

Lecture 2:

Business objectives and ways to grow



Profit
Maximisation



Sales Revenue
Maximisation



Business Growth
/ Market Power



Business Survival
in a recession



Not For Profit
Social Enterprises



State-Owned
Businesses

LEARNING OUTCOMES

After this lecture you should be able to:

- Define the main forms of business organization;
- Discuss how appropriate each of these forms are in different circumstances;
- Underline the need for and importance of business objectives;
- Identify objectives of stakeholder groups and potential conflict between objectives

LECTURE CONTENT

- Sole trader, private and public limited companies;
- Enterprise and entrepreneurship;
- Factors needed to run the business;
- Business growth, organic growth and M&A;
- Business objectives;
- Stakeholders and their objectives

TYPES OF BUSINESSES ORGANIZATION

- You will be introduced to three main types of organization:
 - Sole traders (in Kazakhstan ИП, ЖК)
 - Private limited companies (ТОО, ЖШС)
 - Public limited companies (АО, АҚ)
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- Each form can be convenient, depending on the situation and objectives, as it has certain advantages and disadvantages.

SOLE TRADERS



Advantages:

- You are your own boss, 100% control;
- Few legal regulations;
- Close contact with clients;
- Sole owner of the whole profit

Disadvantages:

- Unlimited liability;
- Restricted with expansion;
- No partner who can help during absence;
- Business stop its existence after the founder dies

PRIVATE LIMITED COMPANY



Advantages:

- More than one person as a shareholder, i.e., risks and responsibilities are shared;
- All shareholders have limited liability, i.e., can't be forced to sell own possessions to pay back to creditors in case of failure;
- Co-founders can still have control upon business, unless too many shares are sold;

Disadvantages:

- Legal matters;
- The shares can't be sold to the third party without others' agreements;

PUBLIC LIMITED COMPANY

Advantages:

- Still all shareholders have limited liability;
- Opportunity to raise very large capital;
- No restriction on the buying, selling or transferring shares anytime to anyone;
- Usually is a large business, and has a high status, i.e., easier to attract suppliers and lend money from banks

Disadvantages:

- Legal matters are quite complicated;
- No secrecy, accounts must be published;
- Losing control of original founders over their business;
- Might become difficult to control as the company grows.



NASDAQ 100 INDEX SHARE
 ▲ 6,203.65 165.78 (2.75%) 01:35:47 PM EDT

Prev. Close	6,037.87	Open	6,138.23	Day Low	6,129.79	Day High	6,213.49	52 Week Low	4,847.59	52 Week High	6,213.49
					6,203.65						6,203.65



Your friend, Amin, is an expert computer engineer. He currently works for a large computer manufacturer. He thinks that he could run his own successful business. He has no experience of running a business. He has very few savings to invest into a business.

Amin has a rich uncle who knows nothing about computers! He is a retired businessman. He is friendly but rather bossy as he always thinks he knows best.

Amin asks for your advice about whether he should set up his own business and what form of organisation he should choose. He asks for your help on three questions that are worrying him.

- Identify pros and cons of Amin running his own business against him being employed
- Do you think he should set up a sole trader business or establish a private limited company with his uncle?

ENTERPRISE, BUSINESS SIZE AND WAYS TO GROW

Enterprise – is a legal entity, company practicing a business activity

Entrepreneur – is a person who organizes, operates and takes the risk for running an enterprise



Aidyn Rakhimbayev
Founder of BI-group



Elon Musk
Founder of the Tesla and SpaceX

Advantages of being an entrepreneur:

- Independence
- Profitable
- Pursue own passion and make use of personal interests

Disadvantages:

- Risks associated with capital loss
- Failure due to lack of expertise in running a business
- Opportunity cost of lost income from not being an employee

What makes entrepreneurs successful?



What is needed to start and run a business?

Business idea and business plan

Well prepared plan feasible to implement with given sources and opportunities

Finance

Own capital, bank loan or investments

Labour

Productive, supportive and enthusiastic team to deliver the value to a final customer

Size of an enterprise can be measured differently:

- Number of employees
- Value of output, e.g. tons of oil produced per day, number of customers served per month...
- Value of sales, e.g., turnover in million tenges of sales per month
- Value of capital employed (invested)

Why businesses strive to grow?

- Higher profits
- More status and prestige
- Lower average costs (economies of scale)
- Larger market share



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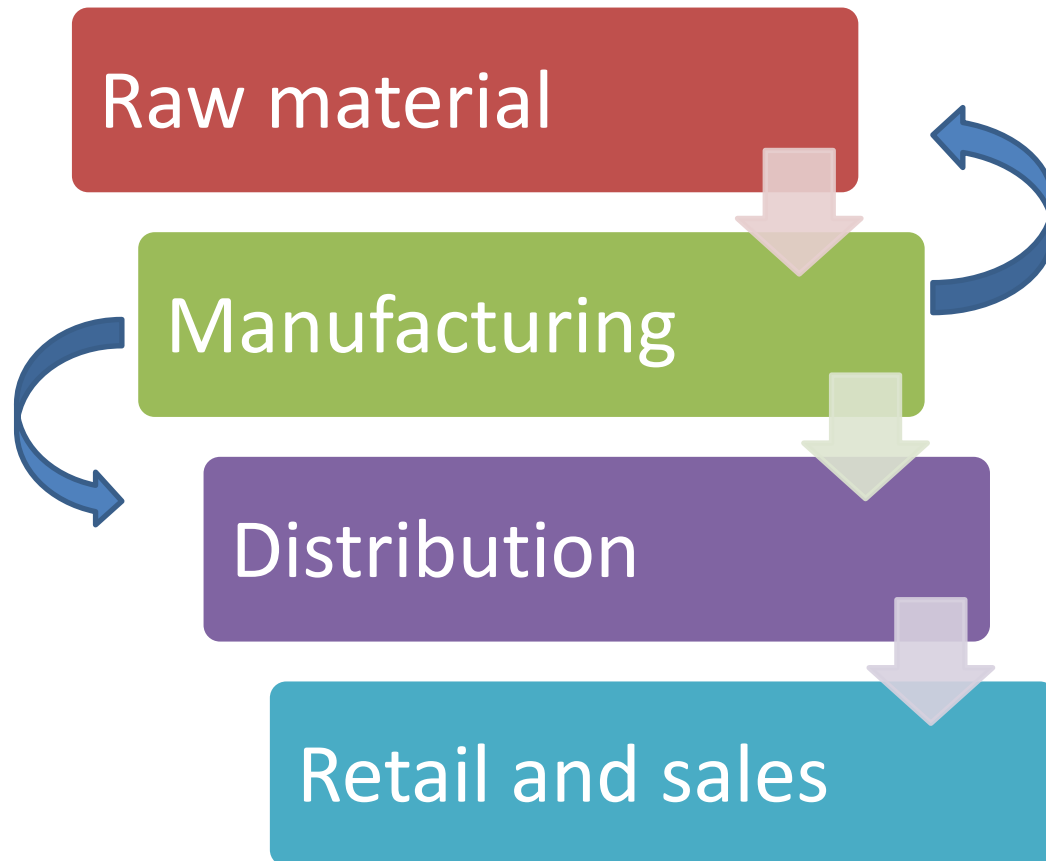
How can businesses grow?

- Internal growth (organic): expansion using firm's capital or employing other's (bank, investor) capital; expanding capacity and internal talent



How can businesses grow?

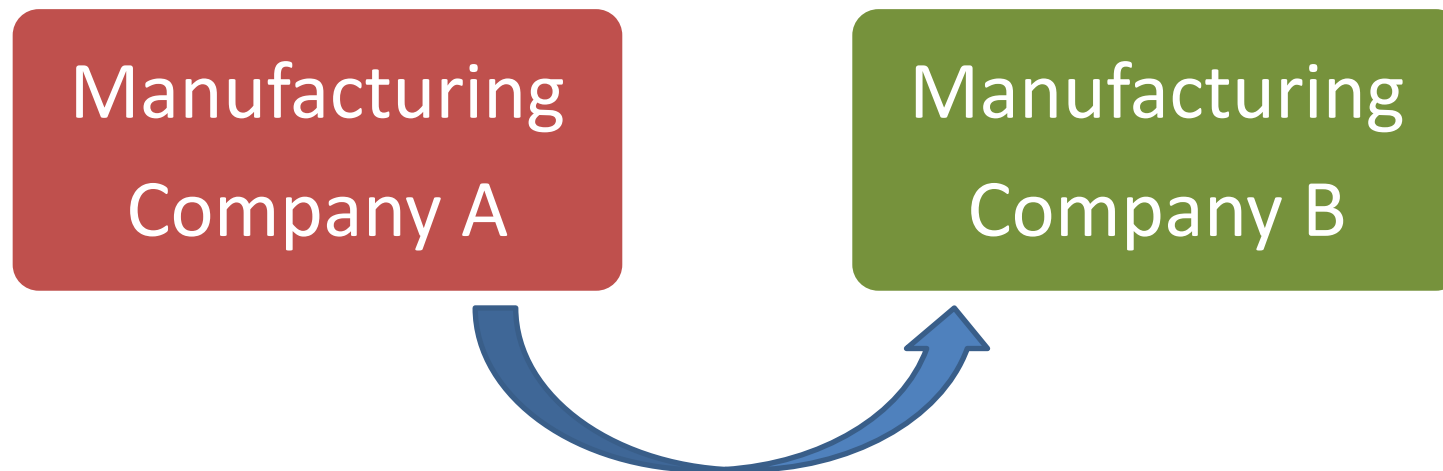
- External growth (integration): Strategic alliance (merger) or acquisition (takeover)



Vertical integration,
e.g., car manufacturer
buys steel producer

How can businesses grow?

- Horizontal integration may take place to expand the capacity and benefit from the economies of scale



Case study – Nestlé takeover of large Chinese sweet maker

Nestlé is the largest food and confectionery manufacturer in the world. The company made the decision to takeover Hsu Fu Chi International (based in Guandong, China). This Chinese company makes sweets and snacks. The takeover cost US\$1.7billion. It will now be easier for Nestlé to sell its products in China. There should also be cost savings from the takeover. Some consumers are worried that there might be less choice of sweets and snacks than before the takeover. Also, perhaps Nestlé might increase prices now that there will be less competition in the sweet and snack market.

- Is this acquisition an example of horizontal or vertical integration?
- Suggest reasons why Nestle took over Hsu Fu?
- Do you think consumers will benefit from this acquisition?

BUSINESS OBJECTIVES AND STAKEHOLDERS

Every company should have a clear business objective to:

- Give employees and managers a clear target;
- Prioritize decisions based on the objective;
- Measure the performance.



Typically businesses can set the following objectives:

- Market share (company's/total market sales);
- Profit maximization (revenue – costs);
- Business size growth;
- Return to shareholders (dividends);
- Service to community



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STAKEHOLDERS

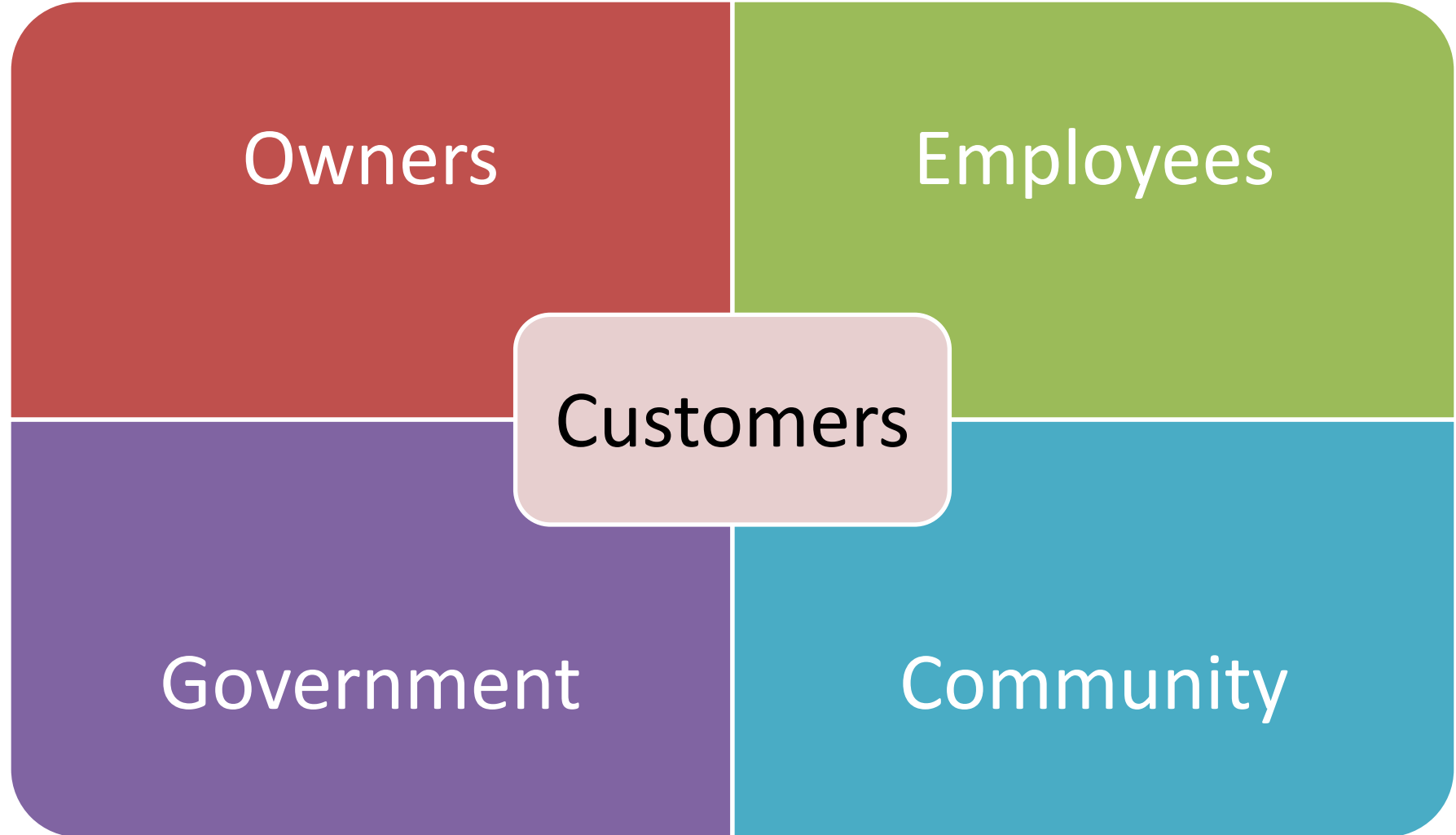
Owners

Employees

Customers

Government

Community



STAKEHOLDERS

Stakeholder	Objectives	Power and influence
Owners	Steady flow of income	Election of management
Employees	Salary, job security and job satisfaction	Staff turnover, strikes
Top management	Salary, bonuses, job satisfaction	Decision making
Government	Operate legally, tax receipts, job security	Regulations, taxation, planning, subsidies
Community	Environment, local jobs, local impact	Image of the company, its reputation

Coca-Cola's senior managers have set the objective of increasing returns to owners of the company – that is, its millions of shareholders. However, the managers believe that this can only be achieved if Coca-Cola meets three other objectives.

- Remain the world's largest soft drinks company by value of sales.
 - Continue to satisfy consumers with a top-value and clearly branded product.
 - Protect the environment of the local communities where Coca-Cola drinks are made.
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- Why do you think the senior managers believe that increasing returns to owners' is important?
 - Explain why Coca-Cola has set three objectives as well as returns to owners?

Reference list:

1) Borrington, K. and Stimpson, P. (2013). *Cambridge Igcse Business Studies*. 4th ed. London: Hodder Education, Ch. 3-5