

# Webdespix Ltd case study questions

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1. What does the name WebDesPix Ltd tell you about the ownership of the company?

It tells us that it is a private limited company; this means that it is in the private sector and it must have the letters 'Ltd' after its name. The main features of a private limited company include:

- \* It is owned by the shareholders.
- \* It is controlled by the board of directors.
- \* It is managed by appointed managers.
- \* Finance can be gained by borrowing from banks or selling shares.
- \* The profits go to the shareholders of the company, in the form of dividends.

#### Socratic Seminar Questions

2. Give (2 or more) reasons why they may have decided on this type of company?

This type of business is more expensive to set up than a sole trader or a partnership, however:

- \* It carries less financial risk for the owners as they have limited liability, which means that if the company goes bust, they only lose the amount of money that they invested in the company and not their personal possessions.

\* Limited companies are also incorporated which means that the company has a separate legal identity from its owners. Which means that it is the company that can be sued or sue, not the owners.

\* It also gives the company greater continuity because its existence is not ended by the death or retirement of its owners.

3. Tom and Dee are shareholders. What does this mean?

\* It means that Tom and Dee are the people who invest money in the company by buying shares, and are therefore called shareholders. It also means that they are the owners of the company.

\* By buying shares in the company Tom and Dee are entitled to a share of the profits known as dividend. How much dividend a shareholder receives depends on how well the company is performing, the type of share they own, and the number of shares they own.

\* This also means that as they are shareholders they can elect people to the board of directors to represent their interest and be responsible for the long term strategy of the company. The directors will then appoint managers to be responsible for the day-to-day running of the company. Also, some managers may also be directors and are known as executive directors. In a private limited company the major shareholders, board of directors and managers may all be the same people.

4. They have an overdraft facility. Explain how an overdraft works and say what they might use it for.

An overdraft is when a business draws more money from its bank account than it currently has in the account. It has permission from the bank, which sets an agreed limit called an overdraft limit.

Interest is payable on the overdraft and this is calculated on a daily basis. An advantage of an overdraft is that money is only borrowed when needed; this means that interest is only paid when the bank account is overdrawn.

The big disadvantage about an overdraft is that the bank can insist that it is repaid immediately.

However, because of its flexibility an overdraft is probably the most frequently used way to solve a cash flow problem.

The table shows the advantages and disadvantages of overdrafts:

Advantages of overdrafts

Disadvantages of overdrafts

Flexibility-can change the amount borrowed within limits.

Cannot be used for large borrowing.

Interest is only paid on amounts borrowed.

Rates of interest higher than loans.

Bank can change limit at any time or ask for money to be paid sooner than expected.

Used for anything wages, computer repairs etc

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5. List 4 products the company offers.

\* Web design is still the core business of the company, but new services are also offered.

\* Electronic newsletters.

\* Domain registrations.

\* Hosting and search engine optimisation.

\* The company offers three standard web design packages, this is

-budget at £800

-professional at £1000

-and executive at £1500

Each package provides a number of web pages, e-mail facilities and the cost of hosting the site.

\* WDP (WebDesPix Ltd) give a quotation to clients who require non-standard packages (a quotation is just an estimated price for job or service).

6. All their products are marketed online. Explain 3 advantages of this when compared to selling from a shop on the high street.

Firstly, buying and selling products online is called e-commerce. The advantages of this include:

\* Websites can be used to reach wider markets; this means that the internet provides extra marketing possibilities.

\* The internet can be accessed all over the world-this makes it possible to target potential customers in foreign countries.

\* A company can put marketing material on its own website, or it could pay to advertise on other websites.

\* A good website can really help a firm's competitiveness and increase its market share.

\* Firms can market and sell goods through their website 24 hours a day, 7 days a week ('24/7').

\* By using the strategy of marketing and selling '24/7', it can give e-commerce firms an advantage over the traditional 9-5 businesses, as customers can shop at home, at a time which is convenient to them.

7. The company wants to build up their brand name. List 3 advantages of having a strong brand name.

\* Businesses will hope that this leads to brandloyalty, where customers will repeat-buy because they prefer the look, taste, quality or image of their products.

\* If the company's name becomes established with one product, it may encourage customers to buy different products bearing that name.

\* Customers can be reasonably sure about the quality they will get with branded goods.

#### 8. What are overheads?

Overheads (also called fixed costs or indirect costs) are costs which do not change whether the business produces lots of goods, or produces no goods at all. These are costs which still have to be paid, regardless of output. For example, the rent on a shop will still have to be paid, whether or not the shop has any customers. Examples of overheads are:

- interest payment on loans.
- managers' salaries.
- Rates payable to the local council.
- rent of premises.
- gas
- electricity
- telephone costs
- administration costs
- and advertising

#### 9. Explain why the company has relatively small overheads.

The company has relatively small overheads because it is labour intensive.

- \* It builds and upgrades its own computers.

- \* Vacancies are just advertised on the company's website and at regular networking meetings with other businesses in the Bristol area.

10. List 2 factors which influenced the company to locate in Bristol.

- \* They could have run the company from anywhere in England, but as they were all from different parts of the country it was easier to locate in Bristol where they had all studied (it was more convenient).

- \* Bristol is a large city with good infrastructure, so transport is not a problem.

- \* There is a university in Bristol, so the business is close to an educated working force.

11. List 3 non-financial fringe benefits available to the employees.

- \* Free lunch each Friday.

- \* The use of a Wii during their breaks.

- \* Freehealthinsurance after six months employment.

12. Give 2 reasons why the company gives fringe benefits.

- \* To motivate their employees so that they feel valued by the company and are therefore more productive as well.

- \* Helps attract and retain better qualified employees.



\* Improves efficiency and productivity as employees are assured of security for themselves (as well as their families).

13. Some employees receive a monthly bonus based on turnover. Explain bonus.

Full-time employees receive a monthly bonus based on turnover. A bonus is a monetary reward. It can be paid within both the time rate and piece rate systems. Under the time rate system, a bonus is paid if the workers reach their production targets, which could be hourly, daily or weekly targets.

14. Explain one advantage of giving these employees a bonus.

-this encourages workers to work at their maximum output, and so overcome the problem of the lack of incentive. It also increases the productivity, efficiency and motivation of employees, which may also increase their happiness.

15. Give one disadvantage of giving them a bonus.

The disadvantage is that the employees expect a bonus and moral drops sharply when the bonus is not paid.

16. The 2 sales assistants receive commission in addition to their salary. Explain commission.

Commission is a monetary incentive that the company can offer in addition to their basic pay. It is a payment to people who are employed in selling the products or services of a business.

17. Explain one advantage of giving these employees commission.

This system ensures that employees have to work hard to earn their pay, but if they are successful, their earnings can be unlimited.

18. Give one disadvantage of giving them commission.

If they fail to meet the required turnover or sales figures, they receive no commission.

19. List 2 advantages of using email.

\* It is quick and easy to send emails, as it allows communication easily over a number of sites.

\* People can keep in touch very easily-as many messages can be sent.

\* Messages can also be keyed-in and stored until they are needed.

\* One email can be sent to a number of different people at the same time.

\* They are very convenient, as multiple attachments can be sent.

\* It is easier to refer back to emails rather than looking through different pieces of paper.

20. Explain why the company might use video conferencing.

Video conferencing is fast becoming more and more popular with companies. It involves using computer links and closed-circuit television, allowing people to hear and see each other.

The advantages include:

- \* Saves people travelling to meetings.
- \* Large savings can then be made in terms of time and cost.
- \* Face-to-face communication is possible rather than using telephone or letter.