

## **THE SIZE OF THE BUSINESS**

Ways to measure:

1. Sales turnover
2. Profits
3. No. of employees
4. Capital Employed
5. Market Share
6. Market Capitalization
7. Others: agriculture – land area  
hospitals – no. of rooms or no. of customers.

There is no best way to measure the size of business. Also the comparison should be amongst businesses of the same industry in the same conditions. At least two to three ways should be used.

If the no. of employees is more then the size would be larger expectedly. However, the limitation is that a business using capital intensive methods would have fewer no. of labour e.g. if packaging is manual then lot of labour is required but if packaging is automated, then less no. of employees are received.

Capital employed may be higher in new businesses due to large investment.

Sales – if turnover is high then business is large but if a business produces luxury goods, then profit margin is high and sales volume may be not high.

Profit may not be made in a very large firm due to several reasons.

$$\text{Market Share} = \frac{\text{Total Sales of company}}{\text{Total Sales of industry}} \times 100$$

It's the percentage of a market captured by a company. If the share of a market is higher its called a market leader.

### Limitations:

- Declining of sales of large – scale firm.
- Increase in shares of a small – scale firm which a consumer likes more.
- Handicrafts (e.g.) is a small scale industry so network is small. So it means that market leader is a small firm holding large amount of capital.

Market Capitalization – related to share on Stock Exchange.

= Current share price

×

Total no. of shares issued

e.g. Rs 10/share × 100 shares

= 1000 rupee share or market capitalization

### Limitations:

- Large firm but may have become plc recently so not large shares.
  - Stock market fluctuation is high so change in share price is very misleading.
- Only established companies have trends in their market capitalization but unestablished companies shares price fluctuates a lot.

## **BUSINESS EXPANSION**

Growth of the business  
expand internally or externally

### INTERNAL EXPANSION

- opening new branches
- increasing no. of employees
- re-investing profits.

EXTERNAL – Integration: mergers and take-over.

Merger is when two firms willingly combine their assets, liabilities, employees and management style.

Take – over is when one firm buys out another firm and the identity is lost but at times brand names are kept.

Friendly take-over is when some one willingly sells out the business.

Hostile takeover occurs in public limited company; through stock exchange. If any body buys more than 50% of the shares. Higher prices are kept for sellers to sell and get extra money.

TYPES OF INTEGRATION (External Integration)

Vertical, Horizontal, Conglomerate

DISADVANTAGE OF INTEGRATION

- Competition is decreased.
- Losing of jobs and employee frustration as changes in management – Managerial problems.

## **SIGNIFICANCE OF SMALL BUSINESS ORGANIZATION**

For a small business no. of employees < 50.

Advantage to the firm:

- easier to control
- easy to set up / start
- personalized relationships with customers & staff
- higher motivation – staff relations
- enthusiasm and excitement of being in growth state
- better knowledge of market conditions
- less taxes
- easier to locate problems within the business
- less interference of the government
- more independent in decision – making
- lower management costs
- flexible in nature as they can change quickly with the demand of customers
- monopolized in local area as are very conveniently approachable

Advantages to the consumers:

- personalized service
- convenient for the buyer
- ease of availability
- credit purchasing / facility
- door – to – door service / delivery
- cheaper goods
- after – sales service

Advantages to the economy:

- increases employment
- increases competition for large scale firms
- prices controlled
- stable inflation
- improves GDP
- increases economic growth
- higher standards of living
- government revenue
- small – scale firms of today are large scale firms of tomorrow – future progress of economy is ensured / expected
- prevent situations that could lead to large – scale firms monopolizing

Problems:

- difficulty in obtaining finance
- difficulty in marketing products
  - expenditure
  - limited products
- difficult to compete
- no economies of scale
- capacity problems / demand satisfaction problem
- lack of skilled labour
- low sales / profits
- difficult in producing varieties