

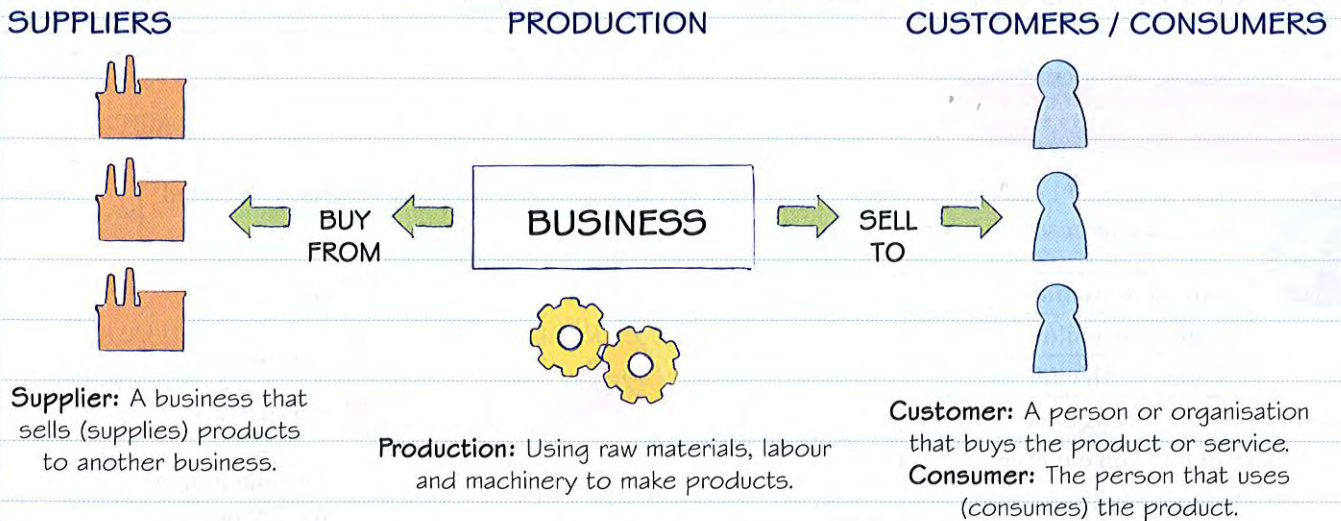
# Businesses

A BUSINESS is an organisation whose PURPOSE is to produce 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.

Things to think about when setting up a business:

- Is there a business opportunity?
- How will the business be financed?
- What is required to get the business up and running?
- What legal aspects have to be considered?
- What products or services will be sold and to whom?

## What businesses do



The market is where buyers and sellers meet to exchange goods and services.

## Worked example



What is the purpose of a business? Select **one** answer.

(1 mark)

- A  To give everyone a job
- B  To make big profits for its owners
- C  To provide goods and services
- D  To pay taxes to the government

Each option in this question is something that a business will do or hope to do, but C is the actual purpose of a business.

## Now try this

1 Which of the following is most likely to be a supplier to a small business making costumes for parties? Select **one** answer.

(1 mark)



- A  A clown who entertains children at parties
- B  A manufacturer of buttons
- C  A taxi that takes people to parties
- D  People who buy costumes

# Understanding customer needs 1

Most customer needs are based on good quality, good product range, convenient location, good customer service and a fair price. The problem is that all customers are different and need different things!

## Market research

Market research can tell a business:

- what features customers want
- how much they are willing to pay
- where they shop
- what age and gender they are
- who the main competitors are
- if the market is growing or shrinking.

These questions can be answered through:

- PRIMARY RESEARCH – collecting data that did not exist before (e.g. by asking questions).
- SECONDARY RESEARCH – collecting data that already exists (e.g. internet research).

## 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

Table 1

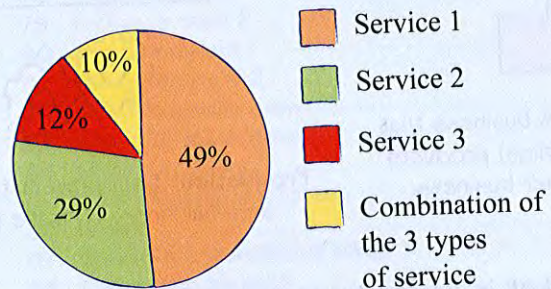


Figure 1

Study Table 1 and Figure 1. According to this information, which three conclusions can Lisa draw from the data? Select **three** 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 children and single pensioners
- D  More than half of people prefer something other than Service 1
- E  Couples with children are more likely to use Service 1

## EXAM ALERT!

Fewer than four in ten students got all three marks for this question. When interpreting data in figures and tables, be prepared to make comparisons, carry out calculations, identify characteristics and look at trends.

This was a real exam question that a lot of students struggled with – **be prepared!**

ResultsPlus

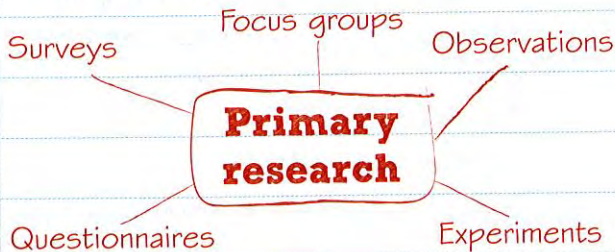
## Now try this

- 1 Which **one** of the following is an example of primary market research? Select **one** answer. (1 mark)
- A  Government statistics
  - B  Newspaper articles
  - C  Survey of customers
  - D  Internet research



## Understanding customer needs 2

**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 their 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.

### Qualitative and quantitative data

- **QUALITATIVE DATA** – information about opinions, judgements and attitudes.
- **QUANTITATIVE DATA** – data that can be expressed as numbers and statistically analysed.

When **INTERPRETING DATA**, businesses should look for issues to identify the potential size of the market, trends in the market (e.g. tastes) and an indication of what customers want.

### Worked example

Which of the following are the benefits of conducting secondary market research instead of primary market research? Select **two** answers.

- A  It adds value to 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

B and C are the only two **benefits** of secondary research over primary research.



(2 marks)

### Now try this

- 1 Which of the following would **not** be an appropriate method of market research for a new small business? Select **one** answer.

- 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 with a group of volunteer customers



(1 mark)

# Market mapping

MARKET MAPPING helps businesses to identify market segments and position their products through identifying gaps in the market.

## Analysing customer buying habits

Businesses must research potential customers' buying preferences, i.e. who the customers are, what they want, what they buy and how often they buy. Businesses can do this through:

- finding information about customers
- using their own experience
- looking at existing businesses and trying competitors' products
- observation and surveys.

## Market segments

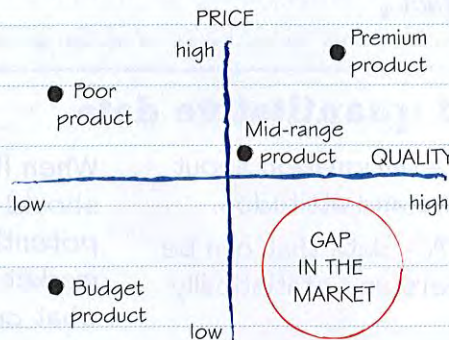
A MARKET SEGMENT is a group of buyers with similar characteristics and buying habits. A market can be segmented in many ways:

- Age (e.g. 18-24).
- Gender (e.g. male).
- Income (e.g. socio-economic group).
- Lifestyle (e.g. adventure).
- Life-stage (e.g. newlyweds).

### Market segmentation

Segmentation allows a business to: Example of a market map using price and quality.

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



A MARKET MAPPING diagram can be used to position and compare products in a market, and identify opportunities where customer needs are not being met.

### Worked example



According to the market map, where is there a gap in the market? (1 mark)

- A business that provides:
- 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



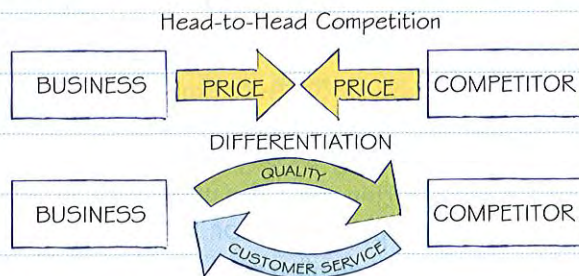
- 1 Which **two** of the following are **most likely** to be important in spotting a new business opportunity in the cycling market? Select **two** answers. (2 marks)
- A  Being able to produce a product cheaply
  - B  Recognising a new gap in the market
  - C  Being a keen cyclist
  - D  Identifying the possible competitors
  - E  Having a large amount of personal savings

# Competition

A business might use a number of criteria to analyse and judge the **STRENGTHS** and **WEAKNESSES** of its potential **COMPETITION** in order to improve its 'business offering' and **DIFFERENTIATE** from them.



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



## Branding

A brand is a named product that customers see as being different from other products, and that they can associate or identify with. A company or product can develop a unique brand image that customers associate them with.

## Worked example

Sam is a driving instructor.

Which **two** of the following methods are most likely to give Sam a competitive advantage? Select **two** answers. (2 marks)

- A  Providing high-quality tuition      D  Operating in a competitive market
- B  Operating as a sole trader      E  Providing a service for the community
- C  Providing a personalised service

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

## Now try this

JayCD is a small independent music store operating on narrow profit margins. It is facing strong competition from a local supermarket, which sells chart CDs at very low prices.

- 1 Which **two** are the most likely methods JayCD might use to compete with the supermarket? Select **two** answers. (2 marks)
- 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

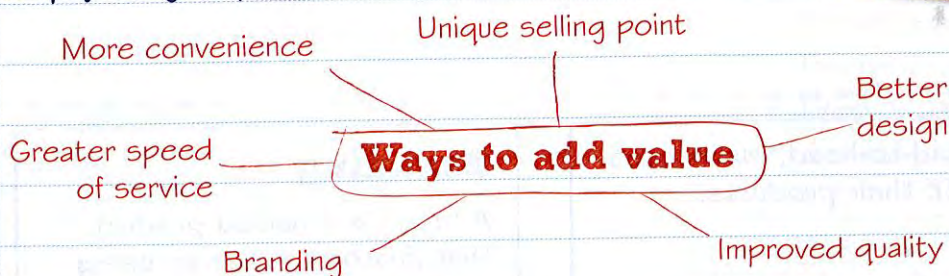
# Added value 1

ADDED VALUE is the increased worth that a business creates for a product; it is the difference between what a business pays its suppliers and the price that it is able to charge for the product.

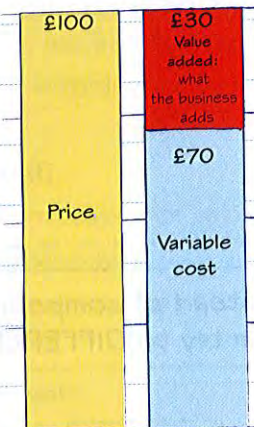
## A simple idea?

Basically, a business can add value to its product by lowering costs or adding something that will make customers willing to pay a higher price.

Adding value is very closely linked to profit.



## Adding value



## Worked example



Sparkle Oven Cleaning Company Ltd is a business offering an oven cleaning service. Eddie Lowe, the owner, aims to provide an exceptional cleaning service. Eddie says that the focus of the business is on competitive prices, high standards and good customer service.

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 his business but would not add value.

Which **two** of the following might be the best ways in which Eddie could add value to his business?

Select **two** answers.

(2 marks)

- A  Employing an accountant to manage his cash flow
- B  Offering free after-care visits to check customer satisfaction
- C  Making sure that he has an excellent relationship with his 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

## Now try this



Mark Steel is a qualified hairdresser looking to set up in business as a sole trader.

- 1 Which **two** of the following are sources of added value for Mark's business? Select **two** answers. (2 marks)

- A  Offering late-night opening appointments
- B  Asking customers to complete a questionnaire after their appointment
- C  Ensuring he manages cash flow effectively
- D  Providing free refreshments and drinks for customers
- E  Locating in an area where other hairdressers already operate

# Added value 2

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 importance of added value

The added value of a product goes towards paying off a company's 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.

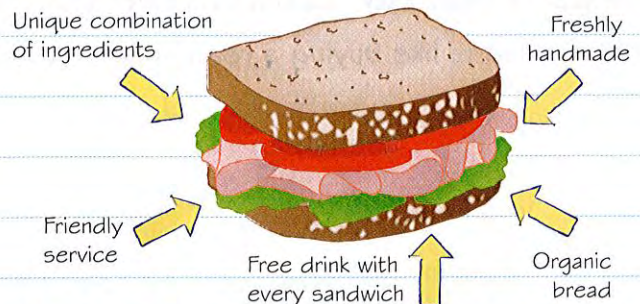
## Unique selling point (USP)

A USP is one 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



Lisa Gallagher believes there is a growing market for gardening services.

Which **two** of the following are strategies that Lisa might use to help her 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 Lisa's competitors every month

Option C will add value through raising after-sales service, and Option D will add value through a stronger brand image. Customers are willing to pay more for these things.

## Now try this



1 Which 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

# Franchising 1

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 as independent businesses.

## Who's who?

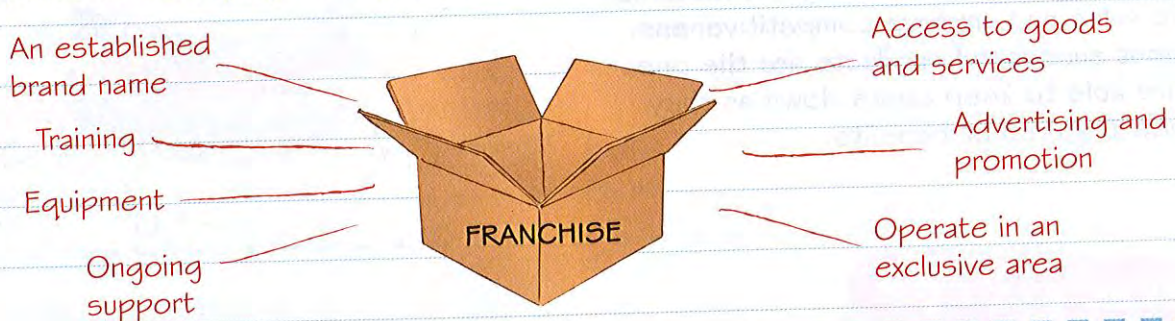
- FRANCHISOR – the business that gives franchisees the right to sell its product or service.
- FRANCHISEE – a business that agrees to manufacture, distribute or provide a branded product, under licence by a franchisor.

## The principle of franchising

The principle behind a franchise is the expansion of an established business through licensing the right for ENTREPRENEURS to set up their own business using the name, equipment and products of the franchise in return for 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!



## Worked example



What type of organisation is set up 'under licence' to use an established business name?

Select one answer.

(1 mark)

- A  Sole trader
- B  Enterprise
- C  Franchise
- D  Private limited company

The answer is C because a franchise is the only type of business that allows through licensing the right for others to 'buy into' the business and set up the business under the franchisor's name.

## Now try this



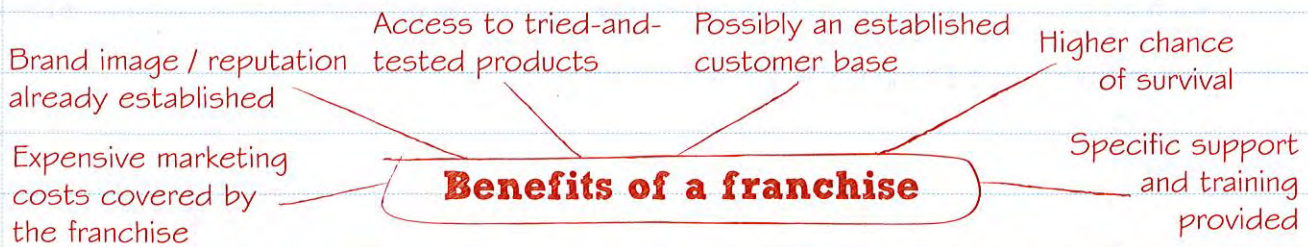
1 Which two of the following are correct statements about a franchise? Select two answers. (2 marks)

- A  A franchisee can use the name of the franchise in advertising
- B  The franchisee gives the franchisor the right to sell its product
- C  A franchise is public limited company
- D  Only two businesses are part of a franchise
- E  A franchise is the right given by one business to another to sell its products



# Franchising 2

There are benefits for a new business setting up as a franchise compared to setting up as a sole trader. However, there are also drawbacks.



## Drawbacks of a franchise

- Start-up costs can be expensive.
- Royalty payments.
- Complicated application process.
- Lack of autonomy and control.
- Limited flexibility to make your own decisions.

## Location

For some small businesses, such as a retail shop or restaurant, location is vital. But for others, location is less important. Factors in choosing a location might include:



## Worked example

target  
D-C

Identify **two** possible disadvantages of operating the business as a franchise. Select **two** answers. (2 marks)

- A  The cost of the initial investment can be high
- B  Franchises have to take out a patent
- C  Franchises have to pay a higher rate of Value Added Tax (VAT)
- D  There is a lack of freedom for the owner in making decisions
- E  It can access help and advice from the franchise owner

## EXAM ALERT!

Just over half of students got both marks for this question. Options A and D are the only two answers that could be a disadvantage.

This was a real exam question that a lot of students struggled with – **be prepared!**

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When completing multiple-choice questions, underline the command words in the question. In this case, 'two' and 'disadvantages'. This will ensure you know exactly what the question wants you to do.

## Now try this

target  
C-B

- 1 Which **two** of the following are possible advantages to an individual of starting a business as a franchise rather than as a sole trader? Select **two** answers. (2 marks)

- A  The franchisor pays the franchisee to set up the business
- B  Franchises pay lower rates of Value Added Tax than a sole trader
- C  A franchise is likely to be an established business
- D  The franchisee has complete freedom to make their own decisions
- E  The franchisee can benefit from national advertising of the franchise

# Enterprise

ENTERPRISE is a word often used in business, which represents the ideas and initiatives involved in starting a new business. Businesses might supply a GOOD (physical and tangible product such as a car) or a SERVICE (a non-physical, intangible product such as insurance).

## Entrepreneurs, enterprise and enterprises



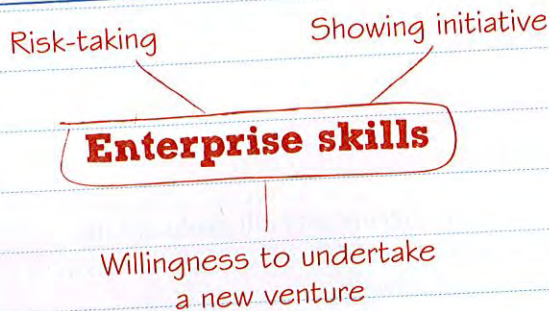
**Entrepreneur** – a person who owns and runs their own business and takes risks.



**Enterprise** – the initial spark and idea for a business and the willingness by an individual to show initiative, take a risk and undertake a new venture.



**Enterprises** – another word used for businesses.



### The importance of risk

Entrepreneurs take risks when they start their own business. There is a chance that their businesses will not survive and therefore they risk their own time, livelihood and money. Enterprise is important because new businesses create jobs and wealth in the economy.

### Worked example

Which **two** of the following are key features of enterprise?  
Select **two** answers.

(2 marks)

- A  Employing at least one worker
- B  Having the right qualifications to run a business
- C  Being prepared to take risks
- D  Having a willingness to take on a new venture
- E  Registering as a private limited company

C and D are the correct answers. When answering questions about enterprise, remember that it involves the things required to start a new business.

### Now try this

1 Which **two** of the following are key enterprise skills?  
Select **two** answers.

(2 marks)

- A  A willingness to take risks
- B  A willingness to employ at least five workers
- C  A willingness to take the initiative
- D  A willingness to follow a course of study in business
- E  The ability to raise finance

# Thinking creatively

The success of many businesses depends on the ability of the owners to come up with new, unique and creative ideas, in order to compete, to identify new opportunities and to differentiate themselves from competitors.



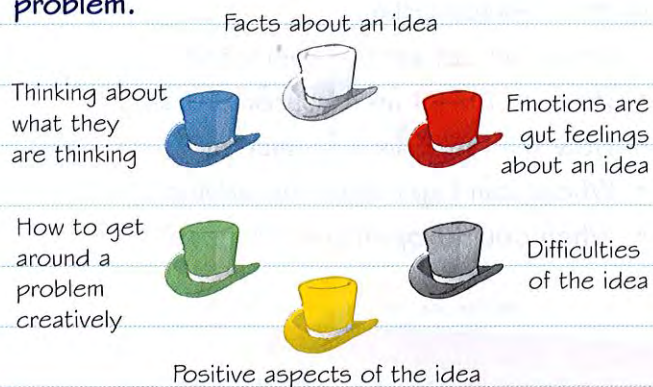
**DELIBERATE CREATIVITY** is the intentional creation of new ideas through recognised and accepted techniques. For example:

- creating lists
- mind mapping / brainstorming
- make it bigger / smaller
- combining things together.

## Blue skies and lateral thinking

- **BLUE SKIES THINKING** is coming up with as many ideas as possible to solve a problem.
- **LATERAL THINKING** involves thinking differently to try to find new and unexpected ideas. **DE BONO'S SIX THINKING HATS** is an example of lateral thinking.

De Bono's six thinking hats give six different ways to think about an issue, idea or problem.



## Worked example



Deliberate creativity involves which **two** of the following techniques? Select **two** answers. (2 marks)

- A  Starting a business that provides a service
- B  Brainstorming business ideas
- C  Creating lists to compare options
- D  Producing a cash-flow forecast
- E  Preparing a business plan

### EXAM ALERT!

Four in ten students got both marks for this question. Deliberate creativity involves developing ideas through recognised techniques such as brainstorming (B) and creating lists (C).

This was a real exam question that a lot of students struggled with – **be prepared!** **ResultsPlus**

## Now try this



Vakas Shah used his engineering background to develop CycleSure, a lightweight but strong cable that secures the wheels and frame of a bicycle.

- 1 Vakas needed to think creatively to produce CycleSure. Why is thinking creatively important? Select **one** answer. (1 mark)
- A  Avoids having to answer the 'what if?' question
  - B  Increases the calculated risk
  - C  Generates competitive advantage
  - D  Avoids the need for lateral thinking

# Questions entrepreneurs ask

It is vitally important that entrepreneurs ask themselves questions when they start their own business.

Helps identify business objectives

Helps develop aspects of the business plan

## Why ask questions?

Helps make important decisions

Identifies potential problems and pitfalls

## Why? and Why not?

These sorts of questions will help identify the purpose and direction of the business.

- Why do I want to start my own business?
- Why do I want to change?
- Why not set up my own website business?

## How? Where? and When?

These questions help identify specifics about the business that can help form parts of the business plan.

- How do I set up the business?
- How do I build up a customer base?
- How will I research my market?
- Where can I get help and advice?
- When could I open the business?

## What if?

These questions allow an entrepreneur to assess the value and likelihood of any possible outcome. Solutions can then be identified from these questions.

- What if my business loses money?
- What if my customers do not like my products?
- What if there is too much competition?
- What if I am ill for a long period of time?

## Worked example



Alyssa has started a singing career. She needs to buy PA equipment and a microphone.

Which **two** of the following questions would she be most likely to ask to help her buy the most suitable products? Select **two** answers. (2 marks)

- A  Where are the locations she will be singing?
- B  When will she need to buy the equipment?
- C  What does she have to spend?
- D  Where does she live?
- E  What space for equipment does she have in her van?

Consider what questions will give Alyssa information about the size, power, cost and other features of the equipment. These are more likely to be 'What' than 'Where' or 'When' questions.

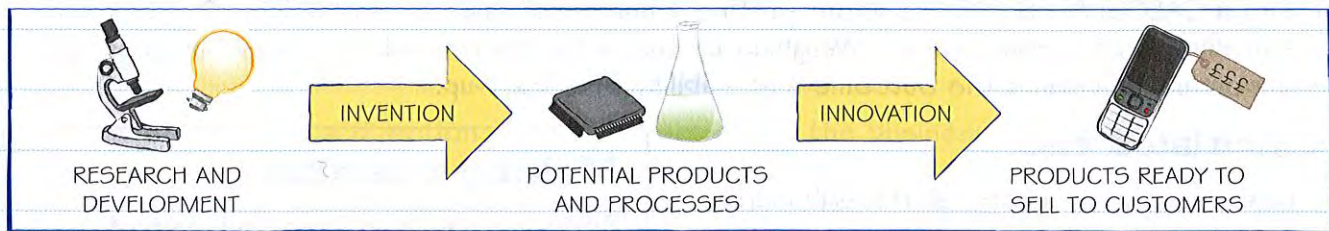
## Now try this



John runs a sports shop in Norwich. He is going to advertise his new range of trainers in the local paper over the summer months.

- 1 Which of the following questions would he ask? Select **one** answer. (1 mark)
- A  What if his staff take holidays in summer?
- B  What if local people go abroad in summer?
- C  What if he needs to change his store layout in summer?
- D  What if he redecorates the shop in summer?

# Invention and innovation



## Risk

Invention and innovation are risky. They can be expensive and time consuming, and many new products fail to make it to market. Businesses gain a competitive advantage from invention and innovation, but some businesses choose to wait to copy or 'follow' other businesses, creating 'me too' products.

## Protecting business ideas

- **PATENTS** – right of ownership of an invention, design or process when it is registered with the government.
- **COPYRIGHT** – legal ownership of material such as books, music and films which prevent these being copied by others.
- **TRADEMARKS** – the logo, symbol, sign, or other features of a product or business that cannot be copied by others.

## Worked example



Which **one** of the following best describes the term 'invention'? Select **one** answer. (1 mark)

- A  Identifying new products and new ways of making products
- B  Identifying a gap in the market for new products
- C  New business ideas which are profitable
- D  The process of transforming new ideas into products that can be sold

## EXAM ALERT!

One in three students got this question right. On topics where there are similarities between key terms, try to remember one key difference to help you distinguish between them. In this case, innovation takes invention one step further to create actual products for consumers.

This was a real exam question that a lot of students struggled with – **be prepared!**

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## Now try this



- 1 What is **one** possible benefit of a patent to the patent owner? Select **one** answer.

(1 mark)

- A  Prevents another business from using the same brand name
- B  Provides the right of ownership of an invention or process
- C  Is an insurance policy which provides protection from financial loss
- D  Ensures the business will not make a loss for 20 years

# Taking a calculated risk

Taking a **CALCULATED RISK** is about putting a numerical value or probability on a risk and the likelihood of it coming true. Weighing up the risks and rewards of a new business idea is important in judging the outcome and viability of a start-up.

## Calculated risk

A business can calculate risk through market research, and understanding the risk can help a business make decisions that will reduce the likelihood of a negative outcome.

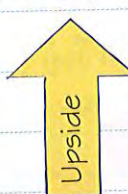
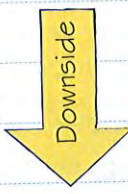
Examples of calculated risk include:

- 50:50 chance of an advert's success
- 1 in 3 chance of a business failing
- 10% of customers will return products.

## Making mistakes

Reducing risk is an important part of running a business, but entrepreneurs often have to fail before they learn how to be successful. Making mistakes is an important part of developing a business. As entrepreneurs learn from their mistakes they will become better at calculating risk.

Risk can be calculated by identifying and comparing **UPSIDES** and **DOWNSIDES**. Upsides are things that can go right (or the reward). Downsides are the things that can go wrong. Below is an example of the upsides and downsides of selling products through a website instead of in-store (scoring out of 5).

	✓ Wider target market	5		✓ Loss of customer experience	3
	✓ Lower costs	3		✓ Website maintenance costs	1
	✓ Automated ordering	1		✓ Competition from online businesses	3
	Total = 9			Total = 7	

## Worked example

target  
C-B

Sonia Fletcher set up as a sole trader selling cakes made from organic ingredients.

Which **one** of the following is an example of a calculated risk for Sonia's business?  
Select **one** answer.

- A  Sonia's costs had risen by 30% in the past 6 months
- B  Sonia has calculated her yearly income tax as £795
- C  There is an 80:20 chance of Sonia's business failing
- D  Sonia has estimated that demand will rise by 10% over the next six months

## EXAM ALERT!

Six in ten students got this right. C is the only answer that gives a numerical value to a risk.

This was a real exam question that a lot of students struggled with – **be prepared!**

ResultsPlus

## Now try this

target  
C-B

Marcus Borega is a sole trader. His business imports high-quality cars from the USA.

- 1 Which **one** of the following is an example of a calculated risk for Marcus?  
Select **one** answer.

(1 mark)

- A  His fixed costs are 50% of his total costs
- B  There is a 40% chance of the business surviving the first year
- C  Marcus' variable costs rise by 25% in the first six months
- D  10% of his customers will be over 65 years of age

## Other important enterprise skills

Being a successful entrepreneur is about more than just taking risks and identifying an opportunity. There is a range of important skills that also contribute to an individual's success.

**P**lanning – identifying a direction and plan of action for the business.

**D**rive – being hardworking and motivated to achieve success.

**T**hinking ahead – having the foresight to identify potential problems.

**D**etermination – being resilient when things go wrong / not giving up.

**S**eeing opportunities – having the creativity and imagination to do things differently.

Use this mnemonic to remember the important enterprise skills: **P**lease **D**on't **T**rip **D**own **S**tairs

### Mind maps

Mind maps are often used in 'Blue Skies Thinking' (see page 11). Mind maps are also useful in helping an entrepreneur get their ideas down on paper when thinking ahead, planning the business and trying to identify new opportunities. A mind map to remember the marketing mix might look like this:



### Worked example



Alex Tew took 20 minutes to come up with a successful business idea. Within three months he had made a million dollars by selling pixels on a website to businesses. The businesses could buy any number of pixels for \$1 each and use them to place an advert link to their business.

Which **one** of the following enterprise skills do you think was the **most** important in contributing to Alex's success? Select **one** answer. (1 mark)

- A  He asked why people would pay \$1 for a pixel on a website
- B  He showed initiative in solving his problem of student debt
- C  He didn't just ask all the right questions, he actually got up and did it
- D  He thought creatively about ways to make a million

The correct answer is C because actually setting up and running the business not only shows drive and determination, but also the willingness to take a risk. Initiative (B) and creativity (D) are both important enterprise skills, but perhaps not as important as C in Alex's case. Always think carefully if the question asks you to identify the 'most important' issue.

### Now try this



- 1 Successful entrepreneurs need to think creatively and make connections between ideas. What is the name of the diagram which can be used to record words and ideas connected to a central word or idea?

Select **one** answer.

(1 mark)

- A  Spreadsheet
- B  Market map

- C  Scatter diagram
- D  Mind map

# Objectives when starting up

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.

## Objectives

Objectives are the goals that a business is trying to achieve. Objectives are important for all businesses, especially business start-ups. Setting objectives gives a business a direction and a target to measure success against. Businesses do not all have the same objectives, some of these can be personal to the entrepreneur.

Often businesses set more than one objective, which may include:

- financial aspects
- non-financial aspects.

When deciding the best objectives for a business, consider the type of business, the characteristics of the entrepreneur and how competitive the industry is. A start-up will often have more modest objectives than a large business.



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.

## 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

## Now try this



1 Which **three** of the following are the most likely reasons why Sonia decided to set up as a sole trader?

Select **three** answers.

(3 marks)

- A  She will benefit from limited liability
- B  She could raise finance from selling shares
- C  To have greater control within the business
- D  She would take all of the profits
- E  She would have the ability to make her own decisions
- F  It would make survival easier



## Qualities shown by entrepreneurs

Successful entrepreneurs have a number of important qualities. There is no definitive list of qualities that make the perfect entrepreneur. Each entrepreneur will have his or her own mix of qualities that make them successful in business.

### Entrepreneurial qualities

Quality	Example
Planning	Identifying a direction and plan of action for the business, e.g. deciding to buy a new machine in a year when new technology will be available.
Initiative	Being pro-active and getting a job done, e.g. approaching a competitor to discuss the possibility of working together on a new product.
Taking risks	Entrepreneurs are risk takers because they invest their own time and capital, e.g. ordering 20% more stock in the hope that sales will increase shortly.
Determination	Being resilient when things go wrong / not giving up, e.g. working into the evening to solve a problem.
Making decisions	Entrepreneurs need good judgement, e.g. deciding the most suitable source of start-up funding.
Persuasion	Being able to convince customers, suppliers and banks, e.g. talking a supplier round to give an extra 2% discount on an order.
Leadership	Entrepreneurs employ and lead others, e.g. motivating staff to meet a deadline.
Luck	Sometimes luck counts, e.g. an ice cream manufacturer has its best sales because of the hottest summer on record.

In reality there are many other qualities that entrepreneurs value. When analysing a case study, consider which are the most relevant for that entrepreneur and think of specific examples where the quality might be needed.

### Worked example

Match the qualities on the left with the examples on the right.

(4 marks)



Quality		Example	
Leadership	i	a	Reorganising the layout of the factory
Determination	ii	b	Talking a worker around to doing some overtime
Making decisions	iii	c	Having been rejected for a loan by four banks, applying to another bank for the loan
Persuasion	iv	d	Having a vision for where the business should be in two years time

This question asks you to match up entrepreneurial qualities with an example. You need to be ready for 'match up' questions. This is why it is very important to revise key terms. There are often key terms that are very similar (e.g. invention and innovation) so be careful and ensure that you are certain before moving on.

### Now try this



- 1 Which **two** of the following are key qualities needed by an entrepreneur?

Select **two** answers.

(2 marks)

A  A willingness to take risks

D  A degree in Business Studies

B  A willingness to employ at least five workers

E  The ability to raise finance

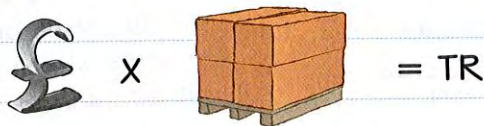
C  A willingness to take the initiative

# Revenues, costs and profits 1

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.

REVENUE, SALES REVENUE or TURNOVER is the amount of income received from selling goods or services over a period of time.

Price  $\times$  Quantity = Total revenue



- **FIXED COSTS** do not vary with the output produced by a business, e.g. salaries and business rates.
- **VARIABLE COSTS** change directly with the number of products made, e.g. raw materials and labour.

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

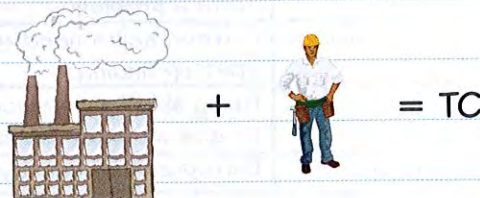
## Total costs

TOTAL COSTS are all the costs of a business.

It can be calculated using the formula:

Fixed costs + Variable costs = Total costs

i.e.  $\pounds 400 + (\pounds 5 \times 100) = \pounds 400 + \pounds 500 = \pounds 900$



## Worked example



Hancock's is a small pottery business which 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:  $\pounds 10$
- Variable costs per pot:  $\pounds 2$
- Fixed costs per month:  $\pounds 500$

What are the total costs for Hancock's during the month?

Select one answer.

- (1 mark)
- A   $\pounds 450$       C   $\pounds 800$   
 B   $\pounds 650$       D   $\pounds 1500$

## EXAM ALERT!

Just over half of students got this question right. Just because some of the figures in the options given can be arrived at, it doesn't mean this is the right option.

Total costs = fixed costs + variable costs.

This was a real exam question that a lot of students struggled with – be prepared!



## Now try this



1 The following table shows the costs, revenues and profits for Merry Maids for a two-month period.

Fill in the **four** blanks (a)–(d) to complete the table. (4 marks)

	October	November
Total receipts	$\pounds 14\,000$	$\pounds 12\,000$
Fixed costs	$\pounds 2000$	$\pounds 2000$
Variable costs	(a)	(c)
Total costs	$\pounds 9000$	(d)
Profit	(b)	$\pounds 5000$

## Revenues, costs and profits 2

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.

### 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:

Total revenue - Total costs = Profit or Loss

i.e. £1000 - £900 = £100 profit



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

- survive
- reinvest profits for expansion
- give an incentive to start the business
- provide security and savings
- reward employees
- generate wealth for the owner.

### Ways to increase profits

- Lower variable costs.
- Lower fixed costs.
- Increase the sales price.
- Increase the quantity of sales.

Making a loss can have a significant impact on a business. The business might be:

- unable to repay loans
- unable to pay bills such as wages
- experiencing cash-flow problems
- unable to survive, leading to the business stopping trading.

### Worked example



The owners of Hancock's decide to try to increase profit.

Which **three** of the actions below will most likely achieve this, assuming it sells the same number of pots each month?

Select **three** answers. (3 marks)

- |   |  |
|---|--|
| <p>A <input checked="" type="checkbox"/> Buy cheaper raw materials to make its products</p> <p>B <input checked="" type="checkbox"/> Increase the sales price of an average pot to £11</p> <p>C <input type="checkbox"/> Increase the number of workers employed over the weekend</p> | <p>D <input type="checkbox"/> Buy more expensive raw materials to make its pots</p> <p>E <input type="checkbox"/> Increase advertising expenditure</p> <p>F <input checked="" type="checkbox"/> Relocate to cheaper premises</p> |
|---|--|

### EXAM ALERT!

Fewer than six in ten students got all three marks for this question. Options A, B and F are all correct answers because each would either raise revenue (B) or lower costs (A and F).

This was a real exam question that a lot of students struggled with - **be prepared!**

ResultsPlus

### Now try this



A business spent:

- £10 000 on raw materials
- £30 000 on fixed costs
- £7500 on other variable costs and had a turnover of £50 000

- 1 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:

- |   |  |
|---|--|
| <p>A <input type="checkbox"/> Increase by £2500</p> <p>B <input type="checkbox"/> Fall by £2500</p> | <p>C <input type="checkbox"/> Increase from £2500 to £3500</p> <p>D <input type="checkbox"/> Increase by 10%</p> |
|---|--|

# Forecasting cash flows 1

**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**, where it does not have enough money flowing into the business to pay its day-to-day bills.

## 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** – the receipts of a business minus its payments, either positive or negative.

**Opening balance** – the amount of money in a business at the start of a month.

	SEPT	OCT	NOV	DEC
Total receipts	8000	8500	13500	15000
Payments				
Machinery and equipment	10000	0	0	0
Wages and materials	4400	4400	6000	4000
Heating, lighting and insurance	0	3500	1000	0
Total payments	14400	7900	7000	4000
Net cash flow	-6400	600	6500	11000
Opening balance	0	-6400	-5800	700
Closing balance	-6400	-5800	700	11700

**Cumulative cash flow** – the sum of cash that flows into a business over time.

**Closing balance** – the amount of money in a business at the end of a month (net cash flow + opening balance).

## Worked example

Fill in the four blanks to complete this table. (4 marks)

	Jan	Feb	Mar
Receipts (£)	10000	8500	15000
Payments (£)			
Raw materials	2000	2500	3600
Fixed costs	4000	4000	4000
Other costs	5000	5200	5900
<b>Total payments</b>	<b>11000</b>	<b>11700</b>	<b>13500</b>
Net cash flow	-1000	-3200	1500
Opening balance	500	-500	-3700
Closing balance	-500	-3700	-2200

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 can 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.

## Now try this

A business has the following cash-flow information for one particular month.  
 Opening balance: £5000    Cash inflow: £7000    Cash outflow: £14000

- 1 What is the closing balance for the business at the end of the month? Select **one** answer. (1 mark)
- A  -£12000      B  -£2000      C  £9000      D  £16000