

TOPIC 2.1 GROWING THE BUSINESS

START

1 **Define** the term organic growth.

2 **State** two reasons why a business, like the Creative Kitchen Ltd, might decide to grow.

3 Sue and Nikki are considering growing their business by opening new outlets. **Explain** what type of growth this is and a benefit to their business of this type of growth.

4 **Outline** two significant risks that The Creative Kitchen Ltd may face if it decides to open several new outlets.

14 The Creative Kitchen Ltd, regularly hold fundraising events and donate 1.5% of their annual profit to the local children's hospital. **Explain** two possible benefits to their business from having this ethical approach.

BUSINESS PROFILE



The Creative Kitchen Ltd *Hands on play for children aged 3 – 6 years, in a safe environment*

Sue and Nikki set up their new venture, 'The Creative Kitchen Ltd' two years ago, and since then the business has gone from strength to strength. The idea was to create a safe, exciting and experimental environment for young children to experience the fun of food.

The entire kitchen construction, custom built and imported from a manufacturer in Germany, has been designed to provide the most realistic 'play' environment for small children. The reviews and feedback from customers have been amazing.

They are considering expanding the number of outlets they own and operate having established a high demand for the facilities in several different regions across the UK.



13 **Explain** what is meant by the 'trade off' between ethics and profit.

12 If Sue and Nikki's growth plans go ahead they will be purchasing further kitchens from Germany. **Explain** the impact that a fall in the value of the pound against the Euro may have on their expansion plans.

11 **Define** the term imports.

10 **Define** the term Globalisation and explain how this has impacted on The Creative Kitchen Ltd.

9 To progress with their expansion plans, Sue and Nikki need to raise £250,000. **Describe** the external sources of finance that may be available to them as an established business.

5 The Creative Kitchen Ltd was referred to as 'innovative' in the market for children's play. **Define** the term innovation.

6 One option for the Creative Kitchen Ltd is to change their legal structure. **Explain** one reason for and one reason against moving from a private to a public limited business.

7 Now established for 2 years, **explain** how the objectives of the 'Creative Kitchen Ltd' may change.

8 **State** the different internal sources of finance that may be available to the Creative Kitchen Ltd.

GROWING THE BUSINESS SUGGESTED ANSWERS

1 Growth from within the business (internal). For example, creating and launching new products.

2 To make more profit. To increase the reputation of the brand.

3 Opening new outlets is a method of internal (organic) growth. This will benefit the business as it will enable more customers to visit their innovative business from different parts of the country.

4 a) There may be insufficient demand for the new outlets opened which will impact on profit.

b) Sue and Nikki will need to employ more people to run the different outlets which may impact on the quality of the brand if the same standards are not maintained.

14 a) Builds a positive reputation for the business through their charitable support.

b) May lead to an increase in sales as more customers are willing to support the business as they feel they are indirectly supporting the children's hospital.

TIME TO REVIEW YOUR LEARNING...
List three content points that you are confident with and three that require some attention.

5 Innovation means bringing something new and unique into the market. This will often happen after long periods of research and development (R&D).

13 A trade off occurs when having more of one thing forces you to have less of another. Therefore, by being more 'ethical' this often means it comes at a cost and therefore impacts on the profits made by the business. E.g. the Creative Kitchen Ltd give some profit to charity rather than reinvest it in the business.

Confident with
1
2
3

Requires attention
1
2
3

6 For – Allows the business to access a huge injection of cash.

Against – Makes the business more vulnerable to being bought by others (takeover).

12 If the pound falls in value. then imports will become more expensive and exports cheaper. For the Creative Kitchen Ltd, who import from Germany, this will mean that their start up costs for their new outlets will be higher.

7 They are now focusing on the growth of the business rather than just survival. They will be looking to expand their workforce in order to staff the new outlets being opened – previously staffing would have been kept to a minimum to keep costs low during the start up phase.

11 Imports are goods and services that are bought from overseas.

10 Globalisation is the tendency for economies to trade increasingly with each other. This has benefited the Creative Kitchen Ltd as they have purchased their equipment for their business from Germany.

9 Loan capital – common for expansion, however interest rates mean there is a cost to this type of borrowing. Share capital – selling more shares to family or friends in order to raise finance. Or they could become a public limited company.

8 Retained Profit and selling assets.