owner might not want to expand in order to maintain control over the business.
- Specialist businesses that appeal to niche markets might be wary of losing their uniqueness or becoming too common.

Successful business growth requires great management to be sustainable. If a business grows, too quickly or without proper planning it may be faced with problems that could be detrimental to the business.

2.2 How business organisations expand

There are two types of business growth, rapid growth and organic growth. Rapid business growth is faster and can generate more profits. Businesses can achieve this type of growth by buying or merging with new businesses. Organic growth is steady and slow but less risky. Businesses can grow organically by market penetration and development.

Using the Ansoff matrix, I shall now describe the various ways in which business organisations grow and expand.
The Ansoff matrix is a grid developed by Igor Ansoff a Russian mathematician; that is used to strategically plan the growth of a business.

The Ansoff Matrix (JaisonAbeySabu, 2014)

As seen on the matrix, the first way a business can grow is through market penetration. This is the safest way, which simply involves promoting the same products to the same market with the aim of increasing the business's market share and beating competitors. Most businesses naturally do this through promotions, loyalty schemes competitive and penetration pricing.
Businesses can also grow at this stage by merging or taking over their competitor's businesses through horizontal integration.

Market development is another growth strategy. This is when a business enters a completely new market (which could be a different culture, age group or even gender), with the same products. Through franchising, businesses such as McDonald's and Starbucks grow by opening stores all over the world reaching new markets with the same products.

A business can also grow through product development by introducing new products to the same market. This is common in the technology business, where companies develop new software or products that target the same market. For example, Xbox develop new games that can only be played on an Xbox, thereby targeting the same market of people who own an Xbox.

Diversification is the riskiest expansion strategy because it involves entering a new market with a new product. The product and market could be related to the business's current products and market as it is with Shell. Shell is mainly known as a fuel station and oil company, now supplying gas and electricity to households or it could be completely unrelated to the business, as it is with Virgin, that is a mobile phone and broadband company as well as an airline and train company. Diversification can also be achieved through conglomerate integration, where businesses merge or take over other unrelated businesses.

2.3 Evaluation of the potential benefits and pitfalls of business expansion using case studies.

Some examples of businesses that have successfully expanded are Coca Cola, McDonald's and Apple. However, expansion has its downfalls and many businesses such as Starbucks and Tesco have failed in some of their expansion ventures.

In this chapter, I shall be evaluating the pitfalls and benefits of business expansion using Apple and Starbucks as my case studies

Apple
Steve Jobs and Steve Wozniac founded Apple in 1976 and they released their first product the Apple 1 in the same year (Rawlinson, 2017). Since then they have grown organically through innovative product development, good marketing strategy and market penetration.
Here are some of the ways, Apple has benefited from growth.

- Apple has been able to take advantage of economies of scale. Since they have a large market, they can mass-produce, resulting in increased profit margins.
- It is easier for them to market their products. Since they have more money to allocate to marketing.
- They are able to set the trend and industry standards. As a well-known multinational company, customers trust them and other smaller companies will imitate them to gain customers trust.

- Apple can take more risks since they have a range of different products and software in different markets. If one were to fail, they can still survive.
- It is easier for apple to obtain finance. When Apple was starting out Jobs and Wozniac struggled to finance the business. Now Apple has numerous shareholders and are capable of easily sourcing finance.

One pitfall of expansion that Jobs and Wozniac faced was the loss of control. As it was in 1985 when Steve Jobs lost his position as CEO of Apple after the board of directors had requested he resign.

Starbucks
Starbucks opened their first store in 1971 (starbucks.com, viewed 2018) then continued to grow organically through market penetration and development strategies, such as the opening of their first drive-thru in 1994, as well as product development such as the introduction of the Frappuccino a year later.
In the following years, Starbucks saw some rapid (inorganic) growth with the acquisition of Tazo Tea, Ethos Water and Hear Music, a San Francisco–based music company.

Despite its successful growth, in the 2000's Starbucks had stumbled into some of the pitfalls of growth. Leading to the closure of nearly 600 stores and a drop in profits and the Starbucks stock price (Quelch, 2008).
- They had grown too quickly compromising quality and standards. Waiting time increased as the menu broaden and baristas had more to do, reducing the initial engagement they normally had with customers.
- Starbucks began to lose its brand identity making it no different from any other coffee shop. As a result, Starbucks lost customers to other coffee companies and fast food operators that did not demand a premium price.
- They made losses when they attempted to enter markets they did not understand such as Israel, Italy and Australia (Lutz, 2014).

As we can see from the case studies, expansion has many benefits but without proper planning, market research and control. A business can lose more than it gains.

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