Unit 2-How Business Develop

Ownership

There are several different types of business ownership; the owners have different responsibilities and involvement in a business. One aspect of this is who bears the business risk and whether the owners have limited liability. Different types of ownership are:

- Sole trader
- Partnership
- Company
- Public ownership
- Co-operative
- Franchise.

Introduction

Normally when a business starts, the business is small. This is because the person who starts it hasn't got a lot of finance. A person who starts alone in the business world is called a sole trader. If there are two or more persons involved, e.g. family or friends, then it is called a partnership. These two types of businesses are unlimited liability, because it's not the business that is liable but the owner. This means that, if the business goes bankrupt, the owner's personal assets can be taken away.

Sole Trader: Tourist shop

Franchise: Safeway Plc

Safeway Plc

Safeway is one of the top four food retailers in the United Kingdom. This very competitive market includes Tesco, Sainsbury's and Walmart/Asda.

Food retailing has undergone many changes in the recent past with the advent of the supermarkets in the U.K. during the late 1950's, and the mobility of the population (increasing car ownership). This sector has prospered over time as shopping habits have changed.

The arrival of a new Chief Operating Officer Carlos Criado-Perez some two years ago resulted in a change of strategy, and has transformed Safeway from a "follower" to a dynamic leader in grocery retailing. This statement will be analysed elsewhere in this report.

The Safeway brand is an international one born in the USA with outlets in other parts of the Americas and Europe.
This report deals especially with Safeway Plc here in the U.K. where the company trades as an autonomous unit. (Quoted on the London Stock Exchange, in the FTSE 100). I contacted via e-mail many companies in my search for suitable material. I decided to choose Safeway Plc because I believe it to be the basis for an interesting case study.

Sole trader

Tourist shop

The sole trader investigated was a souvenir shop at West End London. This shop was a total of $100m^2$ and is located next to Sounds Bar in Charring Cross, and sells all type of goods, which the customers can take back to their own country for a remembrance.

The market of these types of shop was only for tourists, most of the tourists are here in winter vacation, so the owner had to get all his profits in that specific time of year. On that same street there were about twenty other shops, so competition is big. So each of the shops has to attract the customer eyes, if they don't the business won't work. Each shop had a different way of attracting the customer's attention. Some did this by hanging big signs saying discounts; other shop put the quality goods outside so when the customer walks past it would bring it attention. If the owner of the specific shop saw a tourist looking at a good of his he would directly help them out and be as nice as he could.

The problem of being a sole trader is that everything that happens to the business has to be confirmed by the owner. He's got do calculations and sees how his profits are doing. All the blames and complaints go to the owner. He said there is a lot of responsibility and there is a lot to do if you run the business by yourself. There is no one to help you if you're a sole trader. This sole trader got its own finance by working for some one, and then building it up by himself.

• Has total ownership over the company. • Very easy to set up. • Don't need a lot of finance to get started. • Any profit belongs to the owner. • The owner has total control over the entire business • Working by your self is incredibly motivating.	• The hours are extremely high. • Unlimited liability • Competition is very high. • The owner takes all the risks, so if anything happens the business won't be liable, but the owner will

Sole proprietors

Sole Trader

A sole trader is any business owned and controlled by one person, although they may employ workers.

The advantages are:

- **The firms are usually small and easy to set up.**
- **Generally, only a small amount of capital needs to be invested.**
- **The wage bill is usually low as there are few/ no employees.**
- **The owner has incentive to work hard as he can keep the profits.**
- **Other than the Tax Office the owner enjoys complete secrecy.**

The disadvantages are:

- **The owner has no one to share responsibility.**
- **Sole traders often work long hours: few holidays or days off ill.**
- **Personal finances limit development of the business.**

How can I classify Safeway in terms of its ownership?

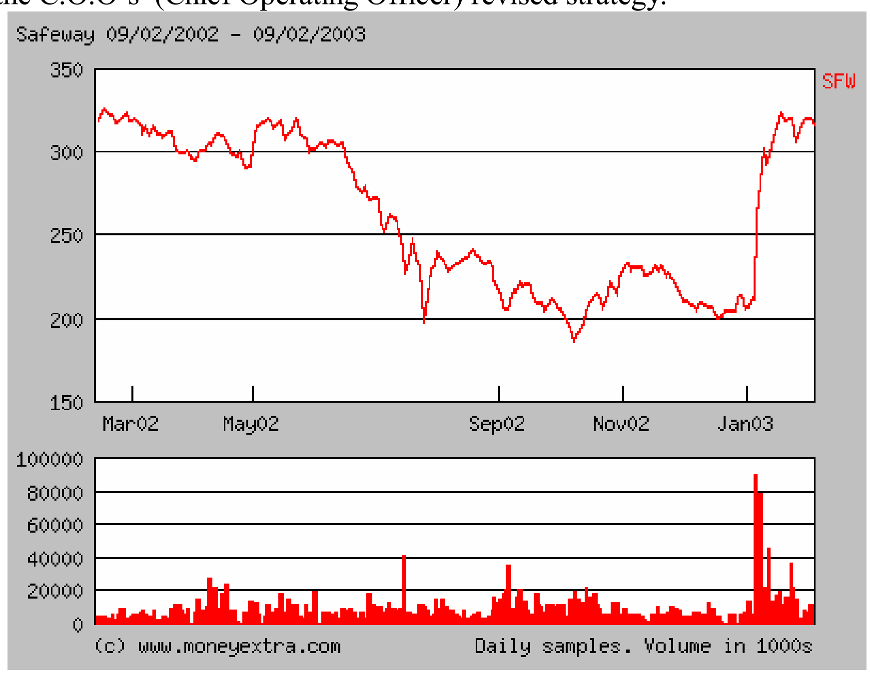
What are the advantages and disadvantages, benefits and constraints of this form of ownership?

Safeway is a Public Limited Company (Plc). A Public Limited Company tends to be larger than a Private Limited Company. A Public Limited Company can be abbreviated as Plc. There are around 1.2 Million registered limited companies in the U.K., but only around 1 per cent of them are public limited companies. However, they contribute far more to national output and employ far more people than private limited companies. The shares of these companies can be bought and sold by the public on the stock exchange.

To become a public limited company, a Memorandum of Association, Articles of Association and a **Statutory Declaration** must be provided. This is a document, which states that the requirements of all the Company Acts have been met. When the company has been issued with a **Certification of Incorporation,** it is common to publish a **Prospectus**. This is a document, which advertises the company to potential investors and invites them to buy shares before a **Flotation**. To become a Plc Safeway had to go through these legal formalities, which can be expensive.

Current market value

Safeway Plc has a market capitalisation of £3.5 billion pounds as identified in 'The Sunday Times' dated October 7th. The following chart identifies Safeway's progress versus the FTSE 100 over the past two years. This timescale is the same as the C.O.O's (Chief Operating Officer) revised strategy.



Definition

A public limited company (PLC) is a business that is able to float its shares on the stock exchange. This type of company can be registered by having a PLC or a INC at the end of their chosen name.

Basis

As the same as the LTD Company, the PLC must register with the registrar of companies and also submit a Memorandum of Association; Articles of Association and a Statutory Declaration. Once the registrar has checked them and if all the documents are fine, a certificate of incorporation is issued.

As ownership is more divided and because it is divorced from control, the law, through the Companies Acts, places even more detailed controls on the way a PLC must run on the matters that must be reported to a shareholder. Examples are; highly capitalised industries; multinationals and high-risk developments.

At this point and LTD may begin trading, however as this is a PLC, a few more procedures should be undertaken. First, the company should issue a prospectus and also have at least £50,000 share capital, whereby one quarter needs to be fully paid up. Shareholders elect a board of directors (usually 12), who then select managers who take on the responsibilities of making the daily decisions. Once this has been completed, a trading certificate is issued and it is now able to commence trading under the title of a PLC.

Advantages

- Able to raise more capital than a LTD, as it is able to advertise its shares for sale, therefore it is able to generate more capital.

- It may benefit from economies of scale.

- It is easier to borrow money because of its size and the security it can offer.

- Through its size, a PLC can more easily specialise, e.g. by using specialist equipment and employing specialist staff.

- Faces limited liability.

- The public tends to see a PLC as much greater than of a LTD.

- People see share prices quoted in newspapers and seem to be more interested in them than an LTD.

To become a Public limited Company you need:-

- Memorandum of Association
- Articles of Association
- Statutory Declaration

Disadvantages

- May face take-over bids almost overnight.
- The director's interests may differ from those of the shareholders because ownership and control are separate.
- The PLC may be dominated by a few shareholders, e.g. by institutional investors such as pension funds and insurance companies.
- Cost of incorporation is expensive.
- Shares are subject to fluctuation.
- Legal requirements need to be properly addressed and so, lawyers need to be acquired to audit reports annually and ensure they are accurate.
- PLC annual reports are available to the general public.

Influences on businesses

There are many influences on businesses, and in order to be successful a business must be able to respond to these appropriately. Sometimes this involves weighing up different interests, for instance the needs of consumers against the cost and location of premises.

Location

Businesses locate where they believe they will be successful. The reasons for this can include:

- The number of people available to work in particular area and their skills
- The cost of premises

- Financial help from the government
- Transport links for supplies and distribution
- The need to be where suppliers and raw materials are based
- The need to compete with other businesses in the same activity
- The need to be where customers are
- History and tradition.

Businesses need to find a good location for their business. This is because if they fail to find a good location, they won't attract many customers. The fixed costs have to be paid each month. This includes rent/mortgage, bills and wages. This means that the business is paying money for something that is of no use to them. Relocation and transferring goods to it are costly and not easy. Rent is also expensive and businesses need to make sure that they get it right the first time. All these factors will result in their business failing, causing their investment to go to waste.

There are many factors affecting a business. These include:

<u>Transport links</u>
80% of deliveries are made by road. This is also the most common way businesses receive their raw materials. Air and rail transport are also under this category. However, air transport is quick but too expensive and rail transport is cheap but also unreliable in this country. Many Safeway store can be located near a train station but mostly get their deliveries by transport vans.

<u>Nearness to markets</u>
Safeway stores locate their business near their target market. This will increase their chances of attracting customers and, therefore, increasing sales revenue.

<u>Transport links</u>
Safeway stores make sure that their business is easily accessible, both for customers and staff. This is because a deprivation of either factor will cause the business to not run smoothly.

<u>Access to markets</u>
Some businesses need an awful lot of raw materials. This is called a Bulk Gaining Process. They need to locate near their supplier. An example of this is Vauxhall in Birmingham. Their supplier is across the road. This is because the cost of transporting the raw materials is quite high, as they need a substantial amount.

<u>Cost of land</u>
Businesses need to consider how much the land costs where they are going to locate. It makes no sense for a small shop selling toilet tissue to pay £3,000 a month as rent just to get a location in the town center. Rent/mortgage is also a fixed cost. This means that businesses will have to pay these costs whether they make a profit or not. They should also consider the desirability of the area in case they want to sell it/relocate later. The two businesses I am investigating did probably consider this

situation and had come to assumption that they will make enough money for the running cost and profit.

<u>Visibility</u>
My two businesses are located somewhere people can see it. This will also increase the chances of attracting more customers, therefore increasing sale revenue. It will also help to widen the appeal to their secondary target market. A prime location is at the corner as it has bigger frontage.

<u>Competition</u>
The tourist shop I am investigating is located near is competition. It will not be wise for a small start-up to locate near big, established businesses that sell the same or similar product. However, this will allow businesses to benefit from economies of scale. Electrical companies usually do this. It gives the business an access to a major customer base and can reduce the cost of deliveries.

<u>Local environment</u>
Businesses need to locate in or near their desired environment. Local environment has an effect in consumer physcology. It also determines if the consumer will travel to the business to purchase the required product. A pleasant atmosphere will influence the purchase of goods.
Locating in an area of high unemployment is also of no use, as very little people will have disposable income. An area of high crime will also raise the cost of insurance. Banks will also be reluctant to provide loans for companies who want to set up in these areas.

<u>Grants</u>
Government or city councils usually provide grants for businesses that will locate in a "run-down area"; areas with high unemployment. It is worthwhile for big manufacturing businesses as this will decrease start up capital and they will have access to a large labour base.

<u>Stakeholders</u>

Safeway has a number of stakeholders associated to the company, all of whom have a vested interest in the performance and overall running of the organisation. I feel that the four most important stakeholders associated with Safeway are:

1. The customers.
2. The general public. (Community)
4. Shareholders.
5. The management.

The customers are by far the most important stakeholders connected to the company. Each customer plays a vital part in the running of Safeway. Apart from the fact that they supply the business, without which Safeway wouldn't exist, they provide many other contributing factors. For example, they finance for capital, budget and so on.

The general public are the second most influential factor associated to the company. Safeway needs to market and advertise their product - in such a way that it appeals to the public.

Providing services to the community/ Awareness of environmental issues.

Community

Companies increasingly recognise their responsibilities to the communities in which they operate.

In the case of Safeway Plc a key point of their strategy is their "Best at fresh" this means that they will work with their suppliers (farmers + fruit etc) in order to promote best practise and subsequently prime produce for Safeway customers. This degree of teamwork provides employment far beyond the actual stores. Thereby involving communities across the country and beyond with a vested interest in the Safeway brand.

On a local basis individual stores get involved in local activities. Sponsorships of a wide variety of projects for hospitals, schools, disabled sports, and student work placements for example a feature in Safeway's local community activity. Safeway Plc made contributions in excess of £100k in the year 2001, to a wide range of charities.

The last two stakeholders, shareholders and management, don't hold such an important key to the success of Safeway as the others do. The shareholders are important to some extent, as they are the capital behind Safeway, but could easily want to sell their shares at any minute. Fortunately this is not a major issue because someone else will purchase the shares and come into the company. The management is a similar situation as most people work at their best when they feel secure and content with their pay and conditions. Should an employee not be happy with any aspect of their job and feels it is best if they leave the company then a replacement is found and the company will continue towards its objectives with the minimum amount of disruption.

The Industrial Sectors

The Primary Sector

The primary sector is concerned with the extraction of raw materials and focuses around the following areas:

1. Mining and quarrying
2. Mineral oil and gas extraction
3. Agriculture, forestry and fishing

The primary sector has generally declined since the 1960's. In 1964 it provided 5.8% of the UK's total output but by 1999 it produced only 3.8%, of which nearly half was provided by oil and gas extraction. In terms of employment it created 5.1% of all jobs in 1964 with over 1.2 million employed. By 1999 this had fell to just 1.4% of all jobs, just 318 000 people employed.

Agriculture, forestry and fishing has been in steady decline since the 1960's. By 2000 it contributed less than 2% of the countries GDP (Gross Domestic Product).

The Secondary Sector

Output from the secondary sector has grown slowly in recent years but its relative share of the GDP has fallen from 40.4% in 1964 to 26.8 % by 1999. In 1964 the secondary sector provided around 47% of all employment, 11 million jobs. By 1999 this had fallen below 22%, just under 5 million.

Not all areas have been in decline within the secondary sector. Industries supplying chemicals and electrical equipment have seen output grow while those in traditional manufacturing have experienced a rapid decline falling from 38% employment in 1964, (9 million jobs) to 18% employed in 1999 (4 million jobs).

The Tertiary Sector

In 1964 the tertiary sector accounted for almost 54% of the UK output. By 1999 this had grown to over 69%. This trend is identified through employment figures. In 1964 tertiary employment stood at 11 million jobs but by 1999 this had grow to 17 million. The major expansion to this sector can be attributed to the growth in the 'communications' and 'finance, insurance and banking' sectors. The finance industry now accounts for almost 20% of the UK's output.

Beware!

There is often talk about a *quaternary sector*. This is sometimes used to group together the jobs working in the communications and information processing area. This sector has grown with the advances in technology.

Table 1

Percentage share of GDP in the UK			
Sector	1964	1979	1999
Primary	5.8	6.7	3.8
Secondary	40.4	36.7	26.8
Tertiary	53.8	56.6	69.4

Table 2

Employment in selected industries (000's)		
	1990	1998
All industries	22 920	23 237
Selected industries		
Mining and quarrying	163	80
Energy and water	404	222
Construction	1 143	1 003
Manufacture of office equipment and computers	65	48
All manufacturing	4 708	4 076
Retailing	2 131	2 450
Hotels and restaurants	1 262	1 316
Financial	1 059	1 064
Health and social work	2 317	2 582
Service industries	16 350	17 664

Adapted from Annual abstract of Statistics 1999