

The dynamic nature of business

Businesses operate in dynamic markets. New opportunities arise and new businesses and business ideas are created. Wherever there is a need for a product or service, an **entrepreneur** may take the chance to meet that need with a new business venture.

Changing technology

As new technology develops, new business opportunities arise. New technology can often improve products and services, and make them more desirable in a number of ways. New technology can:

- make products and services **faster**
- make products **smaller** (more compact)
- make products and services **cheaper**
- make products and services **easier to use**
- make products **safer**.

Changing consumer needs

Society is constantly changing. These changes lead to **consumers** spending their money in different ways. New business opportunities can arise because of new consumer wants and needs caused by:

- changes in **fashions**
- changes in the **economy**
- changes in **national demographics**
- changes in **lifestyle**, such as the way consumers spend their leisure time
- changes in **technology**.

Obsolescence

The introduction of new technology and the changing nature of consumer needs means that products and services can become **obsolete** very quickly. Many products are designed to only last a short time, and consumers are encouraged to buy newer and improved versions of these products. This is called **planned obsolescence**.



Digital music downloads are an example of how new technology makes products and services obsolete. Physical CD sales in the USA dropped by more than 75% between 2005 and 2014.

Worked example



Give two examples of the way in which new business ideas can be generated. (2 marks)

- 1 A new idea, such as a new invention.
- 2 Developed from existing ideas, such as by making slight changes and improvements to an existing product or service (innovation).

A new business venture can be **unique** (the only one of its kind) or similar to other existing ideas.

Level of uniqueness:
Left highly unique
Right generic business

Unoccupied gap in the market Entrepreneur thinks they can do it better Market big enough for another competitor

Now try this

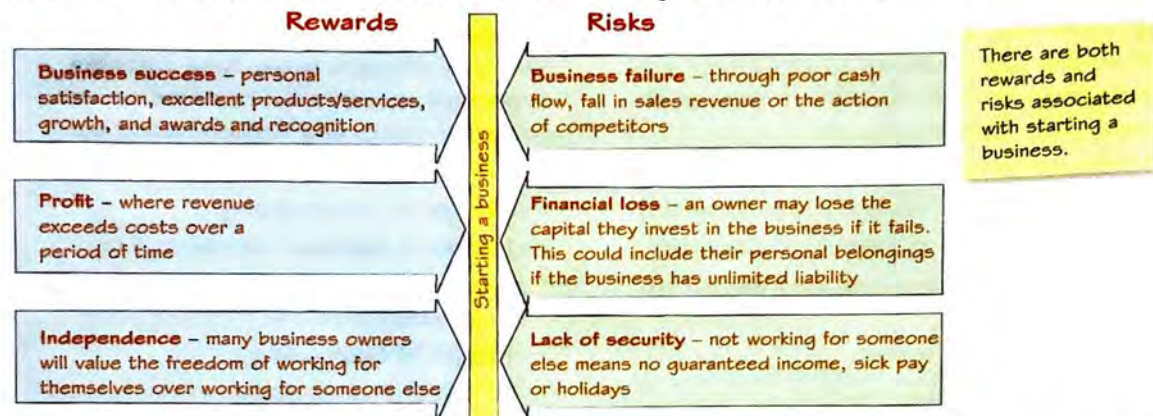
- 1 Explain **one** opportunity that the introduction of new technology creates for a business. (3 marks)
- 2 Explain **one** way in which a gap in the market creates a business opportunity. (3 marks)

Risk and reward

Before an entrepreneur starts their own business or sets up their own company, they will consider the **risks** and **rewards** associated with their business venture. Some businesses may be considered higher risk than others, but they may also offer greater rewards to their owners.

Working out the risk

Risk is worked out by considering the **probability** of a negative outcome occurring and the **impact** of the negative outcome. Starting any business will involve taking a risk because there are so many **unknown factors** that affect long-term business success.



How can risk be reduced?

- Carry out detailed **market research** (you can revise market research on page 8).
- Produce a **business plan** (you can revise business plans on pages 31–32).
- Ensure that the business is **competitive** (you can revise competition on pages 13–14).
- Raise sufficient **start-up finance** (you can revise finance on pages 23–24).

What makes some businesses riskier than others?

- Seasonal demand, such as for ice cream.
- A small market.
- A highly competitive market with lots of competitors.
- An owner who knows little about the product or market.

Worked example



Sonia Fletcher set up as a sole trader selling cakes made from organic ingredients. Which **one** of the following is an example of a risk for Sonia's business?

Select **one** answer:

- ☐ A Sonia has estimated that demand will rise over the next six months
- ☒ B Sonia has calculated a negative cash flow for August
- ☐ C Sonia is anticipating that the cost of flour will fall next year
- ☐ D Sonia has estimated that she will need to work an extra 5 hours per week to meet demand for her products

(1 mark)

Consider the factors that could lead to business failure. Although Option D might be a personal downside for Sonia, it is not likely to cause business failure. Option B is the correct answer as it is a risk for the business.

Now try this



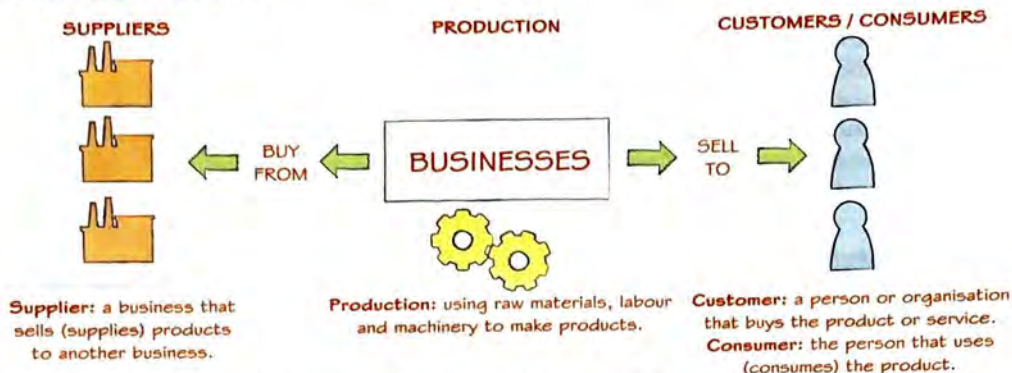
Explain **one** reason why someone might want to set up their own business.

(3 marks)

The role of business enterprise

A **business** or **enterprise** is a person or organisation with the **purpose** of producing goods and services to meet the needs of customers. A business might produce its own goods or buy them from a supplier and sell them to customers.

What businesses do

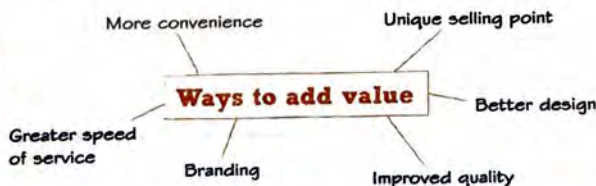


The purpose of all products and services is to meet the needs of customers, often in order to make a **profit**.

Adding value

Successful businesses will be able to **add value** to their products and services. A business can add value to its product by lowering variable costs or adding something that will make customers willing to pay a higher price.

Adding value is very closely linked to profit.



£100	£30 Value added: what the business adds
Price	£70 Variable cost

Worked example

Which **two** of the following might be the best ways in which an oven-cleaning business could add value to its products?

Select **two** answers:

(2 marks)

- ☐ A Employing an accountant to manage cash flow
- ☒ B Offering free after-care visits to check customer satisfaction
- ☐ C Making sure they have an excellent relationship with the bank
- ☐ D Buying a van with the name of the company clearly written on the side
- ☒ E Providing a weekend service so that customers do not need time off work

B and E are things that customers would be willing to pay more for. Option B would provide a better all-round service, and Option E would improve convenience. The other three options might improve the business but would not add value.

Now try this

Discuss why a business may find it difficult to add value to its products or services. (6 marks)

The importance of added value

Adding value is important to a business for a number of reasons. A business must decide how best to combine the features of its products to add value.

The benefits of adding value

The added value of a product goes towards paying off a company's fixed costs. The higher the added value, the sooner costs can be paid off and the quicker a business will make a profit. The more value a business can add to its products, the more chance the business has of success, survival and long-term growth.

Unique selling point

A **unique selling point (USP)** is another way to add value to a product. A USP will also help a business compete.

Developing a USP can be aided through understanding customer needs and market mapping.

Mix and match

Most products combine a range of features to add value and improve competitiveness. The most successful products are the ones that are able to keep costs down as they add new features or benefits.



Worked example



Which **two** of the following are strategies that a professional gardener might use to help their business achieve high levels of added value? Select **two** answers:

(2 marks)

- ☐ A Ensure a profit is made on every job completed
- ☐ B Give price discounts
- ☒ C Visit every customer 48 hours after work is completed to take feedback
- ☒ D Develop a strong brand awareness in the local area
- ☐ E Compare the prices of competitors every month

Now try this



Which **one** of the following is most likely to be a reason why a business would try to add value to its products? Select **one** answer:

(1 mark)

- ☐ A To increase the materials it buys
- ☐ B To add a USP
- ☐ C To differentiate its product
- ☐ D To improve its chances of survival in the long term

Customer needs 1

If a business is to make products and services that are **desirable** and **profitable**, they must be able to **meet customer needs** successfully. A business that can meet customer needs will encourage **repeat purchase** and **attract new customers**.

What customers want

When making decisions about products and services, customers will make a decision based on the balance of the four factors shown in the diagram. All of the factors are **linked through price**, because a business's ability to provide a product at the right price will depend on the level at which it meets the other factors. For example, improving the standard of product quality by using better-quality raw materials may increase costs, which will have an effect on the price.



Meeting customer needs

Customer need	Example
Price	Charging a price that is 20% lower than competitors' prices
Choice	A restaurant serving a menu that offers more than 30 different dishes
Convenience	A business offering customers next-day delivery on all items
Quality	A clothes manufacturer using only the highest grade of cotton in all garments

Worked example



Explain **one** reason why a business might sell a wide range of products. (3 marks)

A business would sell a wide range of products to give customers more choice. If customers have more choice, it is more likely that they will find a product that meets their needs. As a result, the business will increase its sales because all customers will find something that they like.



In this answer, the student starts by identifying a reason linked to customer needs. The student then goes on to explain why providing customers with a choice would be beneficial. They have developed the reason with two linked strands of development. You do not need to give context in an 'explain' question.

Now try this



State **one** way that a business could meet customer needs through providing high-quality products. (2 marks)

Customer needs 2

A business cannot treat all of its customers the same way. Customers with similar needs will be influenced in different ways by their **personal circumstances** and **characteristics**. A business must understand the differing needs of its customers so that it can continue to generate sales and survive.

Personal circumstances

Family needs

Customers with children will have different needs from a couple with no children

Financial needs

People with different incomes will choose to buy products and services at different **price points**

Understanding customers

Personal tastes and preferences

All customers have personal preferences based on style, colour, function and personal taste

Emotional needs

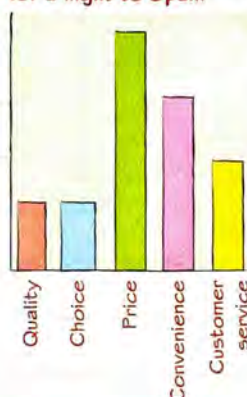
Some customers may have strong emotional connections to certain brands and products

Customer needs and different products

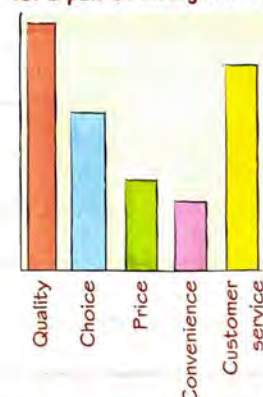
A customer's needs will differ for different types of products. In some cases, the right price may be more important than choice. In other circumstances, it may be the other way around.

For example, a customer buying a short-haul flight to Europe may value price and **convenience** over quality or customer service. However, the same customer buying a different product, such as a pair of hiking boots, may be willing to pay a high price if they receive excellent customer service (advice from a specialist) and a high-quality pair of boots.

A - Customer preference for a flight to Spain



B - Customer preference for a pair of hiking boots



Worked example



Which **two** of the following are likely to be the most effective methods that an office furniture business might use to meet customer needs?

Select **two** answers: (2 marks)

- ☐ A Securing repeat purchases by customers
- ☒ B Fulfilling customer orders quickly
- ☐ C Setting non-financial objectives
- ☒ D Selling furniture at a competitive price
- ☐ E Advertising on local radio



Now try this



Which **one** the following is a reason why customer service is important to the success of a small business?

Select **one** answer:

(1 mark)

- ☐ A Customers are the ones who add value
- ☐ B A small business wants to get repeat purchases
- ☐ C Customers will buy a product if the price is right
- ☐ D It has to meet legal requirements

Only Options B and D have anything to do with meeting customer needs. Option B is an example of convenience and providing good customer service. Option D is an example of meeting customer needs through appropriate pricing.

The role of market research

A business will carry out **market research** appropriate to its size and the nature of its market. The purpose of market research is to help a business to understand its **customers**, **competitors** and the **market** in which it operates, in order to make informed decisions about its products and services.



Worked example



Lisa Gallagher believes there is a growing market for gardening services. She has conducted some market research to test her idea and has summarised her findings.

Type of household	Percentage
Single – no children	7
Single – with children	11
Single – pensioner	28
Couple – no children	9
Couple – with children	31
Couple – pensioners	14

Figure 1

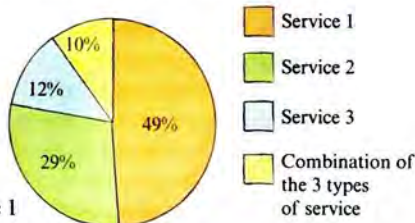


Table 1

Study Table 1 and Figure 1. According to this information, which **two** conclusions can Lisa draw from the data?

Select **two** answers:

(3 marks)

- ☒ A 100% more single pensioners than pensioner couples are interested in Lisa's business
- ☐ B Lisa should not offer Services 2 or 3 as there is no demand
- ☐ C Her main two segments are couples with no children and singles with children
- ☒ D More than half of people prefer something other than Service 1
- ☐ E Couples with children are more likely to use Service 1

Quantitative skills

Make notes on what the data tells you. It is important that you interpret the data correctly before you begin to choose the correct answers. Once you are sure that you understand the data, eliminate the options that you know are incorrect. Why are Options B, C and E incorrect?

Now try this



Discuss why a business may conduct extensive market research before it begins trading.

(6 marks)

Types of market research

Primary research (field research) is collecting information that did not exist before. This first-hand contact with customers is valuable to a business in understanding its market.



- More accurate
- Up to date
- Specific to needs
- Effective at collecting qualitative data
- Direct customer contact

Secondary research (desk research) is the process of gathering secondary data, which is information that already exists.



- More general
- Less time-consuming
- Effective at collecting quantitative data

Many businesses use **social media** as a cheap way to collect information on market trends, customer opinions and the actions of their competitors.

Market research questions

Focus on...	Example questions
Customers	<ul style="list-style-type: none"> • What do our customers value? • What benefits are offered by our product? • How can we improve our products? • How much are our customers willing to pay?
Competitors	<ul style="list-style-type: none"> • Who are our closest rivals? • What is their market share? • What makes them competitive?
Market	<ul style="list-style-type: none"> • What is the price of existing products or services? • How many people are buying these products? • Is the market growing or shrinking? • What are the latest trends?

Worked example



Which **two** of the following are the benefits of conducting secondary market research instead of primary market research? (2 marks)

Select **two** answers:

- ☐ A It adds value to the products
- ☒ B It is less time-consuming
- ☒ C It offers a wider range of information
- ☐ D It is more specific to the target market
- ☐ E It will lower the costs of production

Ways of collecting market research data include:

- multiple-choice questions
- yes/no questions
- sliding scales such as 1–10
- customer comments.

Now try this



Which **one** of the following would not be an appropriate method of market research for a new small business? Select **one** answer: (1 mark)

- ☐ A Employing a specialist market research company to carry out a survey of 10 000 people
- ☐ B Using published statistics about market trends
- ☐ C Asking customers to fill in a short questionnaire on the premises
- ☐ D Conducting an interview

Market research data

There are two categories of market research data:

- **qualitative data** – information about people's opinions, judgements and attitudes
- **quantitative data** – data that can be expressed as numbers and statistically analysed.

Size and scale

Market research can be **expensive** and small businesses may only do a little. Larger businesses may pay a market research company to carry out extensive primary research. The greater the **sample size** (proportion of the population) used, the more **accurate** the research will be.

Effective market research is likely to link quantitative and qualitative information together. For example, it would help a business understand a 20% fall in customer satisfaction ratings if a focus group revealed that this was due to the layout of the business's new website.

Bias

Bias is the inclination to agree with an idea. Market research data can be **biased** if customers give the answers that they think the business wants them to give, for example when a small business owner collects the opinions of family. Bias also occurs by not surveying a **representative** sample of people. For example, a cafe owner will receive different feedback on his menu from people eating lunch to those just wanting a drink, so only asking those people will result in biased data.

This leads the customer to agree with the statement so the data would be biased.

People with 0 or 3+ pets cannot answer, so the data would be inaccurate.

Reliability

In order to make good business decisions, research data should be **reliable** – it should come from a representative sample and the questions should enable people to give accurate and relevant answers.

<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Don't you agree that this product should only be available in black? Yes/No	Tick your colour preference for this product. <input type="checkbox"/> red <input type="checkbox"/> green <input type="checkbox"/> black
How many pets do you have? <input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3	How many pets do you have? <input type="checkbox"/> 0 <input type="checkbox"/> 1-2 <input type="checkbox"/> 3+

Worked example



Apple produces home electronics, including the iPad and iPhone, for the mass market. Product design is an important part of its success.

(a) Give **one** method of collecting qualitative market research. (1 mark)

Focus groups

(b) Analyse the impact on Apple of using qualitative market research to improve its understanding of customer needs. (9 marks)

Qualitative research will give Apple information about whether consumers think their computers, iPads and iPhones are good-quality products. This will enable Apple to change their product design so that consumers will pay more.

Other methods include interviews, consumer panels or questionnaires/surveys.

This is a good start to a 9-mark 'analyse' question. The student should now develop their answer. This may include at least two different reasons applied to the context of Apple.

Now try this



1 Define the term 'market research'.

(1 mark)



2 Give **one** way in which a business might collect quantitative market research data.

(1 mark)

3 Explain **one** way in which market research data might benefit a business.

(3 marks)

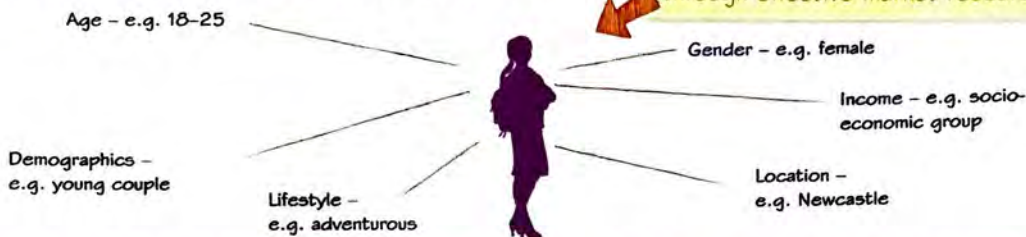
Market segmentation

A **market segment** is a group of buyers with similar characteristics and buying habits. Segmenting a market allows a business to understand its customer needs and to target its customers better.

How to segment a market

A market can be segmented in many ways, based on the characteristics and needs of customers.

In order to accurately segment its market, a business must have a good understanding of its customer needs through effective market research.



Benefits of segmentation

Market segmentation allows a business to:

- 👍 meet specific customer needs
- 👍 **differentiate** its products
- 👍 focus on a specific group of customers
- 👍 target its marketing activity
- 👍 develop a unique brand image
- 👍 build close customer relationships.

Limitations of segmentation

- 👎 Targeting a range of different customers with different products and services can be costly.
- 👎 Focusing on one group of customers can cause a business to miss another opportunity.
- 👎 Customer characteristics change over time, such as lifestyle, income and demographics.

Businesses have to continually update their understanding of their customers as customer needs change over time.

Worked example



Explain **one** way in which effective marketing can help improve the products of a business.

(3 marks)

If a business understands its customers' needs, its products and services can be developed to meet these needs. This means that the products will be more attractive and desirable, leading to a greater number of sales.

Make sure that you:

- identify **one** way (for example, product development)
- make two further expansion points about the way that you have identified.

Now try this



1 Define the term 'market segment'.

(1 mark)

2 Explain **one** reason why a business may choose to segment its market.

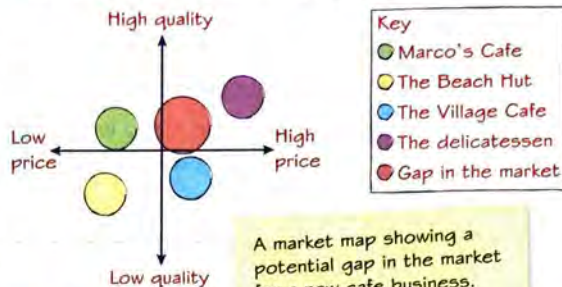
(3 marks)

Market mapping

Market mapping helps businesses to position their products by identifying gaps in the market.

Market maps

A market map is a diagram that can be used to position and compare products in a market. It is also used to identify **gaps in the market**, which are opportunities where customer needs are not being met. A market map will compare businesses based on two **variables**, such as price and quality.



Benefits of market mapping

- 👍 Helps to identify potential gaps in a market (opportunities).
- 👍 Helps businesses to identify their closest rivals.
- 👍 Supports market segmentation.
- 👍 Helps businesses to make decisions about marketing and positioning its brand.

Limitations of market maps

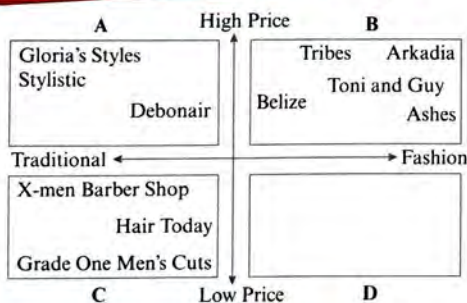
- 👎 Based on opinions and perceptions, rather than on accurate data.
- 👎 Compares businesses based on only two variables, which is simplistic.
- 👎 Can be difficult to identify the most appropriate variables.

Head-to-head competition

There doesn't always have to be a gap in the market for a business to be successful. Businesses can target the same customers as other businesses and still succeed:

- ✓ if there is enough demand in the market (enough customers)
- ✓ if the business is able to meet customer needs better than its competitors (by offering more choice or better customer service).

Worked example



According to the market map, which **one** of the following describes a gap in the market? (1 mark)

- Select **one** answer:
- ☐ A High price / traditional
 - ☐ B High price / fashion
 - ☐ C Low price / traditional
 - ☒ D Low price / fashion

Option D is the only quadrant where there are no other businesses.

Now try this



Which **two** of the following are **most likely** to be important in spotting a new business opportunity in the cycling market? Select **two** answers:

- ☐ A Being able to produce a product cheaply
- ☐ B Recognising a new gap in the market
- ☐ C Being a keen cyclist
- ☐ D Identifying the possible competitors
- ☐ E Having a large amount of personal savings

(2 marks)

Competition

A business might use a number of criteria to analyse the **strengths** and **weaknesses** of its **competition** in order to adjust its business offering and **differentiate** its products and services.



Differentiation

Product differentiation is about making a product different from others in some way. It helps businesses:

- to position their products and target different market segments
- to gain an advantage over rivals when faced with competition.

It allows consumers to see clearly that their needs are being met more effectively by one product than by another.

How to differentiate products

Instead of competing head-to-head, businesses can try to differentiate their products.



Worked example



Which **two** of the following methods are mostly likely to differentiate a driving school from its rivals?

Select **two** answers:

- ☒ A Providing high-quality tuition
☐ B Operating as a sole trader
☒ C Providing a personalised service

- ☐ D Operating in a competitive market
☐ E Providing a service for the community

(2 marks)

Options A and C are ways in which a business can differentiate what it does.

Now try this



Which **two** are the most likely methods that a small independent music store might use to compete with a large supermarket chain that also sells CDs?

Select **two** answers:

- ☐ A Lower its prices below that of the supermarket
☐ B Launch an advertising campaign on national television
☐ C Provide an ordering service for hard-to-find CDs for their customers
☐ D Open up two new stores in the town
☐ E Focus on improving the quality of customer service

(2 marks)

Competitive markets

What is a competitive market?

A market is **competitive** when there are a large number of businesses relative to the number of potential customers. Competition is also high in markets where businesses sell very similar products and services that are difficult to differentiate.

The market for sugar is highly competitive because there is little difference between one producer's sugar and another's. This means that businesses mainly compete on price, although quality may also be considered. On the other hand, cakes and confectionary products can be highly differentiated, allowing businesses to compete in different ways.



Competition and business decision-making

Some of the decisions that a business might make in a highly competitive market include:

- improving efficiency
- finding ways to improve competitiveness (see page 13 to revise competition)
- differentiating its products and services
- lowering its prices
- giving customers special offers
- cutting costs.

Drawbacks of highly competitive markets

A business that operates in a highly competitive market might have to:

- lower prices in order to compete
- accept lower **profit margins**
- cut back on expenditure
- be careful about how and when it expands
- monitor its competitors closely.

Consumers benefit from competition as it encourages businesses to lower their prices and also to improve quality and customer service.

Worked example



Explain **one** reason why a business might decide to lower the price of its products. (3 marks)

A business might decide to lower its prices in order to remain competitive against other businesses. If a business lowers its prices, it will seem more appealing to customers compared to other alternatives. As a result, customers may choose it over rivals and its sales **revenue** may increase.

The student has explained how price is one way that a business might compete against rival businesses. An 'explain' question does **not** require you to analyse the benefits and drawbacks (e.g. the fact that the business might also lower its profit margins by reducing its prices).

Now try this



- 1 State **one** possible method a business could use to differentiate its product.
- 2 Explain **one** reason why a differentiated product might benefit a business.

(1 mark)

(3 marks)

Aims and objectives

All businesses set **objectives**. Sometimes these are financial objectives, which can be expressed in money terms. Businesses also have non-financial objectives. These are more personal and may involve helping others.

The objectives hierarchy

Aims are the general goals that a business sets. An aim can be the purpose for a business's existence.

Objectives are more specific than aims, but they contribute to a business achieving its aims. Objectives can be either financial or non-financial.



Most businesses will have an overarching aim that is supported by a number of SMART objectives, often specific to functions of the business.

Typical objectives for a start-up



Worked example



Which **two** of the following are the most likely reasons why an individual would want to start a business?

Select **two** answers:

(2 marks)

- ☒ A To use the profits of a business to make a difference
- ☐ B To work fewer hours each week
- ☐ C To avoid paying income tax
- ☐ D To show their boss that they are as good as them
- ☒ E To control their own future

Both Option A and Option E are examples of non-financial objectives. Option A involves helping others, while Option E is about independence and control (being your own boss). Options B–D are not really viable objectives for starting a business.

Now try this



Which **one** of the following is the most likely reason why Sonia decided to set up a business?

Select **one** answer:

(1 mark)

- ☐ A She wanted to have more spare time
- ☐ B She wanted to have more independence when making business decisions
- ☐ C She wanted to make a guaranteed profit
- ☐ D She wanted to reduce the number of risks she had to take

Differing aims and objectives

As a business develops and grows, so do the ambitions of the entrepreneur or owner who runs it. This means that different businesses have different aims and objectives. It also means that the aims and objectives of a business change, depending on its current stage of development.

Business A



Business A has been running for six months. It has started to gather a loyal **customer base** and to receive **repeat purchases**. Initial customer reviews are positive.

Business A's objectives are to:

- survive
- have independence and control
- achieve 100% customer satisfaction
- achieve financial security.

These objectives are appropriate for Business A because many small businesses fail within the first few years of opening. The owner wants the independence of running their own business. Customer satisfaction is very important if the business is to grow.

Business B



Business B is a chain of 15 stores nationwide. It has been established for 12 years and in the last five years has become the second largest of its type in the market. It is a **public limited company (PLC)**. Turn to page 50 for more on PLCs.

Business B's objectives are to:

- become market leader
- achieve a sales revenue of £200 million
- donate 1% of all profits to charity.

These objectives are appropriate for Business B because a large successful business may have a realistic ambition to become market leader. Its success over the last 12 years and its **shareholders** will mean that the business will have profit targets. As a large business, it may also wish to give something back to society by donating to charity.

Worked example



Explain **one** reason why a business would set financial objectives. (3 marks)

A business would set a financial objective because most businesses are judged on their financial success. If the objective is to increase revenue as a percentage of sales (units) then this would be a quantifiable objective and easy to measure. Increasing revenue increases the likelihood of the business making a profit.

The student has explained why financial performance is important to a business and how a financial objective linked to revenue would help achieve this.

Now try this



1 Give **one** example of a non-financial objective.

(1 mark)



2 Define the term 'market share'.

(1 mark)

Revenues and costs

A business must understand the difference between the price it charges to customers and the cost of producing its products. If it knows how many products it sells, it can calculate its total revenue and its total costs. It can then calculate profit.


Quantitative skills

Calculating revenue

Revenue, sales revenue or turnover is the amount of income received from selling goods or services over a period of time. It can be calculated using the formula:

LEARN IT!

$$\text{Revenue} = \text{Price} \times \text{Quantity}$$



Fixed and variable costs

✓ **Fixed costs** do not vary with the output produced by a business, e.g. business rates.

✓ **Variable costs** change directly with the number of products made, e.g. raw materials.

LEARN IT!

$$\text{Variable costs} = \text{Cost of one unit} \times \text{Quantity produced}$$


Quantitative skills

Total costs

Total costs are all the costs of a business.

It can be calculated using the formula:

LEARN IT!

$$\text{Total costs (TC)} = \text{Total fixed costs (TFC)} + \text{Total variable costs (TVC)}$$

$$£900 = £400 + £500 = £400 + (£5 \times 100)$$

Fixed costs, e.g.
business rates



Variable costs,
e.g. wages

Worked example



Hancock's is a small pottery business that specialises in garden plant pots. It has the following financial information for one month.

Number of pots produced and sold: 150

Average price per pot: £10

Fixed costs per month: £500

Variable costs per pot: £2

Which **one** of the following represents the total costs for Hancock's during the month?

Select **one** answer:

☐ A £450

☐ B £650

☒ C £800

☐ D £1500

(1 mark)


Quantitative skills

Be careful.

You could

arrive at an incorrect answer to this question if you use the numbers incorrectly in your calculation.

Now try this



The following table shows the costs, revenues and profits of a cleaning company for a two-month period. Complete the table with the **four** missing figures.

(4 marks)

	October	November
Revenue	£14 000	£12 000
Fixed costs	£2000	£2000
Variable costs	(i)	(iii)
Total costs	£9000	(iv)
Profit	(ii)	£5000

Profit and loss

A business must be able to calculate whether it is making a profit or loss. It must also understand how making a profit or loss can have an impact on the business and its owners.



Quantitative skills

Profit and loss

Profit occurs when revenues of a business are greater than its total costs. If a business's costs are greater than its revenues then it will make a loss. Profit or loss can be calculated using the formula:

LEARN IT!

$$\text{Profit} = \text{Sales revenue} - \text{Cost of sales}$$

Profit or loss =



$$£1000 - £900 = £100 \text{ profit}$$

There are two different kinds of profit: gross profit and net profit. You can revise these on page 73.

Profit as an objective

Profit is the objective of many businesses because it allows a business to:

- survive
- reinvest profits for expansion
- provide security and savings
- reward employees
- generate wealth for the owner.

Profit can also act as an incentive to start the business.



Quantitative skills

Calculating interest on loans

In your exam, you may be required to calculate the total **interest** to be paid on a loan.

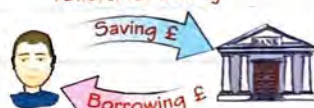
LEARN IT!

$$\text{Interest (on loans) \%} =$$

$$\frac{\text{Total repayment} - \text{Borrowed amount}}{\text{Borrowed amount}} \times 100$$

Interest rates

Interest is the % reward for saving



Interest is the % cost of borrowing

Worked example



Which **two** of the following actions is most likely to increase a pottery business's profit, assuming that it sells the same number of pots each month? Select **two** answers: (3 marks)

- ☒ A Buy cheaper raw materials to make its products
- ☐ B Increase the number of workers employed over the weekend
- ☐ C Buy more expensive raw materials to make its pots
- ☐ D Increase advertising expenditure
- ☒ E Relocate to cheaper premises



Quantitative skills

Options B, C and D would actually increase the business's costs. Options A and E would lower costs.

Now try this



A business spent:

- £10 000 on raw materials
- £30 000 on fixed costs
- £7 500 on other variable costs and had a turnover of £50 000.

The business now buys its raw materials 10% more cheaply from a new supplier. What effect will this have on profit?

Select **one** answer:

(1 mark)

The profit level will:

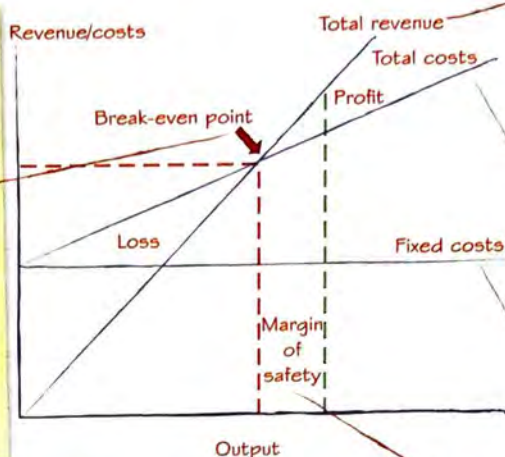
- ☐ A Increase by £2500
- ☐ B Fall by £2500
- ☐ C Increase from £2500 to £3500
- ☐ D Increase by 10%

Had a look ☐Nearly there ☐Nailed it! ☐Investigating
small businessPutting a business
idea into practice

Break-even charts

Break-even is the level of output at which a business's revenue covers its total costs. At this point the business is making neither a loss nor a profit. Break-even is an important financial concept as it allows a business to make important decisions about prices, sales volumes and costs.

The point on the graph where total costs and revenue meet is the **break-even point** or **break-even level of output**. When total revenue exceeds the break-even point, the business makes a **profit**. When total revenue falls below the break-even point, the business makes a **loss**.



Total revenue is the amount of money earned by a business from selling products. It increases directly with the number of products sold.

Total costs are the sum of all the costs at any level of output.

The **fixed costs** line is horizontal because fixed costs do not change at any level of output.

Quantitative
skills

Formulae to know

LEARN IT!

Revenue = Price × Quantity

Total costs (TC) = TFC (total fixed costs) + TVC (total variable costs)

Break-even point in units = $\frac{\text{Fixed cost}}{(\text{Sales price} - \text{Variable cost})}$

Break-even point in revenue / costs =

Break-even point in units × Sales price

The **margin of safety** is the amount of output between the actual level of output where profit is being made and the break-even level of output. This is how much production could fall before the business starts to make a loss.

Worked example



Using the information below, calculate Sony's break-even point when its PlayStation 4 console was priced at £300. You are advised to show your workings.

Fixed costs: £2400000

Variable costs: £140 per console

Break-even = Total fixed costs ÷ (Price - Variable cost per item).

Break-even = £2400000 ÷ (£300 - £140)

Break-even = 15000 consoles

(2 marks)

Quantitative
skills

Make sure you:

- show accurate workings
- calculate the correct answer.

Now try this



Using the information below, calculate the level of profit or loss Sony would make if it sold 20000 PlayStation 4 consoles at £300 each. You are advised to show your workings.

Fixed costs: £2400000

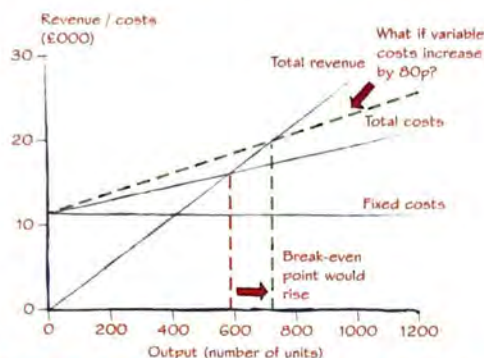
Variable costs: £140 per console

(2 marks)

Using break-even

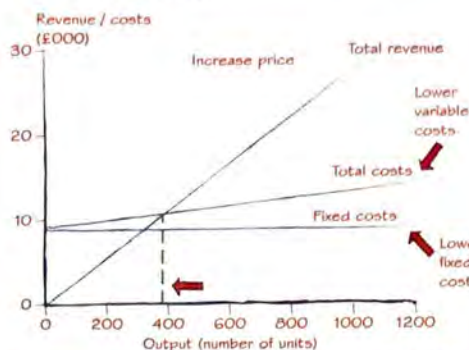
Break-even analysis is a useful tool to help a business make decisions, set targets and plan for the future.

Break-even analysis is a useful tool for answering 'What if?' questions such as: what would be the impact of an increase in variable costs on profit? A fall in fixed or variable costs or an increase in price is likely to lower the break-even point.



Lowering the break-even point

Break-even analysis can identify strategies for lowering the break-even point and increasing profit.



A business can only lower the break-even point successfully so long as productivity, quality and demand are not compromised. For example, although increasing price will lower the break-even point, some customers may be put off and choose a product from a competitor.



Quantitative
skills

Interpreting break-even charts

The break-even point: where the total revenue and total costs lines intersect, read the number of units required to break even from the x-axis (e.g. 1000 units).

The margin of safety: subtract the break-even point (in units) from the actual or predicted level of output/sales (e.g. 700 units).

LEARN IT!

$$\text{Margin of safety} = \text{Actual or budgeted sales} - \text{Break-even sales}$$

Caution! The concept of break-even assumes that a business will sell all the products it makes. In reality, if a business increases price it will lower the break-even point, but might deter customers from buying.

Worked example



Discuss the reasons why a business might use a break-even chart. (6 marks)

When launching a new product, a business could use a break-even chart to identify the number of units it must sell in order to cover its costs. Using this information, a business can then make decisions on how many units it will need to produce and carry out market research in order to understand whether it believes there is sufficient demand to sell this number as a minimum...

Now try this

A business is using a break-even chart to examine the effect of a reduction in the price of its product.



1 State **one** problem a business may face as a result of reducing the price. (1 mark)



2 Explain **one** limitation for a business of using a break-even chart. (3 marks)

This student has identified a reason and developed their explanation. They could now go on to develop a second reason with further development.

Calculating cash flow

Cash flow is the money flowing into and out of a business on a day-to-day basis. A **cash-flow forecast** predicts how cash will flow through a business over time. A business can use it to identify periods where it could have a **cash flow problem**.

Cash-flow forecasts

Inflows / receipts – e.g. money from owners, bank loans or cash from sales.

Outflows / payments – e.g. wages, raw materials, interest on loans, advertising or bills.

Net cash flow (negative or positive) – the receipts of a business minus its payments. $\text{Net cash-flow} = \text{cash inflows} - \text{cash outflows}$ in a given period (learn it)

	SEPT	OCT	NOV	DEC
Total receipts	8000	8500	13 500	15 000
Payments				
Machinery and equipment	10 000	0	0	0
Wages and materials	4 400	4 400	6 000	4 000
Heating, lighting, and insurance	0	3 500	1 000	0
Total payments	14 400	7 900	7 000	4 000
Net cash flow	-6 400	600	6 500	11 000
Opening balance	0	-6 400	-5 800	700
Closing balance	-6 400	-5 800	700	11 700

Opening balance – the amount of money in a business at the start of a month (the previous month's closing balance).

Closing balance – the amount of money in a business at the end of a month ($\text{net cash flow} + \text{opening balance}$).

Worked example



Complete the table with the **four** missing figures. (4 marks)

	Jan	Feb	Mar
Receipts (£)	10 000	8 500	15 000
Payments (£)			
Raw materials	2 000	2 500	3 600
Fixed costs	4 000	4 000	4 000
Other costs	5 000	5 200	5 900
Total payments	11 000	11 700	13 500
Net cash flow	-1 000	-3 200	1 500
Opening balance	500	-500	-3 700
Closing balance	-500	-3 700	-2 200



Quantitative skills

An exam question could ask you to fill in the blanks on a cash-flow forecast. Use the following to help you.

- **Receipts** – Add net cash flow and total payments.
- **Payments** – A missing payment could be found by adding up the rest and taking it away from total payments.
- **Total payments** – Add up all payments or subtract net cash flow from receipts.
- **Net cash flow** – Subtract total payments from receipts or deduct the closing balance from the opening balance.
- **Opening balance** – This is always the previous month's closing balance.
- **Closing balance** – Add the net cash flow to the opening balance.

LEARN IT!

Cash flow is calculated as $(\text{Receipts} - \text{Payments} = \text{Net cash flow}) + \text{Opening balance} = \text{Closing balance}$

Now try this



A business has the following cash-flow information for one particular month.

Opening balance: £5 000 Cash inflow: £7 000 Cash outflow: £14 000

Which **one** of the following is the closing balance for the business at the end of the month?

Select **one** answer:

☐ A -£12 000

☐ B -£2 000

☐ C £9 000

☐ D £16 000

(1 mark)

The importance of cash to a business

It is important for a business to understand the factors that affect its cash flow and also how cash flow problems can lead to insolvency.

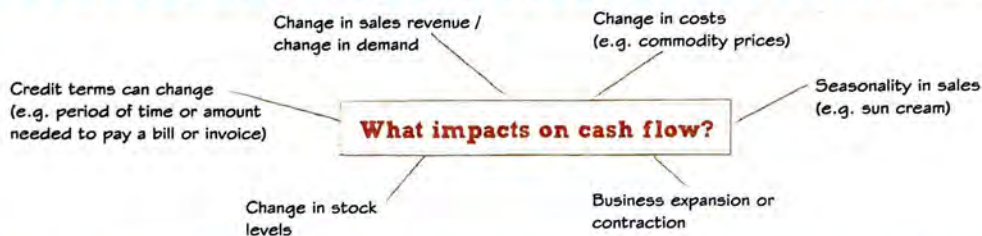
The importance of cash

Without sufficient cash within the business, a business would become **insolvent**. This means that it would be unable to:

- pay its suppliers and other debts
- repay bank loans
- pay wages to employees
- buy raw materials and products to sell
- promote the business.

Cash versus profit

Cash is not profit. Cash is the given amount of money that is available for a business to use to pay its debts. Profit is an absolute calculation involving total revenue and total costs over a period of time. A profitable business can still fail if it experiences cash flow problems. This is because revenue is recorded before the business receives actual cash. Similarly, cash does not have to be spent on costs at the point at which the costs are recorded.



Worked example



Which **two** of the following are the most likely ways that PrintZone Ltd could improve its cash flow position?

Select **two** answers:

(2 marks)

- ☐ A Use a mind map to improve financial planning
- ☐ B Carry out quantitative market research
- ☒ C Increase revenue by improving sales
- ☒ D Negotiate lower prices with suppliers
- ☐ E Employ two more full-time members of staff

Which options would either increase cash inflows or slow down cash outflows?

Now try this



Discuss how a business could improve its cash flow.

(6 marks)

Interpreting cash-flow forecasts

(£)	April	May	June
Receipts	3400	4500	5000
Payments	4000	4200	4200
Net cash flow	-600	300	800
Opening balance	-300	-900	-600
Closing balance	-900	-600	200

A cash-flow forecast

A negative net cash flow means that cash outflows are greater than cash inflows for that month. This means the business will have cash-flow problems if it does not have enough cash in the bank (its opening balance) to cover its payments. A business must make financial arrangements to resolve cash-flow problems if it forecasts a negative closing balance.

Short-term sources of finance

Small businesses need **finance** for a range of reasons. It might be needed to pay for starting up the business in the first place or to expand the business. Sources of finance can be categorised into **short term** and **long term**. A business's choice of source will be based on its requirements.

Reasons for finance

There are many reasons why a business might need a new source of finance, such as:

- paying for expenses (e.g. wages)
- expanding the business
- investing in new products and services
- starting a new business
- paying for any unforeseen costs.



Short-term versus long-term finance

Short-term sources of finance are repaid immediately or quite quickly (usually within a year) and are used for costs such as buying **stock** or paying a utility bill.

Long-term sources of finance are usually repaid over a longer time period (even up to 25 years). Long-term sources would be used to finance a new business or to expand a business.

A business that is expanding usually requires new sources of finance.

Short-term sources of finance

Source	Good for...
Bank overdraft	covering short-term expenses that can be repaid quickly.
Trade credit	paying for stock or goods later (e.g. after 30 or 60 days), when the goods have already been sold.

Finance and cash-flow problems

You should know the causes of cash-flow problems and have some ideas about how a business could improve its cash flow. Short-term sources such as trade credit and overdrafts are suitable solutions to help solve cash-flow problems.

Worked example



Which **one** of the following would be the most appropriate action for a business in order to cope with its negative cash-flow forecast for August and September?

Select **one** answer:

- ☐ A Approach its bank to take out a loan
- ☐ B Sell more shares in the company
- ☒ C Arrange an overdraft with its bank
- ☐ D Seek out the services of a venture capitalist

(1 mark)



Negative cash flow is an immediate issue, so it requires a short-term source of finance to resolve the problem. The overdraft in Option C is the only short-term source of finance mentioned.

Now try this



Explain **one** reason why a business might use a bank overdraft.

(3 marks)

Long-term sources of finance

Different long-term sources of finance

	Good for...
Personal savings	covering short-term expenses that can be repaid quickly.
Venture capital	raising capital from investors to fund a new business idea.
Share capital	raising large amounts of money by selling equity in a limited company.
Loan	covering large expenses associated with starting or expanding a business, which will be repaid over a number of years.
Retained profit	reinvesting in a successful business to ensure that it keeps growing.
Crowd funding	raising money from a large number of people in return for some sort of reward (e.g. products, involvement or ownership).

Selling shares

A share is a part-ownership in a business. A limited company can sell shares to potential investors to raise capital. These investors are then **shareholders** in the business and are entitled to a share of any profits generated.

Share capital (800 shares)



Crowd funding

Crowd funding is the process of raising small amounts of money from a large number of customers for a new project, product or **start-up**.



Worked example



Which **two** of the following are long-term sources of finance for a sole trader?

Select **two** answers:

- ☒ A Profit
☐ B Overdraft
☒ C Bank loan
☐ D Trade credit
☐ E Share capital

(2 marks)

Options B and D are **short-term sources** of finance (you can revise short-term sources of finance on page 23). This leaves Options A and C as correct long-term sources. Option E is not an option for sole traders.

Now try this



Which **two** of the following would be the **most appropriate** sources of finance for a hairdresser intending to set up as a sole trader?

Select **two** answers:

- ☐ A Personal savings
☐ B Selling the business's assets
☐ C Issuing shares to new shareholders
☐ D Retained profit
☐ E Bank loan

(2 marks)

Limited liability

The term 'liability' refers to the legal responsibility of a business towards its debts.

Unlimited liability



Owner and
business
are the same

Sole traders (or sole proprietors) are businesses owned by one person. The owner has **unlimited liability**. The owner is legally responsible for any debts of the business. Therefore there is potential for the owner to lose his or her personal belongings to pay off any debts.

Limited liability



Business is a separate entity from
owner (it may only exist on paper)



Private limited companies (Ltd) have **limited liability**. The owners and the business are separate legal entities. Any debts incurred by the business belong to the business and the owners can only lose money up to the amount that they have invested. Their personal belongings are not liable.

Differences between limited and unlimited liability ownership

	Unlimited liability	Limited liability
Risk	Unlimited liability means there is more risk.	Limited liability reduces the risk for the owners.
Control	The owner has 100% control of decisions.	The amount of control held by the main owner depends on the proportion of the business sold as shares to other shareholders.
Profits	The owner keeps 100% of the profits.	Profits are shared between shareholders in proportion to the number of shares that they hold.
Privacy	Accounts do not have to be made public.	Accounts are filed with Companies House and can be viewed by anyone on payment of a small fee.

Worked example



Which **two** of the following might be the most likely reasons why someone might set up as a private limited company?

Select **two** answers:

(2 marks)

- ☐ A She wants to raise lots of money on the stock exchange
- ☒ B She believes the risk would be less than operating as a sole trader
- ☐ C She wants to be the sole owner of the business
- ☐ D She would have access to limited sources of finance
- ☒ E She would be liable only for the amount she invested if the business failed

Option A is incorrect, as a private limited company is not allowed to sell its shares through the stock market. Options C and D do not apply to a private limited company.

Now try this



Which **one** of the following is a disadvantage of unlimited liability for a sole trader?

Select **one** answer:

(1 mark)

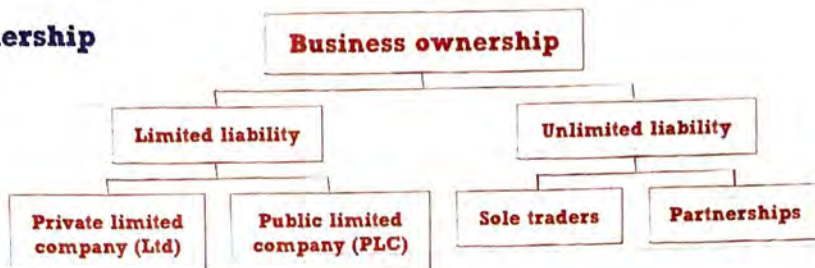
- ☐ A Needing to pay higher taxes
- ☐ B Less control of the business
- ☐ C Sharing profit with other shareholders
- ☐ D Risk of losing personal possessions

Types of business ownership

When starting a business, an entrepreneur has a number of options for their business's legal status. Their choice may depend on a number of factors, including finance, size, security and privacy.

Categories of ownership

You can revise public limited companies (PLCs) on page 50.



Advantages and disadvantages of different types of business

Type of ownership	Advantages	Disadvantages
Sole trader	<ul style="list-style-type: none"> 👍 Sole trader makes all of the decisions. 👍 Quick and easy to set up. 👍 Sole trader keeps all of the profits. 👍 Financial information is kept private. 	<ul style="list-style-type: none"> 👎 Unlimited liability. 👎 Harder to raise money to start or grow the business. 👎 A lot of pressure on one person. 👎 No one to cover when sole trader is ill or takes time off.
Partnership	<ul style="list-style-type: none"> 👍 Owners may have wider expertise and can share ideas and decision-making. 👍 Owners share the risk. 👍 Could be easier to raise finance to establish or grow the business. 	<ul style="list-style-type: none"> 👎 Decisions made by one partner can affect all partners. 👎 No longer exists if one partner leaves. 👎 Profits are shared. 👎 Partners may disagree.
Private limited company	<ul style="list-style-type: none"> 👍 Owners have limited liability. 👍 Customers may trust a 'Ltd' more than other businesses. 👍 Continues to trade even if the shareholders change. 👍 Could be easier to raise finance to establish or grow the business. 	<ul style="list-style-type: none"> 👎 More complex to set up than a sole trader or partnership. 👎 Shareholders may disagree. 👎 Financial information is published and can be accessed by others. 👎 More information must be reported to the government.

Worked example



Explain one reason why a business owner may want to set up a partnership. (3 marks)

One reason why a business owner might want to set up a business as a partnership is because they can share the responsibility of running the business with someone else. This will reduce the risk of running the business and make it easier for the business to succeed in the long term.

This student understands the benefits of running a partnership and has developed two advantages to having a shared responsibility in the business.

Now try this

- 1 State one drawback of running a private limited company.
- 2 Define the term 'limited liability'.

(1 mark)

(1 mark)

Franchising

A **franchise** is the right given by one business to other businesses to sell goods or services using its name. The businesses that buy into a franchise remain independent businesses.

Who's who?

✓ **Franchisor** – the business that gives franchisees the right to sell its product or service.

✓ **Franchisee** – a business that agrees to manufacture, distribute or provide a branded product under licence from a franchisor.

The principle of franchising

Franchising is the expansion of an established business by licensing the right for **entrepreneurs** to set up their own business using the name, equipment and products of the franchise. In return, the franchisee pays the franchisor a fee or share of the sales revenue.

What does the franchisee get when they buy a franchise?

A franchise is like buying a ready-made business in a box.



Benefits of running a franchise

- 👍 Brand image and reputation is already established.
- 👍 Expensive marketing costs are covered by the franchise.
- 👍 Access to tried-and-tested products.
- 👍 May have an established customer base.
- 👍 Higher chance of survival.
- 👍 Specific support and training provided.

Drawbacks of running a franchise

- 👎 The cost of the initial **investment** can be high.
- 👎 The owner has little freedom to make decisions.
- 👎 Franchisee will have to pay a fee or **royalty** (percentage of sales revenue) to the franchisor.
- 👎 Restrictions on where the franchise can be set up.

Worked example



Which **one** of the following is a type of organisation set up 'under licence' to use an established business name?

Select **one** answer:

- ☐ A Sole trader
- ☐ B Enterprise

- ☒ C Franchise
- ☐ D Private limited company

(1 mark)

Now try this



Explain **one** drawback of running a franchise.

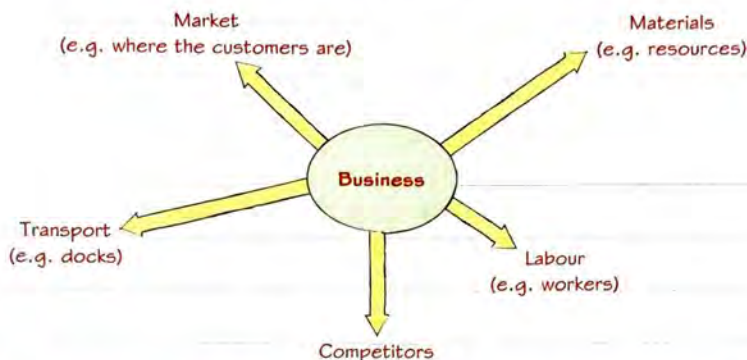
(3 marks)

Business location

Location is a key decision when setting up a business. Location is more important for some businesses than for others. The significance of different factors in the choice of location also varies between businesses.

Proximity

The location's proximity or nearness to various factors is a key consideration for most businesses.



How the nature of a business influences location

The nature of a business will determine which factors of location are the most important.

Nature of business	Influences
Manufacturing	May require specialist resources to be transported to their site and specialist facilities for removal of waste, e.g. away from local residents.
Exporting	May need access to docks, rail or airports in order to distribute goods abroad.
Retailing	May need to be situated on a busy high street to gain the benefits from passing trade and being located in an area where customers tend to shop.
Tourism	May need to be near popular tourist attractions such as beaches and famous landmarks.

Location and the internet

Trading on the internet (**e-commerce**) removes the significance of location for many businesses because the place where they trade is virtual. For some businesses, this allows them to save costs, because the business's premises do not need to be in busy city centres or close to the market that they serve.

All five factors are relevant to location, but Options B and C are the most important for a manufacturer of complex goods that is likely to employ a lot of workers.

Worked example



Which **two** of the following are the most important factors of location for a car manufacturer? (2 marks)

Select **two** answers:

- ☐ A Proximity to car insurance businesses
- ☒ B Proximity to suppliers
- ☒ C Proximity to labour market
- ☐ D Proximity to a city centre
- ☐ E Proximity to competitors

Now try this



Discuss why some businesses may choose a business location on the outskirts of a large city.

(6 marks)

The marketing mix

Marketing involves identifying and understanding customers' needs and wants. Businesses then use the **marketing mix** (4 Ps) in order to provide products and services that meet these needs while generating a profit for the business.

The 4 Ps

1 Product

The **product** itself has to meet the needs of customers and have the correct attributes and features that the customer wants. A successful business will differentiate their products from their competitors' products.

You can revise the importance of product on pages 59–60.

3 Promotion

Promotion is communication between the business and customer that makes the customer aware of the business's products, including:

- advertising
- sales promotions
- sponsorship
- public relations.

You can find out more about the importance of promotion on page 63.

2 Place

Place is the way in which a product is distributed (how it gets from the producer to the consumer). Businesses have to consider the channel (e.g. online or through retail stores). For example, a luxury suit might be sold in an upmarket boutique on Bond Street in London.

See page 65 for more on the importance of place.

4 Price

The **price** of a product must reflect the value customers place on the product. High-quality products have a high price. Customers are also willing to pay more for special features. Price is very subjective because it depends on many factors.

Turn to page 61 to revise the importance of price.

Worked example



Lisa believes there is a market for gardening services and has carried out market research. Some of her research results are shown below.

What is the most important factor in the decision to choose a gardening service?		
	Number of responses as a percentage	
Price of the service		12
Quality of the work		41
Advertisement in the local paper		16
Customer service		20

According to the table, which **one** element of the marketing mix should Lisa focus on when marketing her business?

Select **one** answer:

(1 mark)

- ☐ A Place
☐ B Price
☒ C Product
☐ D Promotion



The table shows that 'quality of the work' and 'customer service' receive the highest responses. These two factors contribute to the 'product' that Lisa's gardening business provides.

Now try this



- 1 Explain **one** reason why a business would charge a higher price for a product or service. (3 marks)
- 2 Explain **one** reason why a business might choose to use social media to promote its products. (3 marks)

Influences on the marketing mix

Balancing the marketing mix



A business must develop an integrated marketing mix where each P complements the others.

Changing needs

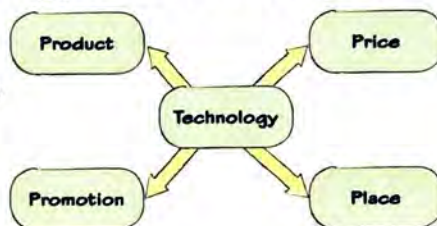
A business may **adapt** its marketing mix so that it continues to meet the changing needs of customers and the competitive environment, by:

- changing the **features** of a product to incorporate new trends and technology
- adjusting the **price** of its products in response to competitors' pricing
- launching a new **advertising** campaign to boost interest in response to falling sales
- selling its products through popular **retailers**
- allowing customers to **return** online products free of charge.

The impact of technology on the marketing mix

New technology demands that products are constantly innovated, especially in tech industries that produce items such as computers and smartphones.

Many businesses are switching their focus from traditional advertising mediums to forms of digital communication such as social media sites.



Customers can easily compare prices online – businesses have to monitor rivals to remain competitive.

E-commerce not only provides an effective channel for selling, but also the ability to customise products and services. Businesses must balance 'clicks' with 'bricks'.

Worked example



Explain **one** reason why place is an important aspect of the marketing mix.

(3 marks)

If a business gets 'place' right, it will make their products more accessible to customers. As a result, it is likely that there will be greater customer awareness, which could lead to increased sales over time.

This answer includes a reason with two logical chains of development to score all three marks. You do **not** need to refer to a particular business or context when answering 'explain' questions.

Now try this



Chocolicious is a small business making handmade chocolates. It operates in a very competitive market but one competitive advantage is the quality of its chocolates. There has been a recent rise in the price of cocoa. In response to this, Chocolicious has decided that it needs to change its marketing mix.

Which **two** changes to the marketing mix would you advise, given what is happening in this market?

Select **two** answers:

(2 marks)

- | | |
|---|--|
| <input type="checkbox"/> A Reducing its corporation tax payments | <input type="checkbox"/> D Making five members of staff redundant to cut costs |
| <input type="checkbox"/> B Producing a new business plan | <input type="checkbox"/> E Finding a cheaper supplier for its ingredients |
| <input type="checkbox"/> C Contacting supermarkets to seek new retailers for its products | |

The business plan

A **business plan** is a plan for the development of a business, giving forecasts of items such as sales, costs and cash flow.

The purpose of a business plan

A business owner may write a business plan to:

- convince a bank to loan the business money
- forecast financial projections
- identify the needs of customers
- formulate market research into important information, e.g. about competitors
- provide information, e.g. about competitors
- provide the owner with a 'plan of action' that will minimise risk.

The contents of a business plan

The business plan links together topics covered in different parts of the specification. For example, a business plan will include a cash-flow forecast and business objectives. It will also help an entrepreneur to answer important questions about their business, such as 'what if?' questions, which will help to reduce the risk of starting a business.

Who uses a business plan?

Owners – as a guide and working document



Partners and employees – anyone wanting to work with/for the business



Investors – to assess the risk and reward of investing in the business (e.g. Ltd or Plc)

Lenders – e.g. banks will want to investigate the likely success and risk of lending to a new business



Worked example



Which **two** of the following would Marie have had to include in her business plan?

Select **two** answers:

(2 marks)

- ☐ A All her invoices and receipts from purchases and sales
- ☐ B A copy of the design of her business card
- ☒ C A cash-flow forecast
- ☐ D A record of all her profits from the business for the past five years
- ☒ E An overview of the nature of the business

In this answer, Options A and D are not feasible, as Marie would not have this information before she started her business. Neither are these financial records necessary in a business plan. Option B is irrelevant, as a design of a business card would provide little useful information. Options C and E are both examples of relevant information normally included in a business plan.

Now try this



Which **two** of the following are the most likely reasons to produce a business plan?

Select **two** answers:

(2 marks)

- ☐ A To show off the skills of the entrepreneur
- ☐ B To get support from a bank
- ☐ C To show other people you can create a business plan
- ☐ D To convince customers to buy from the business
- ☐ E To help monitor actual sales against forecast sales

The nature of business planning

The contents of a business plan

Any good business plan should at least contain the following information.

Element of business plan	Details
Business idea	An outline of the business idea and concept so that all stakeholders can understand the owners' intentions.
Aims and objectives	Aims and objectives that are SMART (specific, measurable, achievable, realistic and time-bound). This means that the business can measure its success against these targets.
Market research	Market research that identifies the business's target market as well as market conditions and any other competitors.
Financial forecasts	Forecasts of the business's costs, revenue, profit, cash flow, budgets and break-even point.
Sources of finance	How the business will be financed and how any borrowings will be repaid.
Location	The location of the business and the reasons for that choice of location.
Marketing mix	How the business will use the marketing mix to develop a successful product or service.
Production	How the product will be produced, including suppliers.

Risk and planning



An entrepreneur can never be 100% certain that they are making the right decisions when starting a business. However, detailed business planning reduces the risk associated with unforeseen problems and poor decision-making, and increases the likelihood of success.

Good forecasting and planning reduces the level of risk and swings the balance in favour of reward.

Worked example



Discuss the reason why a business would include market research in a business plan.

(6 marks)

One reason why a business owner would include market research in a business plan is that market research will show potential lenders that the owner understands the market they are selling to and this might reduce the risk of lending the business money. For example, understanding customer preferences and what they are willing to pay means the business is more likely to produce a product or service that customers desire...

This is just part of a student answer:

The student has started by explaining one reason why market research is an important element of a business plan. This answer has then been developed. The student has also given an example to illustrate their point. This is a good approach to take when answering a 'discuss' question. The student could now go on to discuss how market research will help the business owner understand the competition in the market in order to make relevant decisions when planning.

Now try this



Explain one reason why a business would include financial forecasts in a business plan.

(3 marks)

Had a look ☐

Nearly there ☐

Nailed it! ☐

Investigating
small business

Understanding
external influences

Stakeholders

A **stakeholder** is an individual or a group that has an interest in and is affected by the activities of a business.



A business has an impact upon and can be affected by its stakeholders. This means that business decisions must take into account stakeholder needs.

The impact of stakeholders



All stakeholders are linked. The actions of one stakeholder group are likely to have an impact on other groups, and it is difficult for a business to meet everyone's needs.

Worked example



The Elm Tree is a successful traditional pub in the village of Elmtown and is owned by Jeremy Cousins. He has decided to use land behind the pub to build a private function room for weddings and events.

Which **one** of the following stakeholders is the extension most likely to have a negative impact on? Select **one** answer:

- ☐ A Customers ☐ B Government ☒ C Local residents ☐ D Employees

(1 mark)

Each stakeholder is relevant to Jeremy's business. The correct answer is Option C because the local residents may be concerned that building work in their village could cause noise and disruption.

Now try this



Cantwell's is a business that makes zips for clothing. It decides to make five workers redundant.

Which **one** of the following stakeholders is most likely to benefit from this decision? Select **one** answer:

- ☐ A Suppliers and the business because they will now sell more zips to Cantwell's
☐ B The local community because there will now be more spending in local shops
☐ C The government because it will now collect more in tax
☐ D The owners because their costs will fall

(1 mark)

Stakeholder conflict

Different stakeholders often have different **perspectives** and **interests** in a business. Their interests can be in conflict and some stakeholders can have more influence on decision-making than others.

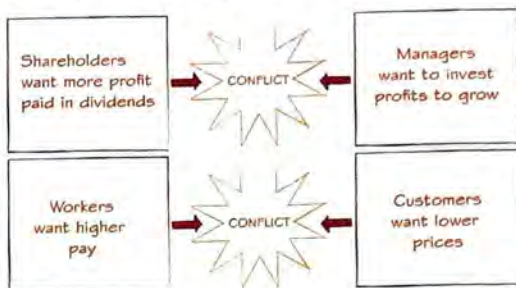
Business stakeholders

Different stakeholders will have different interests in the performance of a business.

Stakeholder	Key interests
Shareholders	Profit, dividends and growth
Workers	Wages, job security and good conditions
Customers	Fair price, choice and good quality
Managers/directors	Pay, growth and power
Government	Competition and tax revenues
Local community	Jobs and clean environment
Pressure groups	Socially responsible and ethical business behaviour

Stakeholder conflict

Conflicts are likely to occur between stakeholders if they have different interests.



Possible positive effects on stakeholders

- 👍 Shareholders receive a return on their investment.
- 👍 Employees and managers receive income, rewards, financial security and status.
- 👍 Customers receive high-quality products at reasonable prices with excellent service.
- 👍 The local community may benefit from development and investment in the local area.
- 👍 The government collects income tax and corporation tax.

Possible negative effects on stakeholders

- 👎 The local community can suffer because of pollution in the local environment.
- 👎 The government needs to monitor and regulate business activity that is unfair, anti-competitive or illegal.
- 👎 Employees may lose their jobs and income or face job uncertainty.
- 👎 Employees work under poor conditions.
- 👎 Shareholders lose their investment.
- 👎 **Pressure groups** protest against unethical business activity and damage the business's reputation.

Worked example



Change4Life is a government project that encourages people to adopt a healthier lifestyle. Part of the project allows those aged under 18 and over 60 to swim for free in public swimming pools.

State **two** stakeholders that might benefit from the Change4Life project.

(2 marks)

1 Customers

2 Employees

Now try this

Gerrard PLC announced that it would abandon its plans to build a new chemical-processing plant near West Walton, Teesside. This followed a protest by local residents claiming that the effect on the local environment would be 'catastrophic'.



1 'Define the term 'stakeholders'.

(1 mark)

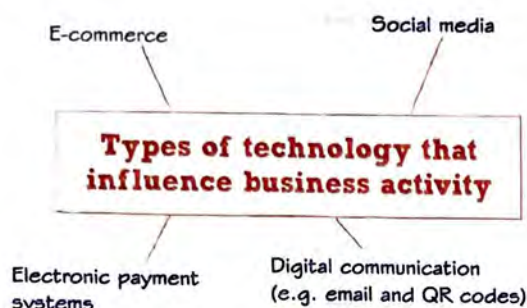


2 Explain which group of stakeholders has the most influence on decision-making in this case.

(3 marks)

Technology and business

Technology drives change in many businesses and creates new opportunities for growth. Businesses use technology to gain a **competitive advantage** over their rivals and often invest in new technology in order to keep up with developments in their specific industries.



Make sure you know some specific examples of technology and how it has influenced a business.

Technology and change

New technologies are constantly developing. This creates new opportunities, new markets and new industries for businesses. Investment in new technology can be a huge cost for many businesses, but failing to keep up with the latest technology can lead to loss of competitiveness and business failure. However, the development and adoption of new technology can lead to a **competitive advantage** for some businesses.

How technology influences business activity



New technology

Costs – technology can be a huge investment for businesses, but in the long term it can help a business improve efficiency and reduce costs.

Sales – innovating products with the latest technology can increase demand from customers and boost sales. The means by which a business sells its products can also evolve through e-commerce and digital communication.

Marketing mix – technology influences all aspects of the marketing mix: from lowering the costs of products, to making promotions easier through social media, to allowing customers to purchase products anytime and anywhere through e-commerce.

Worked example



Explain **one** reason why a business may choose to invest in the latest technology. (3 marks)

One reason why a business may choose to invest in the latest technology is to increase its competitiveness. By having the latest technology, the business may be able to make its products cheaper, meaning that it can pass these savings on to the customer through lower prices. This will lead to higher sales if prices are lower than their competitors'.

This is a good answer. The student has given a reason and developed their answer well by using logical chains of development that explain the consequences of investing in new technology.

Now try this



Discuss the likely benefit to a business of using digital communications to communicate with its customers.

(6 marks)

Principles of consumer law

Consumer law governs all aspects of how a business interacts with its customers. The purpose of this **legislation** is to protect consumers. It is worth learning some examples of relevant legislation for use in the exam, but you do not need to know the specific details of any piece of legislation.

Products sold to consumers should be of a good standard and quality.

Consumers have the right to return or reject goods.

Goods should be delivered and installed safely.

Principles of consumer law

Terms of contracts should be fair.

Businesses should disclose full information about products and services.

Services should be provided with **reasonable care**.

The consumer protection law in the UK is the Consumer Rights Act 2015.

Impact of consumer law

Drawbacks

- 👉 Businesses must know the law and keep up to date.
- 👉 Laws can restrict businesses from operating as they would wish.
- 👉 Changing products and practices to comply with laws can be costly.
- 👉 Bad publicity can result if businesses do not comply with laws.
- 👉 Consumers can use law to take legal action against the business.



Benefits

- 👉 Compliant businesses are less likely to be fined or sued by customers.
- 👉 Compliant businesses may be considered professional and caring, and may benefit from increased customer loyalty.
- 👉 Improved relationship with stakeholders.
- 👉 Good publicity, if followed.

Worked example

Evaluate whether Pepsi is right to use the words 'raw' and 'natural' in relation to its new product. (12 marks)

...Ultimately it depends on how honest Pepsi is about its advertising of new products and whether customers feel that it is acting ethically. This type of language is used all the time by drinks manufacturers and most consumers will understand that a soft drink is never going to be as healthy as water. Therefore, Pepsi is not really doing anything wrong by using these phrases because the consumers are not being misled and no consumer protection laws are being breached.

Make sure you:

- use the information provided in the exam to support your argument
- use your understanding of consumer protection law
- make a judgement with clear justification.

The last part of this answer has made good use of the 'it depends' rule to show balance in the conclusion.

This is just part of a student answer.

Now try this

Explain **one** disadvantage to a business of the government introducing new consumer protection legislation.

(3 marks)

Principles of employment law

Employment law governs all aspects of how a business interacts with its employees. The purpose of this legislation is to protect employees. It is worth learning some examples of relevant legislation for use in the exam, but you do not need to know the specific details of any piece of legislation.

Recruitment procedures should be fair and prevent discrimination.

All employees' pay should be fair and meet minimum wage requirements.

Groups of people, such as employees with disabilities, should not be discriminated against.

Principles of employment law

Health and safety requirements in the workplace should be met.

Disciplinary issues and grievances should be dealt with fairly.

Redundancy procedures should be fair.

Examples of employment law include the Health and Safety at Work Act 1974, Equality Act 2010, National Minimum Wage (Amendment) Regulations 2017 and Employment Relations Act 1999.

Impact of employment law

Drawbacks

- Meeting health and safety regulations can be costly for businesses.
- Paying the national living wage will increase businesses' costs.
- Failing to comply may lead to unhappy employees, low productivity and legal action.



Benefits

- A compliant business may be considered a good employer.
- Fewer employees will be tempted to leave the business, so reducing recruitment costs.
- Employees may be happier and more **motivated**, leading to high productivity and better customer service.

How businesses meet the requirements of consumer and employment law



Costs – meeting legal requirements means that businesses incur additional costs.



Pay – all pay must meet the national requirements for the living wage.



Equipment – health and safety equipment is required to keep employees safe.



Administration – businesses must use correct processes and record-keeping systems, e.g. recording health and safety incidents and testing products.



Licences – businesses must meet legal requirements to be granted relevant licences, e.g. electrical installation licences for electricians.



Training – employees must be trained in health and safety rules and customer service guidelines.

Now try this



Explain **one** disadvantage to a business of the government introducing new employment protection legislation.

(3 marks)

The economy and business

The economic climate is the level of demand and spending within the economy. Many variables contribute to consumer spending and demand, e.g. the level of economic activity and interest rates. Economic activity is measured by **gross domestic product (GDP)**.

The level of demand in the economy

The level of demand refers to spending that takes place in an economy. Demand can come from **consumers, government, business or overseas**.

You need to know how the level of demand can affect businesses.



What might change demand?

Demand in the economy may go up or down because of:

- ✓ **The level of economic activity** – if there is a recession, demand will fall
- ✓ **Interest rates** – if interest rates fall, borrowing and demand will increase
- ✓ **changes in exchange rates** – if the pound gets weaker, foreign demand will rise
- ✓ **consumer income** – when the economy is doing well, people earn more money and have more disposable income
- ✓ **changes in taxation** – an increase in most forms of taxation reduces consumers' disposable income. A fall in taxation will have the opposite effect and boost consumer demand for most goods.

Impact of high demand/ economic activity

- Consumer incomes rise
- Inflation may rise
- Unemployment may fall
- Interest rates may rise
- The pound may become stronger

You can revise:

- inflation on page 39
- unemployment on page 39
- interest rates on page 40
- exchange rates on page 41.

Impact of low demand/ economic activity

- Consumer incomes fall
- Inflation may fall
- Unemployment may rise
- Interest rates may fall
- The pound may become weaker

Worked example



Which **one** of the following is likely to reduce consumer spending?

Select **one** answer:

- ☐ A A fall in interest rates
- ☒ B A fall in employment

- ☐ C A fall in the rate of inflation
- ☐ D A fall in the value of the pound

Option B is the only answer that is likely to have the direct impact of lowering consumer spending. This is because fewer people will have jobs. Note that Option B refers to a fall in **employment**, not unemployment.

Now try this



Explain **one** reason why a fall in consumer confidence might affect demand.

(3 marks)

Unemployment and inflation

Unemployment is a problem for the economy and can have an impact on businesses. Inflation can also have a significant impact on businesses.

What is unemployment?

Unemployment exists when people who want to find work cannot do so.



Unemployment can be measured by counting the number of people who claim unemployment benefits or the number of people in a survey who say they are looking for work.

Impact of unemployment on businesses

- 1 High levels of unemployment may make it easier for businesses to recruit new employees. However, over time, the number of employees with the skills that businesses need will fall.
- 2 High levels of unemployment lower consumer demand for most businesses' products and services.
- 3 Economic activity falls when unemployment is high. This means that businesses' sales revenue will also fall.

What is inflation?

Inflation is the change in the average level of prices in the economy. It is measured using the consumer price index (CPI). It measures changes in the price of food, housing, clothing and other products.

Impact of inflation on businesses

- ✓ A sharp rise in the rate of inflation will cause a business's costs to rise unexpectedly. This can have a direct impact on profits.
- ✓ Consumers' costs rise when the rate of inflation rises. This reduces consumers' disposable income, meaning that they buy fewer goods and services from businesses. When an increase in inflation causes a business's costs to rise, the business has two choices. It can either absorb the costs or pass them on to its customers by raising prices.

Worked example



Explain **one** effect of inflation on a business.

(3 marks)

A rise in raw material prices can cause a firm's costs to rise. Rising costs of production will reduce the firm's profits. This may result in the firm increasing its prices to remain profitable.

There must be a clear explanation of how a rise in inflation can affect a business, using links between points. In this answer, the student has explained how costs, profits and prices are affected.

Now try this



Explain **one** way in which a business might be affected by high levels of unemployment.

(3 marks)

Interest rates

An **interest rate** is the percentage reward or payment over a period of time that is given to savers on savings or paid by borrowers on loans.

The cost of borrowing

An entrepreneur or small business may not have capital to start or expand a business without borrowing. Typically a bank will give a **loan** to a business or allow it to have an **overdraft**. The business will pay **interest**:

- on top of its repayments for the loan
- on any amount it is overdrawn.

This is the cost of borrowing money and the incentive for a bank to lend it.

Fixed and variable interest rates

Fixed interest rates do not change over the life of a loan. A business could lose out on a fixed contract if the rate falls.



Variable interest rates change over the life of a loan. They can be more risky and are hard for a business to plan against.

Rising interest rates

A **rise** in interest rates will **increase** the cost of borrowing.

- ✓ Businesses on a variable rate may struggle to repay loans.
- ✓ Small businesses are less likely to borrow money to start up or to expand.
- ✓ Customers are less likely to spend money as borrowed money costs more, so consumer spending falls.

Falling interest rates

A **fall** in interest rates will **lower** the cost of borrowing.

- ✓ Businesses will have more money to spend and cash flow may improve.
- ✓ Businesses may borrow money for a start-up or expansion.
- ✓ Customers are more likely to borrow and to spend their money. Consumer spending rises.

Worked example



During Sonia's first year of trading, interest rates increased from 3% to 5%. Identify **two** possible effects of this on her business.

Select **two** answers:

(2 marks)

- ☐ A A reduction in fixed costs due to lower repayments on her overdraft
- ☐ B A rise in sales due to higher levels of consumer spending
- ☐ C A greater chance of rivals entering the market
- ☒ D A fall in sales due to lower levels of consumer spending
- ☒ E An increase in fixed costs due to higher repayments on her overdraft

An increase in interest rates is generally a bad thing for small businesses.

Now try this



Explain **one** effect on a small business of an increase in interest rates.

(3 marks)

Exchange rates

The **exchange rate** is the price of buying foreign currency. It tells UK people and businesses how much foreign currency they get for every pound.



Calculating the cost of foreign exchange

Exports: Goods and services sold abroad.

£1 = \$2

£500 of goods sold to a business in the USA cost \$1000 (500×2)

Imports: Goods and services bought from abroad.

\$2 = £1

\$600 of goods bought by a UK business cost £300 ($600 \div 2$)

The relationship between the exchange rate and importers/exporters

The effect of a fall in the value of the pound	The effect of a rise in the value of the pound
Good for UK exporters of goods – price of exports falls → sales increase.	Bad for UK exporters of goods – price of exports rises → sales fall.
Good for UK tourism – prices cheaper to foreigners → tourism increases.	Bad for UK tourism – prices more expensive to foreigners → tourism falls.
Good for UK businesses – imports more expensive → people buy more UK goods.	Bad for UK businesses – imports cheaper → people buy fewer UK goods.
Bad for UK importers of materials – imports more expensive → costs rise.	Good for UK importers of materials – imports cheaper → costs fall.

Worked example



A business has the following costs in June.

	June
Raw materials imported from USA	£10 000
Raw materials from UK	£7 000
Fixed costs	£11 000
Exchange rate	£1 = \$1.50

In June the business makes £11 000 profit. In July, the exchange rate has changed to £1 = \$1.60.

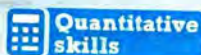
Assuming all other data remain the same, which **one** of the following effects does this change have on the business's profit level?

Select **one** answer:

- ☐ A Decrease by £1350
☐ B Remain the same

- ☒ C Increase by £625
☐ D Increase by £1600

(1 mark)



In June £10 000 of raw materials actually costs \$15 000 ($10\,000 \times 1.5$). In July the business still requires \$15 000 worth of raw materials, but as the pound is now stronger it will cost only £9375 ($\$15\,000 \div 1.6$). Costs have therefore fallen by £625 ($\$10\,000 - \9375). Assuming everything else remains the same, this will increase profit by £625.

Now try this



If the pound weakens, which **one** of the following is most likely to occur?

Select **one** answer:

- ☐ A International trade will cease
☐ B The price of imports will rise

- ☐ C The price of imports will fall
☐ D The price of exports will rise

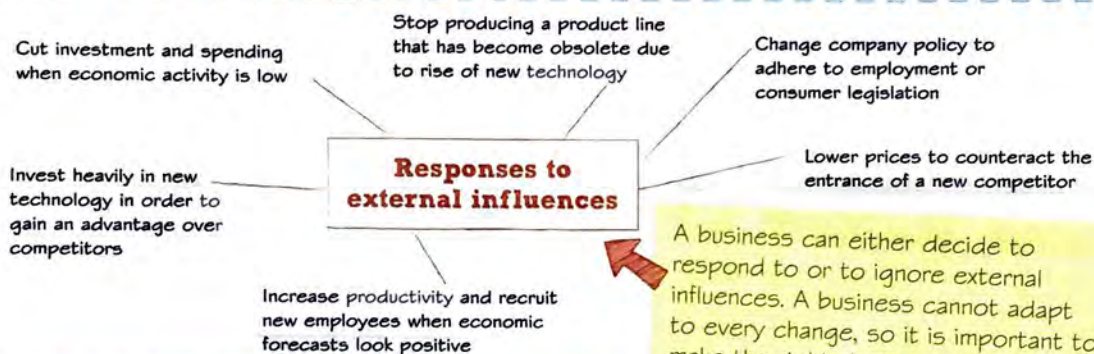
(1 mark)

External influences

Just as a business must adapt in response to **internal influences**, such as the development of new products or recruitment of new employees, it must also adapt to **external influences**. These may include the economic climate, legislation, competition, technology and society.

Opportunity or threat?

A business can see any external influence as either an opportunity or a threat. Opportunities could lead to business growth, whereas businesses may have to respond to threats by adjusting their operations.



A business can either decide to respond to or to ignore external influences. A business cannot adapt to every change, so it is important to make the right decision when choosing which influences to respond to.

Worked example



Which **two** of the following are likely effects on a small business of a downturn in the business cycle?

Select **two** answers:

(2 marks)

- ☐ A Higher sales owing to rising consumer incomes
- ☐ B Lower fixed costs owing to lower interest rates
- ☐ C Less risk of the business becoming insolvent
- ☐ D More difficulty recruiting employees
- ☒ E Lower demand owing to business closures



Quantitative skills

In a downturn there is likely to be a fall in spending. This may result in closures and falls in prices. The government may act in a downturn by lowering interest rates.

Now try this



Discuss how a business might respond to a fall in economic activity.

(6 marks)

Case study

In Sections B and C of Paper 1, you will have to review a full-page case study before answering questions. You should aim to spend about 10 minutes reading the case study before you attempt to answer any questions. Have a look at the sample case study below, then look at the worked examples on the next five pages.

The Wood Fired Pizza Company

Joe is the owner of The Wood Fired Pizza Company based in Sheffield. The company makes authentic pizza and homemade food cooked on a portable pizza oven that provides catering at outdoor events. The Wood Fired Pizza Company can be hired for a variety of events including festivals, corporate days, parties and weddings.

The Wood Fired Pizza Company uses only the finest ingredients that are either grown locally or imported from Italy. The menu lists about 20 different varieties of pizza and customers have the option to design their own creation for a special event. Joe only requires a small space to set up the oven, food preparation and service area. At full heat, the oven can cook a pizza in two-three minutes, meaning that delicious fresh food can be provided with a fast and simple service. The Wood Fired Pizza Company is fully insured and all employees have the necessary food preparation and hygiene qualifications.

Joe uses social media to promote his business and shares the positive reviews the company receives. **Figure 2** shows a customer review on social media.



Figure 1:
Company logo

'We hired this company for our daughter's christening. What can we say other than absolutely fantastic!!! Lovely friendly guys. Extremely tasty pizzas that remind us of Italy. Every single person kept going back for more. We would definitely use this company again in the future and would highly recommend them to friends and family. Many thanks!'

Figure 2: A customer review

Joe has produced the break-even chart shown in **Figure 3**, illustrating the costs and revenues for a typical one-day event. The average price of a pizza sold at an event is £8. The variable cost to produce one pizza is £2.

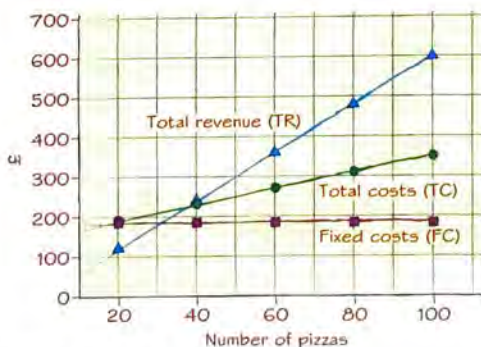


Figure 3: Joe's break-even chart

Now try this

Read the case study above.

- Highlight all of the key business terminology in the case study.
- Identify **three** factors that might be a unique feature of The Wood Fired Pizza Company.
- List the benefits and the drawbacks of Joe's business.

Short-answer questions 1

Worked example



Identify the break-even point for The Wood Fired Pizza Company. (1 mark)

30 pizzas



Quantitative skills

Draw a dotted line vertically down from the point where TR and TC meet. This is the break-even point.

Make sure you check your answer by using the calculation for break-even:

$$\frac{180}{6} = 30$$

'Identify' questions

An 'identify' question requires you to interpret information from a source, such as a table or graph (in this case, the break-even chart presented in Figure 3 on page 43).



Quantitative skills

The student has correctly interpreted the break-even point on the graph. Break-even is the point at which total costs are equal to total revenue. Note that break-even is expressed in terms of units (in this case, pizzas).



Links

Turn to pages 19 and 20 to revise break-even.

'Outline' questions

An answer to an 'outline' question should always give a point with some form of development or explanation. The answer must also be in the context of the provided case study.

The student has identified a relevant way that the company meets customer needs linked to the case study. They have then developed their answer with a point of explanation and an example.



Links

To revise customer needs, turn to pages 6 and 7.

Worked example



Outline one way that The Wood Fired Pizza Company meets customer needs. (2 marks)

The Wood Fired Pizza Company meets customer needs by offering customers an extensive range of pizzas on its menu. This helps it meet customer needs because most people will be able to find a type of pizza that they like, for example a vegetarian option.

Worked example



Calculate the profit that The Wood Fired Pizza Company would make if they sold 65 pizzas at a typical event. (2 marks)

LEARN IT!

Profit = Total revenue - Total costs

Total revenue = $65 \times £8 = £520$

Total costs = $£160 + (65 \times £2) = £290$

Therefore profit = $520 - 290 = £230$



Links

You can revise profit on page 18.

'Calculate' questions

Always start your answer to a 'calculate' question by writing down the relevant formula so you know what you are doing. Make sure that you learn all of the formulae you need for Paper 1 and Paper 2.

Now try this



Outline one reason why it is important for a business like The Wood Fired Pizza Company to provide a flexible service. (2 marks)

Your answer should be in the context of The Wood Fired Pizza Company.

Short-answer questions 2

'State' questions

A 'state' question requires you to give a short answer that is no longer than a sentence. Your answer will need to be in context.

The student's answer identifies a relevant method of segmentation appropriate to the context of the business.



Turn to page 11 to revise market segmentation.

Worked example



State one way that The Wood Fired Pizza Company might segment its market.

(1 mark)

The Wood Fired Pizza Company could segment its market based on the type of event it is catering for; e.g. weddings.

Worked example



Define the term 'social media'.

(1 mark)

Social media refers to websites and apps that let people and businesses connect with each other to share information and pictures, e.g. Twitter.

The key term that you have to define will be in the case study. If you are unsure of the definition, see how the term is used within the context. This might give you a clue.

'Define' questions

'Define' questions require you to give an accurate definition of a key term. All the key terms you should understand are highlighted in this revision guide. An imperfect definition that is partly right can still achieve both marks if a relevant example is used in support.

The student has given a clear and concise definition of social media with at least two relevant points and an appropriate example.

Worked example



Calculate the total contribution for 80 pizzas. (2 marks)

Total contribution = Total revenue - Total variable costs

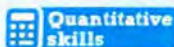
Total revenue = $80 \times 8 = 640$

Total variable costs = $80 \times 2 = 160$

Total revenue - Total variable costs = Total contribution

$640 - 160 = \text{£}480$

LEARN IT!



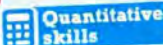
Always show your workings clearly. Even if you give an incorrect answer, you may be awarded 1 mark for a partially correct calculation.



Look at the glossary on page 93 for definitions of key business terminology.

Reading the question

Note that the question requires you to calculate total contribution, **not** the contribution per unit (1 pizza). Students often mix up contribution per unit and total contribution. Contribution per unit is used to calculate break-even.



The student has used the information to first calculate the total revenue if 80 pizzas were sold. They have then calculated the total variable costs and subtracted this from the total revenue.

Now try this



The Wood Fired Pizza Company would like to improve its cash flow.
State one way in which The Wood Fired Pizza Company could improve its cash flow.

(1 mark)

'Analyse' questions

Worked example



Analyse the impact of The Wood Fired Pizza Company having limited liability. (6 marks)

Improving an answer

Limited liability refers to the legal status of a business. A company has limited liability because the owner's liability is limited to the money that they invested in the company. The impact of The Wood Fired Pizza Company having limited liability is that Joe cannot lose his personal belongings such as his house or car if the business fails. This means that Joe is protected and can be more confident about expanding the business, knowing that his personal belongings are safe. Furthermore, a limited company looks more professional and trustworthy. This may help Joe attract customers to hire his business for events.

Having limited liability does not guarantee that a business will be successful. Customers may have more trust in a limited company but it is still subject to the pressures that all businesses face. The fast food events market is very competitive and there are likely to be many different businesses that provide a similar service to The Wood Fired Pizza Company because it is relatively easy to set up a business of this format with low fixed costs.

'Analyse' questions

An 'analyse' question is very similar to the 'discuss' question that you will answer in Section A of Paper 1 and Paper 2. However, the key difference is that an 'analyse' question requires you to answer in the context of the case study provided.

This is **not** a model answer. It is a sample answer for you to improve.

The opening sentence defines the term 'limited liability'. This is a good approach to an 'analyse' question as it demonstrates straight away that the student understands the concept mentioned in the question.

This part of the answer explains the benefit of limited liability. However, although it mentions Joe, this paragraph contains little context. There are no significant issues drawn from the case study.

The second paragraph analyses the limitations of limited liability. The student has explained that limited liability will not necessarily protect the business from failure. The second paragraph is also placed in context by referring to the competitive nature of the fast food market and the type of business. The student has also referred to the low level of fixed costs, which has been interpreted from the break-even chart. A good answer will always be rooted in the issues raised in the case study.



Links To revise limited liability, turn to page 25.

Now try this

How else could you improve this student's answer by linking it to the context of The Wood Fired Pizza Company? Try to identify two issues that you might connect when answering this 'analyse' question.

'Justify' questions

'Justify' questions

A 'justify' question requires you to consider two different options. This might include considering the relative benefits and drawbacks of two alternative strategies. Your answer will need to be in the context of the case study and must finish with a justified conclusion based on your analysis.

The question mentions making the business 'competitive'. Always highlight the key terms in the question and ensure that you address them in your answer.

This is **not** a model answer. It is a sample answer for you to improve.

Always try to use business terminology in your answers, e.g. 'premium price' and 'contribution per pizza'.

The student has identified a benefit ('cheaper') and explains why ('not have to be transported so far').

The student goes on to discuss the benefits of Option 2 in the next paragraph.

This paragraph gives the student's conclusion. In it, they have made a decision and provided a justification for their decision. They have also compared the relative merits of Options 1 and 2.



You can revise the concept of tariffs on page 55.

Balance

Balance means identifying the benefits and drawbacks in your answer. Using balance is a good technique to include when answering 'justify' and 'evaluate' questions.

Now try this

Write your own paragraph about Option 2 in order to complete this student's answer.

Worked example



The Wood Fired Pizza Company can purchase its ingredients via two options.

Option 1: Grown locally

Option 2: Imported from Italy

Justify which one of these two options would most help The Wood Fired Pizza Company to be more competitive. (9 marks)

Improving an answer

The benefits of Option 1 is that purchasing locally grown produce will help support local businesses. Many people who buy their pizzas might feel strongly about supporting local businesses, therefore this could attract potential customers. Furthermore, some people may be willing to pay a premium price for a Wood Fired Pizza Company pizza knowing that they will be supporting the local economy. Another benefit of local produce is that it is likely to be far cheaper than produce grown in Italy because it does not have to be transported so far. This could reduce unit costs and increase the contribution per pizza...

...Overall, I believe it is better for The Wood Fired Pizza Company to purchase locally grown ingredients. Although tomatoes and ingredients from Italy may be more traditional, I do not think they will have a significant impact on the quality of the pizzas in order to justify the considerable costs of importing, which may include a tariff.

Can you think of any reasons why locally grown ingredients might be more expensive than resources that are imported from abroad?

Try to include the word 'authentic' in your paragraph and think about how this word relates to the case study.

'Evaluate' questions

Worked example

Evaluate the impact on the success of The Wood Fired Pizza Company of its employees being fully qualified with the necessary food hygiene qualifications. You should use the information provided as well as your knowledge of business.

(12 marks)

Improving an answer

Having fully qualified employees means that the employees of a business will be highly skilled. For Joe's business, this is important because all of the pizzas are made by hand and this means that his employees will need the skills to do this. Having food-preparation qualifications is also very important for The Wood Fired Pizza Company because it is a fast food business that prepares food outdoors. Having these qualifications means that customers are far less likely to get food poisoning, which could have a significantly negative impact on the reputation of the company.

Having the necessary food hygiene qualifications will help reassure customers as they know the employees are properly trained, but it is not the most important consideration for most people. Customers expect the food they buy to be safe and well cooked. This means that it will do little to give the company a competitive advantage. Other factors such as the quality and taste of the food or the experience of eating freshly cooked pizza may be more important in attracting the most customers.

'Evaluate' questions

An 'evaluate' question requires a clear and well-justified conclusion based on the analysis developed in the answer. A developed evaluation may also include an 'it depends' statement, which shows consideration of other factors not mentioned in the case study.

This is just part of a student answer. It is **not** a model answer. It is a sample answer for you to improve.

The first paragraph offers a number of benefits of having employees with food hygiene qualifications. The answer is also clearly in context, referring to 'made by hand' and 'food poisoning'.

The student has failed to mention that having food hygiene qualifications might be a legal requirement of running a fast food business and that there may be legal consequences if these are not in place.



Links

Turn to pages 36 and 37 to learn about the impact of legislation on business.

Writing a conclusion

Use the following criteria to write a conclusion. Draw a valid and well-reasoned conclusion based on a thorough evaluation of business information and issues (AO3b).

- ✓ Start by making a decision - is being fully qualified in food hygiene key to the success of The Wood Fired Pizza Company?
- ✓ Justify your decision by identifying what you think is the **most** important factor.

- ✓ Explain what your decision/choice may depend on.
- ✓ Provide The Wood Fired Pizza Company with a recommendation based on your answer, such as how they should go about implementing what you have suggested.

Now try this

Try to include a 'depends on' statement in your conclusion to show balance.

Write a conclusion to complete the student's answer to the 'evaluate' question. Your conclusion should justify whether having food hygiene qualifications is significant. Identify what is the most important factor and anything that the justification may depend on. Try not to simply repeat the information given in the first two paragraphs.