Size of Business

AS Business

Why do we need to measure business size?

- To help ***business owners / shareholders*** evaluate performance of their company in relation to their competitors.
- ***Potential investors*** who want to decide which company to invest in
- ***Government*** might want to compare the size of business to decide upon the rate of tax to charge to different businesses
- ***Suppliers*** might want to compare business size to decide which companies can be more profitable to work with
- ***Employees*** might want to decide want to choose a company to work for based upon its size for bigger companies are expected to pay

better salaries and more fringe benefits.

Indicators of Business Size

1. ***Amount of Profits*** – Sales / Revenue – Cost = Profit
2. ***Sales / Revenue*** – The total amount of cash / money received from the sale of product (good or service).
3. ***Number of Employees***
4. ***Number of branches / outlet***
5. ***Market Share*** – is the percentage of market sales captured by any particular business.
6. ***Capital Employed*** – is total long term finance available to a business.

Fixed Assets + Current Assets – Current Liabilities

Important Terms

- ***Profit*** – is the amount left with a business after subtracting cost from sales. It is the total amount made by the business from its operations.
- ***Sales*** – is the total amount earned / received from sale of goods / services.
- ***Cost*** – total amount spent to produce goods / services that companies sell to their customers.

Which is the best indicator to measure business size?

- ***Profit & Sales*** – the good thing about using profit or sales is that since it is monetary value it is easier to compare businesses across different industries.
- ***Number of Employees***: because some businesses do not require much labor like cinema whereas other businesses require a lot of labor like restaurants hence the size of more labor intensive businesses will always appear to be larger and vice versa.
- ***Number of branches:*** because some business do not require a lot of branches like jewelry shops stores whereas other require a lot of branches like restaurants etc the size of business that needs more branches will appear to be bigger using this method.

Which is the best indicator to measure

business size?

- ***Market Share*** – is useful method because that compares the size of business in relation to its competitors.

Market Share = Firm Sales / Market Sales 100

- ***Capital Employed*** – is also a good method to compare the size of business since it is in monetary terms.

There is no perfect indicator of business size and so ideally you should use 2 or 3 indicators together to get a better idea about business size.

Advantages of Small Businesses

- Small businesses are more likely to provide ***personalized services*** to customers. Business owners and staff of small businesses are more likely to personally know their customers which can make customer prefer that business over any of their competitor which is larger business.
- Small businesses are generally more ***flexible because employees have more authority and they better know each other*** hence employees are expected to be more motivated and committed to the business.
- Small businesses are ***better able to capture market niche***.

Market Niche is a small segment of the larger market for instance Thai food restaurant in Islamabad.

- Small businesses ***can get a lot of financial and technical support from the government.***

Disadvantages of Small Businesses

- Might have ***hard time competing with larger businesses***. Why? Because larger businesses have more experienced labor and have more resources to spend on marketing etc.
- Might ***not be able to benefit from economies of scale***.

Economies of scale refers to reduction in average total cost due to increase in output.

- Smaller business are relatively new and therefore risky which means that they have ***hard time raising loan from a bank which limits the business ability to grow.***

Family Business

- Any business that is owned and managed by family members.

Advantages of Family Businesses

1. ***More trust*** between employees because everyone in the business is related and so there is expected to be more cooperation between family members.
2. ***Family members might be more willing to help each other*** in business affairs unlike normal colleagues which can feel more

professional jealously etc.

3. Large supply of labor because any family member can be engaged in business activity as and when needed.

Disadvantages of Family Business

- ***Much more people to consult before making a business decision.*** It can result in slow decision making. There is no clear hierarchy within a family business.
- Generally these businesses are small because ***family members are afraid of losing control if they expand the business*** like getting a new partner.
- ***More chances of conflicts and disagreements especially if personal***

disputes become part of business which can very negatively affect business efficiency.

How do governments support small businesses?

1. ***Subsidies:*** are financial payments made by the government to support businesses financially
2. ***Technical Support:*** it is when you provide technical knowledge and assistance to small businesses.
3. ***Interest Free Loans:*** it is to provide convenience to small businesses in terms of loan repayment.
4. ***Grants:*** unlike loan the grant is free money that is not to be returned to the government by the business. Grants help small businesses to raise more capital.

5. Incubators: these are special platforms through which government support new business in terms of financial and technical support.

6. Tax exemptions / tax holidays: refers to the idea that for the first few years of operation the government will not charge any tax to new businesses.