Chocoholics PLC

Brief

To investigate the business activity of Chocoholics plc. With regard to securing its position as a leading chocolate manufacturer.

Introduction

Chocoholics is a chocolate company making selection boxes using a mass-production line. The factory also makes hand-made luxury chocolates which are very popular with customers. Because of this, production of selection boxes stops every Friday so that the staff usually working on the machinery can concentrate on making the hand-made chocolates.

Chocoholics sells its products to wholesale outlets across the UK but it wants to investigate new markets and increase their trade.

There are approximately 70 staff employed by Chocoholics and over half of them work in production. The company takes pride over the quality of their products and all their products are delivered to customers by their own vans and drivers.

The rival company to chocoholics is 'Sweet Tooth plc.' And they have recently approached Chocoholics board of directors to discuss a merger. Chocoholics do not want this and are now worried that Sweet Tooth may consider making a takeover bid.

Types of Production

There are three types of production

Primary

This is the extraction of raw materials from land and/or sea. Examples of this type of production are:

⇒ Oil Rig
⇒ Coal Mining
⇒ Fishing
⇒ Quarrying
⇒ Farming and agriculture
⇒ Forestry

Secondary

This is the process of making something from the raw material, turning it into a product. Examples are:

⇒ Mills

- ⇒ Dairies
- ⇒ Car Factories
- ⇒ Engineering Factories
- ⇒ Carpenters

Tertiary (service)

- ⇒ This is where the product made is sold, All retail outlets are examples of tertiary production. Other examples of this are:
- ⇒ Taxi Driver
- ⇒ Hairdressers
- ⇒ Banks
- ⇒ Building Society
- ⇒ Doctors
- ⇒ Army/navy
- ⇒ Police/fire
- ⇒ Teachers

Chocoholics falls into the secondary section of these three types of production-chocolate is made with the raw products from primary and then sold on in tertiary.

Mergers & Takeovers

Mergers

Mergers are another method of growth within a company. This type of growth involves other companies, as two or more companies agree to merge to make one new company.

Takeovers

A takeover is when one company wants to take over another and make it part of its existing business, often against the other companies will.
The takeover company will try to persuade shareholders of the other company to sell their shares to them. They do this by offering a higher price than the current market value. Most takeovers are larger companies taking over smaller companies. Sometimes the takeovers may be aggressive or hostile, for example, when a company is trying to eliminate a rival.

Advantages of Mergers and Takeovers

When companies join together they will both be able to reach a wider market. Company growth is quicker, the company can double immediately through a merger or takeover.

Methods of Production

Batch Production

This type of production is where products are not made individually, but where a range of different products are made. This method lies between job and flow production. The firm can set up a production line for this type of production because it does involve some repetition of particular tasks. After the batch has been produced another product can be made instead An example of this type of production is in a bakery where different sorts of breads and cakes are made.

Job Production

This is when something is produced as a one off. Products made in this way require great expertise and skill. They are mostly expensive and quite large. This type of production is often used by relatively small, specialist firms as it is difficult for it to have a flow line. Examples of this are bridge building, tankers and in a jewellers when making a one-off piece of jewellery.

Flow Production

This type of production usually involves a continuous production line. The product is moved along a conveyor belt to the workers who add components and carry out tasks. Unlike batch production, this method is continuous.
This type of production is best suited to products that can be mass produced such as cars, washing machines and computers. Food is also often mass produced using the flow production method.

Business Ownership

There are four main types of business organisations:

- ⇒ Sole Traders
- ⇒ Partnerships
- ⇒ Private Limited Companies
- ⇒ Public Limited Companies

What is a Sole Trader?

The sole trader type of business is owned by one person. The sole trader can employ people but these employees are unlikely to be involved in the control, financing or decision-making of the business. People such as electricians, taxi drivers, hairdressers and guest house owners are usually sole traders.
In the UK the sole trader is the most common form of business ownership, with over 3 million people in business as sole traders.
Sole traders often have to use their own money or borrow from family and friends to start up the business, as a result of this, sole traders are small businesses.

This type of organisation has unlimited liability which means that there is no limit to the amount of the business's debts that the owner is responsible for. If the business should fail, the sole trader may have to sell personal possessions- e.g. house and car- to pay off the business's debts.

Advantages:

⇒ It is easy to set up a business as a sole trader as there are no complicated forms or procedures to follow before you can start.
⇒ Sole Traders usually need less capital to start up.
⇒ Sole traders are their own bosses.

Disadvantages:

⇒ Small businesses are seen as more of a risk by financial institutions, so it can sometimes be difficult to raise money to help start a business or to expand it later on.
⇒ Ill-health and holidays may affect the business as there is no one to take over the running.

What is a Partnership?

A partnership involves more than one person. It is normal for a partnership to include between 2 and 20 people, but they may be larger for some professions. Partnerships are common with businesses involving professionals such as doctors, dentists, accountants, solicitors, as most professions do not allow their members to form limited companies.

The partnerships are the joint owners of the business, they may be involved in the decision-making themselves or they may employ a manager. For example, a doctor's surgery may employ a Practice Manager to manage the day-to-day running of the surgery, leaving the doctors more time to concentrate on treating their patients.

Like the sole trader, they have unlimited liability, which means that if the business fails, they are all liable for the debts of the business. If only one partner incurs the debt, all the partners are liable for its payment, even if it means selling personal possessions to pay it off. The profits of the business are shared among the partners according to the amount of the capital each one invested to start up the business.

Advantages:

⇒ It is easy to set up
⇒ The amount of capital needed to start up the partnership is often small.
⇒ Forming a partnership can mean it is easier to raise extra capital when needed as all the partners can contribute.
⇒ With partners, there is someone to share things with and talk things over.

Disadvantages:

⇒ The partners have unlimited liability for the debts of the business, unless they are limited partners.

⇒ Partners can have disagreements about the running of the business which is why the Deed of Partnership is so important. Disagreements over control of the business, sharing the profits, withdrawal from the partnership or inviting new partners to the business can all be covered in the Deed of Partnership.
⇒ If a partner dies or becomes bankrupt then the partnership must be dissolved.

What is a Private Limited Company?

A private limited company is made up of people who know each other, such as family, friends or work associates. They buy shares in the company and become part owners.
Shares cannot be brought by the public, only by this small group of people - in other words, the owners can control who buys their shares. That is why this type of business is called a private limited company. Examples of this type of company are, Eddie Stobart and Raleigh.
There must be a minimum of two people to start the business, but there is no upper limit on how many owners there are. This type of company has limited or Ltd. after it's name to distinguish it from a public limited company. The company can sell shares to gain more capital, but it is limited as shares cannot be sold on the stock market.
The shareholders have limited liability which means that if the company goes bankrupt the shareholders can be held responsible only for payments to the value of their shares- they do not run the risk of having to sell their personal possessions to pay off debts.

Advantages:

⇒ The company can raise extra capital by selling more shares in the company and thus giving it more of an opportunity to expand.
⇒ The shareholders can employ managers to run the business if they do not want to run the business themselves.
⇒ The company can continue trading even if a shareholder dies- it does not have to be dissolved as it does in a partnership.
⇒ The private limited company has its own legal status, separate from the shareholders. This means that, like people, it can sue and be sued and it can own property.

Disadvantages:

⇒ The accounts of the company cannot be kept private. They have to be audited each year and a copy must be sent to the Registrar of Companies where it is available to the public.
⇒ It is more difficult and expensive to set up a limited company than a partnership or sole trader as there is much more administrative work to do.
⇒ The limited company cannot sell its shares on the stock market.

What is a Public Limited Company?

Only two people are needed to set up a public limited company and there is no upper limit. It had plc at the end of its name, which stands for public limited company. This distinguishes it from a private limited company. Members of the general public, as well as other businesses and financial institutions, can buy shares in a public limited company.

The shares of UK public limited companies are bought and sold on the Stock Exchange and their prices are published in most national newspapers.

Most Public Limited Companies start out as Private Limited Companies.

Because the shares in public limited companies are sold to the public, there are many more rules and regulations governing their formation and the way in which they operate.

Advantages:

⇒ They can advertise and sell their shares to the public and financial institutions.
⇒ Public limited companies can have lots of shares owned by lots of different shareholders.
⇒ The company is run by a board of directors appointed by the shareholders.

Disadvantages:

⇒ Setting up a public limited company is expensive. There is a lot of administrative work involved and at least £50 000 has to be raised before a public limited company can be set up.

Stock COntrol

Stock control is an important part of the production process. It is the process of trying to decide the right amount of stock items, such as raw materials and component parts, that will be needed to make the products, without ever running out of stock.

Overstocking:

This is when a company buys and keeps more stock than they actually need. When they use these method of stocking the business has to think of these implications:

⇒ Storing the goods
⇒ The shelf life of the goods
⇒ Insuring the goods
⇒ The amount of money tied up in the stock.

Understocking:

This is when a minimum amount of stock is ordered. This means the company is constantly living in the fear of running out of their stock. All of this has to be balanced against the cost of running out of stock and possibly losing production. The stock controller has four main functions:

⇒ To decide the minimum level of stock the company needs to hold.
⇒ The decide the maximum level of stock the company should hold.
⇒ To decide the re-order level for stock.
⇒ To decide the quantities to be ordered to keep the stock above the minimum level and below the maximum level.

Just In Time (JIT)

This is when the supplier will deliver stock just in time so you don't run out. A supplier is needed that can deliver quickly if you run out. If this is the case, a smaller stock room can be used. Just in time stock control is a guaranteed delivery and a 100% reliable supplier is essential.

Advantages of JIT:

⇒ Saves money
⇒ Improves quality of the goods.

Disadvantages of JIT:

⇒ Can mean you are relying on supplier so they must be reliable.
⇒ A skilled workforce is needed.

KANBAN

This is another method of stock control where the company re-orders their stock as it is used. This means that the stock is never empty but doesn't take up much room because only what is being used and sold is kept in the stock room.

Break Even

The break-even point is the level of output where the firm will just cover its costs. Sell more and it will make a profit.

To draw a break-even chart you need to know the fixed costs and the variable costs per unit and the selling price.

The break-even point is where the lines for total revenue and total costs are equal.

Break-even analysis is great in theory but it can have its problems in the real world:

⇒ It assumes that the firm can sell any quality of the product at the current price. In practice the firm may need to reduce prices to sell at high levels of output.

⇒ It assumes fixed costs never change- but as output increases the firm may need more machines, bigger offices and so on.
⇒ Finally it assumes that all products are sold. This doesn't always happen.

Annual Reports

All companies have to produce an annual report every year, it is required by the Companies Act 1985. These accounts have to contain a trading, profit and loss account, a balance sheet and statements on the position of the business. These accounts have to be audited by an independent accountant to make sure that they are accurate.
Many people look at these accounts, the bank uses them to check whether any loans will get repaid. The government checks them to see how much tax a company needs. Any potential investors will always read the annual report so the company have to provide copies of it free of charge to anybody who wants one.
The annual report is a financial statement summary drawn up at the end of a years trading to show performance within the company.