

Who owns it, and how big should it be?

Business structure and size

AS Level 1.2 Business structure · 1.3 Size of business

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Running case: Nexa Refill, Lahore · 60 minutes

How this topic is examined

Paper 1 • Business concepts • 40 marks

Define the term... [2] • Explain two... [3]

Analyse one difficulty... [5]

Essay choice: (a) Analyse... [8]

(b) Evaluate whether... / '...' Evaluate this view [12]

Paper 2 • Business decision-making • 60 marks

Identify one feature of a... [1]

Explain the term... (line x) [3] • Calculate [3]

Analyse two benefits to [owner] of... [8]

Evaluate whether [owner] should... [12]

Typical questions on this topic

Define the term limited liability / franchise / hostile takeover. [2]

Explain two limitations of partnership as a business structure. [3]

Analyse two benefits to a business of using a vertical merger for growth. [8]

Evaluate whether [business] should change from a private limited company to a public limited company. [12]

Evaluate whether a joint venture is the most appropriate way for [business] to grow. [12]

By the end of this lecture you can...

- 1 Classify businesses by economic sector and explain changes in the importance of sectors.
- 2 Compare the public sector and the private sector.
- 3 Compare sole traders, partnerships, private and public limited companies.
- 4 Explain franchises, co-operatives, joint ventures and social enterprises.
- 5 Measure business size, and explain the role of small and family businesses.
- 6 Evaluate methods of growth: internal growth, mergers, takeovers and integration.

Starter: remember Part 1?

- Q1** Define the term added value.
- Q2** Nexa's added value is PKR 310 per refill but profit is PKR 80. Why?
- Q3** What is the difference between an entrepreneur and an intrapreneur?
- Q4** Give one difference between risk and uncertainty.
- Q5** If Amina's business owes money it cannot pay, could she lose her house? Why?

Nexa Refill: bigger, but is it ready to grow?

The situation

Nexa Refill is still a sole trader, owned by Amina.

A hotel group wants a large contract. Nexa needs a PKR 3m filling line to supply it.

The bank will lend only if Amina offers her house as security.

Who should own and fund the next stage?

Indicator	Year 1	Year 2
Sales revenue	PKR 2.4m	PKR 5.1m
Average paid workers	3	8
Bottles refilled	18,000	42,000
Net profit	PKR 0.32m	PKR 0.46m
Homes / hotels served	410 / 1	760 / 2
Owner’s capital	PKR 1.1m	PKR 1.1m

Which of these measures shows Nexa is “bigger”? Do they agree?

Case brief: Nexa Refill

Amina founded Nexa Refill in Lahore as a sole trader with PKR 1.1m of her own savings. Nexa mixes concentrated cleaning liquids (secondary sector) and runs a refill, delivery and collection service (tertiary sector).

In two years revenue rose from PKR 2.4m to PKR 5.1m and workers from 3 to 8, but net profit rose only from PKR 0.32m to PKR 0.46m, and Amina's capital has not changed.

A hotel group has offered a contract that needs a PKR 3m filling line and consistent hygiene standards. Amina wants to keep control, but the bank has asked for her house as security for a loan.

Options: stay a sole trader and borrow; take a partner; form a private limited company and sell 30% of the shares to an investor; or set up a joint venture with the hotel group.

Economic sectors

Primary

extracting natural resources:
farming, mining, fishing

Secondary

manufacturing and
construction: Nexa's mixing
and filling

Tertiary

services: Nexa's delivery and
refill service

Quaternary

knowledge and information:
data, research, IT

Changing importance of sectors

As countries develop, employment and output shift from primary to secondary, then to tertiary and quaternary (deindustrialisation in many developed economies).

Exam tip: one business can work in several sectors. Classify each ACTIVITY, then say which is most important to the business.

Public sector and private sector

Private sector

Owned by individuals or shareholders.

Usual aims: profit, growth, survival, market share.

Nexa is in the private sector.

Public sector

Owned and controlled by the government.

Aims: public service, social goals, affordable prices.

Funded by government, so less risk of closure.

Why some organisations are in the public sector: essential services, natural monopolies, services that would be unprofitable (rural transport), national security. Privatisation moves them to the private sector.

Sole traders and partnerships

Sole trader

- + Keeps all profit; full control; quick decisions; easy to set up; privacy
- Unlimited liability; limited finance; long hours; no continuity

Nexa today: Amina's house is at risk.

Partnership

- + More capital and skills; shared workload
 - Usually unlimited liability; profits shared; disagreements; one partner's decisions bind all
- A partnership agreement sets out shares and roles.

Unincorporated: no separate legal identity from the owners, so the owners are personally liable for all business debts.

Check 1

1

Which sector is Nexa's delivery service in?

Answer: Tertiary.

2

Give one reason why an organisation might be in the public sector.

Answer: Essential service; natural monopoly; unprofitable but socially needed service.

3

Give one disadvantage of a partnership.

Answer: Unlimited liability; disagreements; profits shared; limited capital.

Incorporated businesses: limited companies

Structure	Liability	Finance	Control
Private limited company (Ltd)	Limited	Shares sold privately	Shareholders; family can keep control
Public limited company (plc)	Limited	Shares sold to the public	Risk of takeover; public accounts

Incorporation

A company is a separate legal entity: it can sue and be sued, own assets, and continue if a shareholder leaves. Owners have limited liability.

Plc trade-off: large capital from the public, but costs of flotation, published accounts, loss of control and possible hostile takeover. A bank may still ask a Ltd owner for personal security.

Other forms of business

Franchise

Pay a fee and royalties to use a brand and methods. Lower risk, less freedom.

Co-operative

Owned and run by members who share the surplus. Democratic control.

Joint venture

Two businesses share capital, costs, risks and profits of one project.

Social enterprise

Main aim is social or environmental; surplus reinvested.

For Nexa: a JV with the hotel group brings capital and access; a co-operative could let refill suppliers buy jointly; a social enterprise only if low-waste access became the main aim.

Choosing a structure: match it to the stage

Nexa's stage	Structure	Why
Small pilot	Sole trader	Speed and control
Need skills or a little capital	Partnership	Shared skills and work
Need capital and protection	Private limited company	Limited liability; chosen investors
Need large public capital	Public limited company	Only if owners accept scrutiny

Judge by: liability, control, finance needed, and the owner's objectives.

Check 2

1

Define limited liability.

Answer: Owners can only lose what they invested; personal assets are protected.

2

Give one disadvantage of a plc compared with a private limited company.

Answer: Risk of hostile takeover; must publish accounts; costly to set up; loss of control.

3

Give one disadvantage of buying a franchise.

Answer: Fees and royalties; little freedom; reputation depends on other franchisees.

Measuring the size of a business

Employees

Nexa: 3 → 8

Revenue

PKR 2.4m → 5.1m

Capital employed

PKR 1.1m

Market share

share of total market
sales

Output

bottles: 18,000 → 42,000

Each measure has limits

Employees: a capital-intensive business can be large with few workers. Revenue: depends on price, not just scale.

Market share: depends on the size of the market. Use more than one measure.

Nexa: revenue rose 113%, workers 167%, but net profit only 44% and capital did not change. Bigger is not the same as more successful.

Small businesses and family businesses

Strengths of small businesses

- + Personal service and flexibility
- + Quick decisions: Nexa can change a fragrance after hotel feedback
- + Owner keeps control
- + Fill niche markets

Weaknesses

- Higher unit costs: suppliers charge Nexa more for bottles
- Harder to raise finance
- Few specialist skills
- Depend on a few customers

Why they matter to a country: jobs, competition, innovation, supply larger firms. Family businesses: strong commitment, but succession and conflict risks.

How businesses grow

Internal (organic)

- Reinvest profit: new lines, products, regions, staff.
- + Keeps control and culture
 - + Lower risk
 - Slower

External growth	Meaning	Nexa example
Horizontal	same stage, same industry	Nexa buys a rival refill seller
Vertical backward	earlier stage (supplier)	Nexa buys a bottle maker
Vertical forward	later stage (customer)	Nexa buys a refill retailer
Conglomerate	unrelated industry	Nexa buys a games studio

Merger = agreed joining · Takeover = buying over 50% of shares (hostile if the board opposes) · Joint venture and strategic alliance = cooperation without full ownership.

Applying it to Nexa Refill

Topic	What the case shows	What it means
Sector	Mixing = secondary; delivery = tertiary	Service is what customers value
Structure	Sole trader: unlimited liability; bank wants her house	Limited liability would protect her
Size	Revenue +113%, profit +44%, capital unchanged	Growth is outpacing finance
Growth	PKR 3m filling line needed for the hotel	Organic is safest; JV or investor is faster

Check 3

1

Give two ways of measuring business size.

Answer: Employees; revenue; capital employed; market share; output.

2

Nexa buys its bottle supplier. What type of integration is this?

Answer: Backward vertical integration.

3

Give one advantage of internal growth.

Answer: Owner keeps control; lower risk; culture preserved; no integration problems.

Back to Nexa: make the decision

A

Stay a sole trader and take a PKR 3m bank loan secured on Amina's house

B

Take a partner who invests PKR 1.5m and shares decisions

C

Form a private limited company; sell 30% of the shares to an investor

D

Set up a joint venture with the hotel group for the filling line

Discuss: Which ONE option should Amina choose? Justify it, and say why you rejected the others.

Use the case: liability, control, PKR 3m needed, PKR 1.1m capital, profit up only 44%.

Judge: what matters most to Amina: control, risk or speed?

How you earn the marks



Define	[2]	Full, precise definition; an example alone is not enough
Identify	[1]	One valid point
Explain	[3]	AO1 1 + AO2 2: one point, developed (in the case for Paper 2)
Analyse	[5]	AO1 1 + AO2 2 + AO3 2
Analyse two...	[8]	AO1 2 + AO2 2 + AO3 4 (levels): two developed chains
Evaluate	[12]	AO1 2 + AO2 2 + AO3 2 + AO4 6: two sides, then a supported judgement in context

Worked answer: Analyse... [8]

Exam-style question Analyse one advantage and one disadvantage to DD of being a small business.
[8]

The business: Dina's Dresses (DD) makes made-to-measure dresses in one workshop with four employees. A national clothing chain sells similar dresses at lower prices.

Advantage: Personal service and flexibility: DD can make each dress to the customer's exact size and design, so customers pay more for a service the national chain cannot offer, which supports DD's profit margin.

Disadvantage: Higher unit costs: DD buys fabric in small amounts and cannot get the chain's bulk discounts, so its costs per dress are higher and it cannot match the chain on price, which limits sales to customers who value fit over price.

Level 2 analysis: each point needs a full chain to an effect on DD, not just a list.

Worked answer: Evaluate whether... [12]

Exam-style question Evaluate whether TBK should change from a private limited company to a public limited company. [12]

The business: TBK makes school furniture. The three founders own all the shares. It needs \$20m for a new factory and wants to win government contracts across the country.

A plc can sell shares to the public, so TBK could raise the \$20m for its factory without heavy loans, reducing interest costs and allowing faster national growth.

But the founders would lose control: outsiders could buy shares and even take over TBK, and accounts must be published, so rivals see its contract prices.

Overall, TBK should convert only if the \$20m cannot be raised from loans or a few private investors and the founders accept less control. It depends on how quickly the contracts must be met.

AO4: a judgement in context that says what it depends on. The full answer develops each side further.

Where students lose marks

✗ “Limited company = no risk”

Owners can still lose their investment; banks may ask for personal security.

✗ Plc = any big company

A plc can sell shares to the PUBLIC; a Ltd cannot.

✗ Public limited company = public sector

A plc is in the PRIVATE sector.

✗ Revenue growth = success

Check profit, cash and capital too.

✗ Forward vs backward mixed up

Backward = towards suppliers; forward = towards customers.

✗ One-sided “evaluate”

Weigh both sides, then judge in context.

Exam drill: try it under time

Exam-style question

Hassan's Hardware (HH) is a private limited company owned by Hassan and his two sisters. Its revenue rose from \$800 000 to \$920 000 in one year. HH plans to open two more shops using retained profit.

- (a) Explain the term private limited company. [3]
- (b) Calculate the percentage increase in HH's revenue. [3]
- (c) Analyse two benefits to HH of internal growth. [8]

Timing rule

About 1.5 minutes per mark.

- (a) + (b): 9 minutes
- (c): 12 minutes

Swap and mark each other's answers with the AO1–AO4 grid.

Homework: the Part 2 practice paper.

Exit ticket

- 1 Define the term limited liability. [2]
- 2 Give one advantage and one disadvantage of a private limited company for Nexa.
- 3 Which option should Amina choose for the PKR 3m filling line, and why?

Next lecture: business objectives and stakeholders (AS 1.4–1.5).

Summary: key terms from Part 2

Primary / secondary

Extract / manufacture

Tertiary / quaternary

Services / knowledge

Public sector

Owned by government

Unlimited liability

Owner liable for all debts

Limited liability

Lose only what you invest

Franchise

Fee and royalty for a brand

Joint venture

Shared project, costs, profits

Internal growth

Expanding own operations

Backward vertical

Taking over a supplier

Hostile takeover

Over 50% bought against the board