

Chapter 15

Business Start Up

(Organisational Options; Production Options (Job, Batch, Mass); Finance Options; Business Plan)

2015 Q5 (C)

Read the information supplied and answer the question which follows.
Having been made redundant, Lia O'Brien has decided to set up her own enterprise manufacturing individually designed disposable tableware and paper cups for small coffee shops and restaurants. She recognises, however, that having an idea and having the will to succeed will not be enough to ensure success.

Discuss the key issues Lia will have to address before setting up her business enterprise. (15 marks)

MS: 3 @ 5m (2+2+1) Must refer to Lia for full marks

Lia may have problems **raising enough finance** for her new enterprise. Finance can come from **Equity (reserves or selling shares)** or **Debt (Long Term Loan from a bank)**. A **business plan** can help to impress investors.

Lia might have received money from her **redundancy** which she could use instead of getting a loan that would have **fixed interest repayments** regardless of profitability.

Lia will need to choose the correct **production method (Job, batch or mass)**. This is based on levels of **production, automation, staffing and storage** as well as costs.

Lia should use batch production as she may need to adapt the cups for different customers.

Lia will need to decide on the best **Ownership Structure** to suit her. Lia would benefit from **limited liability** if she chose to become a **Private Limited Company (Ltd.)** but not if she became a **sole trader**.

Different structures have different demands in terms of **risk, control, ownership, liability and tax implications etc.**

Other: Marketing/Advertising / Cost of Market research/ building a brand / creating a USP / Availability of Location or Staff

2014 Q7 (C) Discuss three challenges facing business start-ups. (15 marks)

2011 Q7 (A) Discuss **two** possible challenges associated with starting a new business. (10 marks)

2014 Q6 (A)

Read the information supplied and answer the questions which follow.

The Business Guys

Sarah Fleming is a wedding dress designer and has worked for over 20 years in the bridal and clothing industry. She specialises in creating unique wedding dresses with an emphasis on personal service. Business is good and Sarah has applied for a bank loan of €10,000 to finance expansion.

- (i) Name the type of production process used by Sarah.
 (ii) Outline two challenges for Sarah of this type of production process.
 (iii) Discuss two implications for Sarah of changing to another type of production process. (25 marks)

MS: 5m; 2 @ 5m (3+2) Alternative production type 2m, 2 @ 4m(2+2)

(i) Job Production

(ii) Labour Intensive

This type of work is very labour intensive and the **higher salaries** using **skilled workers** will increase the **running costs** of the business.

Specialized Machinery/Materials

Raw materials can vary between orders so it is harder to buy in bulk. (cost)
 Machinery and tools required can also vary and tend to be more specialized so also more expensive.

Other: Slowest Process; Higher Standards; Bad Debts (personal orders)

- (iii) Both batch and mass production are more **automated production** processes, so would require **extra investment** for Sarah for **purchasing of new machines/equipment**.

Sarah's USP may be that she **uniquely produces** each dress. Using batch or job, means the **personalized touch** will be lost, and could result in a loss of **quality** and **customer loyalty** as her **USP is lost**.

Other: Will need good stock control; will have to reduce prices; Lower profit margins...

2009 – Short Q9

Contrast 'job production' and 'batch production', giving one appropriate example in each case.

MS: 5m (3 + 2) x 2

Job Production

Producing a **single customised product** (unique to the customer's requirements).

e.g. a wedding dress being made specifically for one woman

Batch Production

Producing a **limited quantity of identical products** at the **same time**.

e.g. different school textbooks / shoes in different sizes

2016 Short – Q6

Describe two features of job production.

MS: 2 @ 5m (3+2)

Job Production is a method of production where goods are made to order/ goods are not made for stock/one-off product/ made to specifications of a specific customer e.g. tailored suit

Labour is usually highly skilled due to the customised nature of the product.

Other: Advanced machinery/equipment; Expensive items / skilled craftsmen

2018 Q5 (C)

Discuss the factors a business should consider before changing from a batch to a mass (flow) method of production.

MS: 3@5(2+3)

Has adequate market research been carried out to determine the size of the market? / Is the demand for that product sufficient? **Does the size of market exist?** When switching to mass production, the business will produce many more units, so they need to ensure there will be a market to purchase the excess production.

Capital investment required/necessary finance. Can sufficient capital be raised as it is expensive to set up production lines? /machine maintenance costs can be high and also initial capital investment in new machinery to facilitate mass production will be very high.

Staff working conditions/Will key people leave due to more repetitive work?/less variety (boredom)/Semi-skilled to unskilled. Could there be redundancy issues? Switching to mass from batch, means the business will likely either need supervisors to ensure production is running smoothly e.g. IT person to monitor the machinery, or else low skilled workers to perform monotonous tasks, who will also likely require monitoring.

Impact on the brand name. Will the change affect the reputation of the business? / status of the brand? A business's brand may be devalued when consumers realize it is mass produced as there is less speciality/care gone in to it, so they may want to pay lower prices for the product.

Other:

Competition. Large markets can have dominant firms in place/Can this business compete?

Highly standardised product so not all customers will be satisfied.

2012 Q6 (C)

Read the information supplied below and answer the questions which follow.

Zac Computing Ltd, an innovative new technology business, considers its business plan to be an essential document in the context of a business start-up and future growth.

(i) Explain the term "business plan".

(ii) Evaluate the importance of a business plan to an innovative new technology business. (20 marks)

MS: 6 marks (3+3) 2 @ 6 marks (3+2+1)+2

(i) A business plan is a **written document** prepared by the **entrepreneur** about the business and its **objectives** (where it wants to go) and **strategies** in areas such as **marketing (analysis and plan)**, **ownership**, **production**, **finance** and the **identifying of opportunities**.

(ii) **Seeking Finance/Investors**

It is a vital document (helps to 'sell' the idea to investors) when approaching any **financial institution**, **grant agencies** or other **investors** seeking funds (capital) for the enterprise.

No financial institutions will give funds to start up IT company without being **convinced** that the investment has a good chance of being **recovered**.

Sets Targets/Gives Focus

A business plan will set out its **targets** in **figures** e.g. **sales/ revenue/ market share**.

Figures are used as **benchmarks** for **performance**. If the set targets are not reached then the IT company should take **corrective action**.

Evaluation

In my opinion, a business plan is **essential** for a new tech company as the market is **very crowded** so it is hard to **stand out**. A convincing business plan will help them stand out and make it more likely to **secure** necessary capital.

2010 Q6 (B)

Outline **two** benefits to 'Marie's Pizzas' of preparing a business plan. (10 marks) **As above with one part linked to Marie's Pizza**

MS: 2@ 4 marks (2 + 2) 2 marks (reference to Marie's Pizzas)

2017 Q5 (C)

- (i) Outline the main sections contained in a business plan.
(ii) Explain the importance of a business plan for two different stakeholders.
(20m)

(i) A business plan is a **written document** prepared by the **entrepreneur** about the business and its **objectives** (where it wants to go) and **strategies** in areas such as:

Ownership Structure: Details of owner's backgrounds, ownership structure

Marketing Plan: The 4 P's for the business (Product, Price, Place, Promotion)

Market Analysis: Size of market, demographics, segments, tastes, competitors

Production plan: Time, machinery, raw material, labour required to produce the goods

Financial plan: Debt vs Equity in the business, cashflow forecast

(ii)

Investor / Financial Institute

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It is a vital document (helps to 'sell' the idea to investors) when approaching any **financial institution, grant agencies** or other **investors** seeking funds (capital) for the enterprise.

Managers

A business plan will set out the business' **targets** in figures e.g. **sales/ revenue/ market share** for a manager to try to **achieve**. Figures are used as **benchmarks** for performance. If the set **targets** are not reached then manager should take **corrective action**.

2014 Q6 (B)

Outline three factors that Sarah's bank may consider when assessing her bank loan application. (15 marks)

MS: 3@5 (2+3)

Credit History

The **creditworthiness** of the applicant would be considered. Their **credit history** and **record** in terms of **repayment** of previous loans will be reviewed.

Any **bad debt history** Sarah might have had would **negatively** affect her loan application as it shows she would have struggled to repay previous debt.

Capacity To Make Repayments

The business' **ability** to make **profits** will be reviewed. **Revenue** will be compared to **costs** in a **cash flow statement** and the **current economic climate** would be considered e.g. Brexit if she was trading with the UK.

Sarah will be expected to provide a **business plan** outlining **predicted profits**.

Collateral Available

A **valuable asset** such as **premises** will be **required** as **security** for the loan.

In the event of a **default** the bank will be able to sell the **asset** to **recover its loan**.

Sarah would usually need to offer an asset as security to secure a loan.

Others: Size of the loan/ Term length (if Sarah was old); Purpose (e.g. necessary or not? expansion); Level of own investment/ Grants received/due etc...