The Business Guys

Chapter 15

Business Start Up Challenges

Organisational Options

Production Options (Job, Batch, Mass)

Business Plan

Break-Even Charts

2021 Q8 (A) Read the information supplied and answer the questions which follow.

Aimee Connolly

Aimee Connolly started working behind a makeup counter when she was a transition year student. While studying at university, Aimee decided to create her own makeup business and produce makeup products. 'Sculpted by Aimee' is now a very popular makeup brand. The products are sold nationally and internationally.

Discuss the three challenges below that a new business start-up must address.

Ownership structure **Production** **Finance** (20)

MS: 2 x 7m (2+3+2) 1 x 6m (2+2+2)

Choose the correct ownership structure

They must take into account the type of business they are operating, the number of owners involved and the tax and administrative implications of their choice. A limited company would provide limited liability but require more accounting versus operating as a sole trader.

Choosing a method of production

A new business start-up choosing job production will face higher costs so therefore a higher selling price but it may help them stand out if it is their USP e.g. tailored clothes versus off the shelf batch made clothes in competitors. The skill of labour would usually be higher also requiring higher wages than a batch or mass method.

Access to Finance

It can be very difficult for new businesses to raise finance. Issues sharing profits, convincing investors and making a business plan to get a bank to give them an adequate loan. They would need savings to use as equity capital so they wouldn't need to give away too much voting power and control of their business to investors.

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.
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 specialilzed 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 well set out it's **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

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

2016 Q6 (B)

Read the information supplied and answer the questions which follow.
Medron plc has supplied the following financial information for the new medical device:

Forecast Output (Sales)	*60,000 units*
Selling Price per unit	*€30*
Fixed Costs	*€400,000*
Variable Costs per unit	*€20*

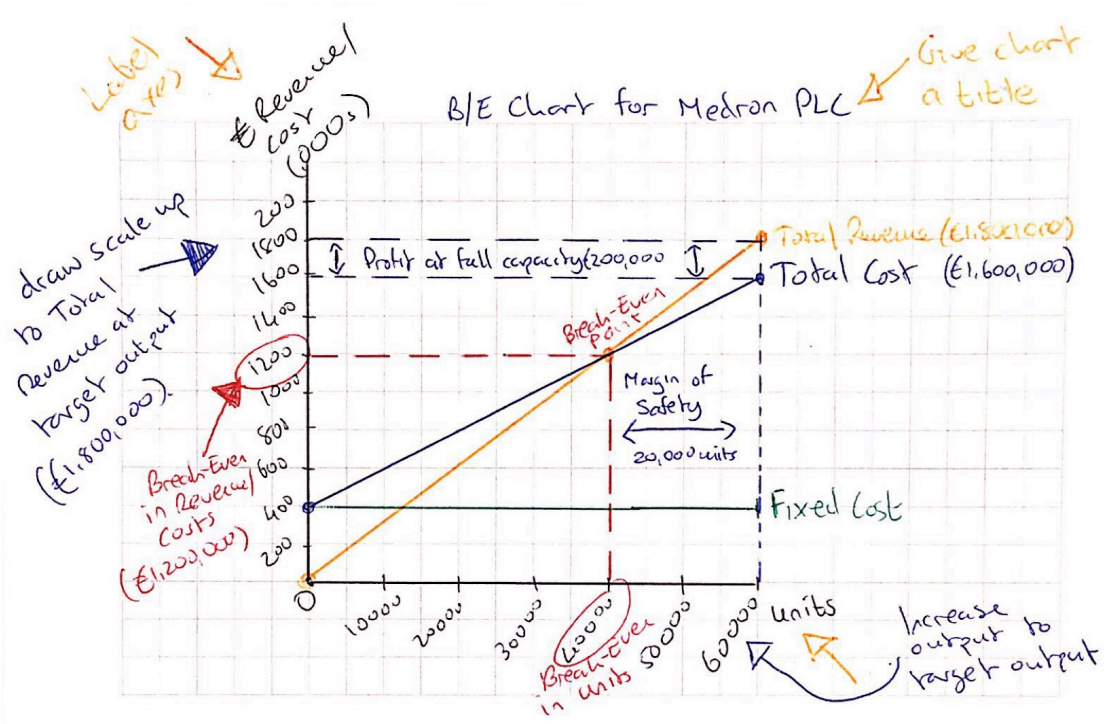
Illustrate the following by means of a breakeven chart:
(i) Breakeven point
(ii) Margin of safety at the forecast output
(iii) Profit at forecast output. (25 marks)

Make sure to show and use formula. Show all calculations

(i) Break-Even Amount	Fixed Costs / Contribution per unit (Selling Price - Variable Costs) (€30 - €20) = €10 --- €400,000/€10 = 40,000 units
(ii) Margin Of Safety	Forecast Output - Breakeven amount (in units) 60,000 units - 40,000 units = 20,000 units
(iii) Profit at Full Capacity	Total Revenue = Forecast Output x Selling Price 60,000 units x €30 = €1,800,000 Total Costs = Fixed Costs + Variable Costs (Forecast Output x Variable Costs) €400,000 + (60,000 units x €20) = €400,000 + €1,200,000 = €1,600,000 Profit at Full Capacity = Total Revenue - Total Costs

€1,800,000 - €1,600,000 = €200,000

Units	0	40,000	60,000
Fixed Costs	€400,000	€400,000	€400,000
Total Costs	€400,000	€1,200,000	€1,600,000
Total Revenue	€0	€1,200,000	€1,800,000
Profit/Loss	-€400,000	€0	€200,000

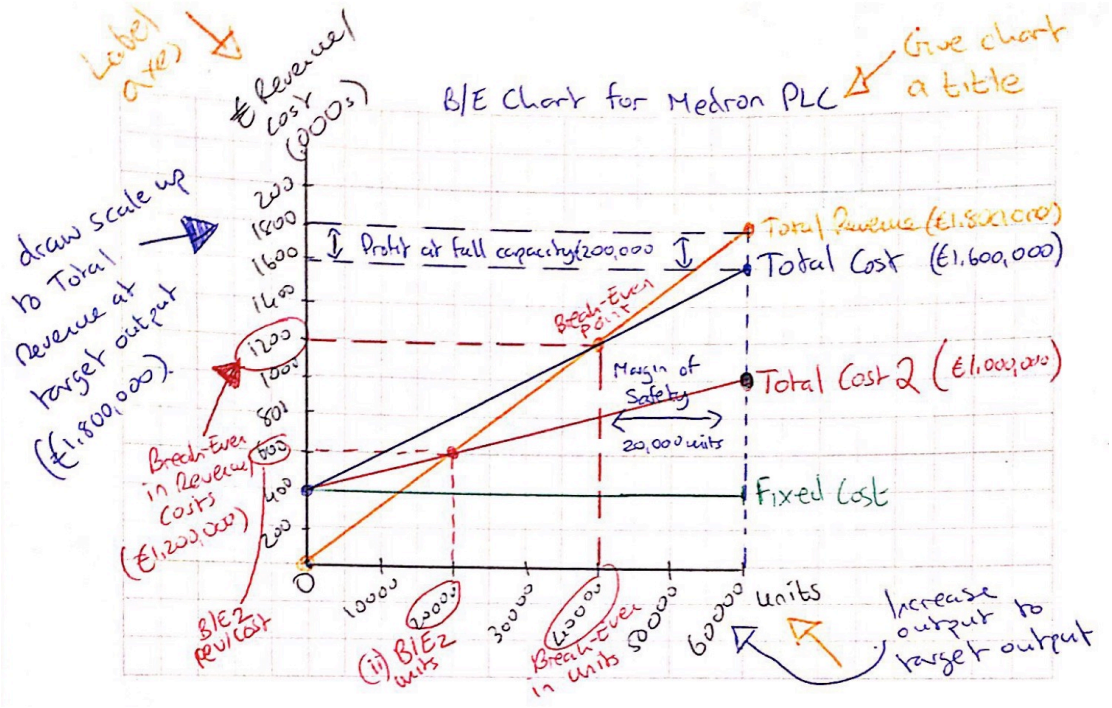


2016 Q6 (C)

Following a review of costs, Medron plc decreased its variable costs per unit to €10.
(i) Calculate the new breakeven point and illustrate on your breakeven chart the new total cost line (TC2) and the new breakeven point (BE2).
(ii) Outline one limitation of a breakeven analysis when making business decisions. (20 marks)

(i) Break-Even Amount

Fixed Costs / Contribution per unit (Selling Price - Variable Costs)
(€30 - €10) = €20 --- €400,000/€20 = 20,000 units



(ii) Limitation

Selling Price: Prices may have to be lowered to sell more units.
Costs: Variable costs may decrease when buying in bulk so won't be constant over all quantities.

Also appears similar to 2016 Q6 (B) at: 2014 Q10 – Short; 2012 Q10 – Short; 2011 Q7 (C) and in slightly different formats below.

2013 Q6 – Short

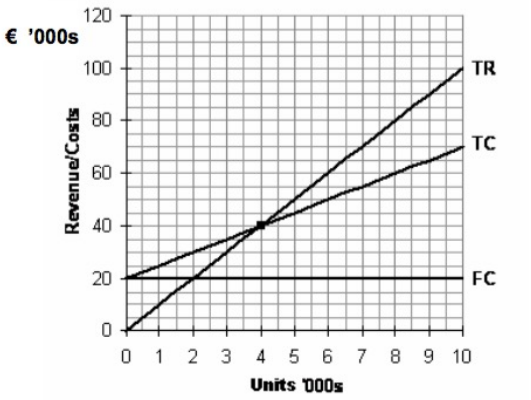
In break-even analysis a distinction is made between 'Fixed Costs' and 'Variable Costs'. Explain these terms, and give one example in each case.
MS: Fixed Costs 5 marks (3+2(1+1)) Variable Costs 5 marks (3+2(1+1))

Fixed costs
Remain the same irrespective of the level of output.
E.g. rent, loan repayments, insurance all remain the same as output increases.

Variable costs
Increase/decrease directly with the level of output changing.
E.g. direct wages, raw materials, energy costs all increase as output increases.

2010 – Short Q6

Study the break-even chart below and answer the following questions:
(i) Break-even point (BEP) in units and in euros
(ii) The **Profit** at Forecast Sales (10,000units) in euros.
(iii) Margin of safety (MOS) in units.

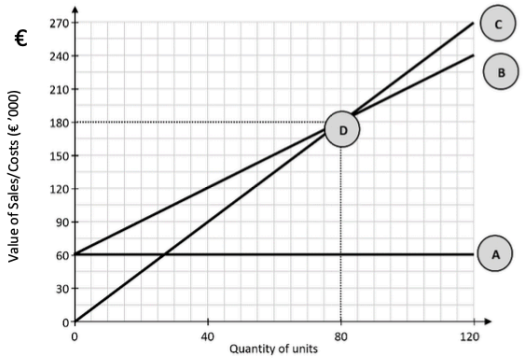


Be careful when reading B/E Charts, units and revenue/costs here are in '000s.

(i) 4,000 units; €40,000.
(ii) Revenue (€100,000) – Costs (€70,000) = €30,000
(iii) Forecast units – B/E amount = 10,000 – 4,000 = 6,000 units

Q10 (i) Read the Break-Even chart below and identify the full labels (not abbreviations) for A, B, C and D.
(ii) Calculate Profit at Forecast Output of 120 units.
(iii) Outline **one** limitation of break-even analysis.
MS: 4(4@1), 3(3@1), 3

Break-Even Chart for Eurocon DAC



Answer Box

	Full Label
A	
B	
C	
D	

(i) A = Fixed Costs; B = Total Costs; C = Total Revenue; D = Break Even Point
(ii) TR – TC -> €270,000 – €240,000 = €30,000
(iii) The selling price is assumed to be constant regardless of output, but may have to be lowered to sell more goods or can be reduced at different times e.g. during January sales.

2021 Q7 (B)

Moon Moods has provided the following information for their new product line:

Forecast Output (Sales)	30,000 units
Selling Price per unit	€15
Fixed Costs	€200,000
Variable Costs per unit	€5

Illustrate the following by means of a breakeven chart:

(i) Breakeven point

(ii) Margin of safety at the forecast output

(iii) Profit at forecast output. (25)

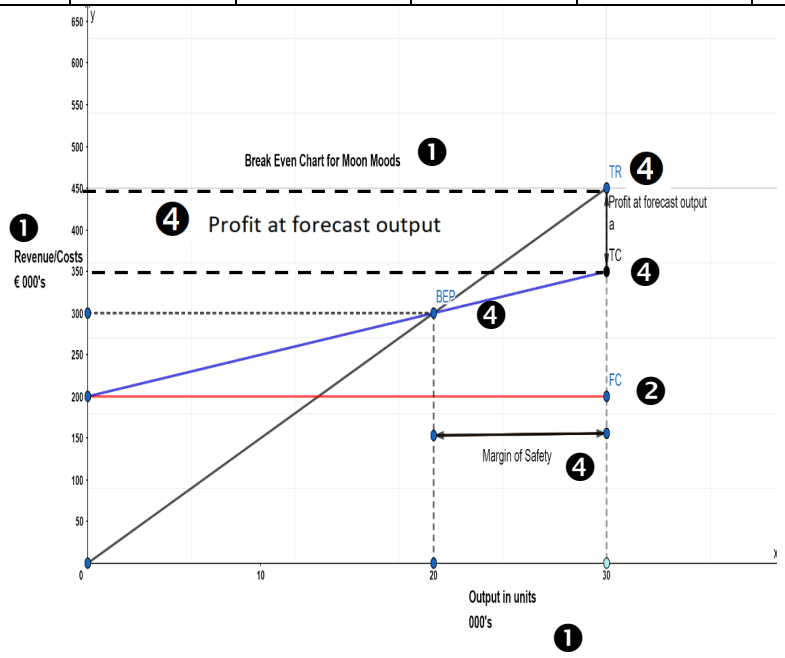
MS: X Axis: Output in units '000s 1m Y Axis: Revenue/Costs €'000s 1m Title of Chart 1m FC line 2m TC line 4m TR line 4m BEP 4m MOS 4m Profit at Forecast output 4m

(i) B/E point = F.C. / (S.P – V.C) = 200,000 / (15 – 5) = 20,000 units

(ii) Margin of safety at the forecast output = Forecast output – b/e units
30,000 – 20,000 = 10,000 units

(iii) Profit at forecast output = TR – TC … (TC = FC+VC)
TR = 15 x 30,000 = €450,000 TC = €200,000 + (€5 x 30,000) = €350,000
Profit at forecast output = €450,000 - €350,000 = €100,000

Units	SP	VC	FC	TC	TR	Profit
0	€15	€0	€200,000	€200,000	€0	-€200,000
20,000	€15	€100,000	€200,000	€300,000	€300,000	0
30,000	€15	€150,000	€200,000	€350,000	€450,000	€100,000



2021 Q7 (C)

(i) Define the term **margin of safety**
(ii) Discuss **one** limitation of a breakeven analysis when making business decisions. (15)
MS: (i) 5m (ii) 2@5m

(i) The Margin of Safety is the amount of sales (in units) that a business can afford to lose before it reaches Break-even Point. It identifies the point at which businesses will start to make a loss and acts as a buffer for business to ensure that this point is not reached.

(ii) **Benefits of economies of scale**
The breakeven chart does not account for the variable cost per unit decreasing as output increases.

Selling price changing with different quantities or to sell off remaining stock
A limitation of the breakeven chart is that it assumes the selling price remains the same. It does not allow/factor that selling price might be reduced for bulk orders.

Faulty stock: The breakeven chart does not allow for the costs of products that are faulty/production errors which would receive no revenue or need to be replaced if sold.