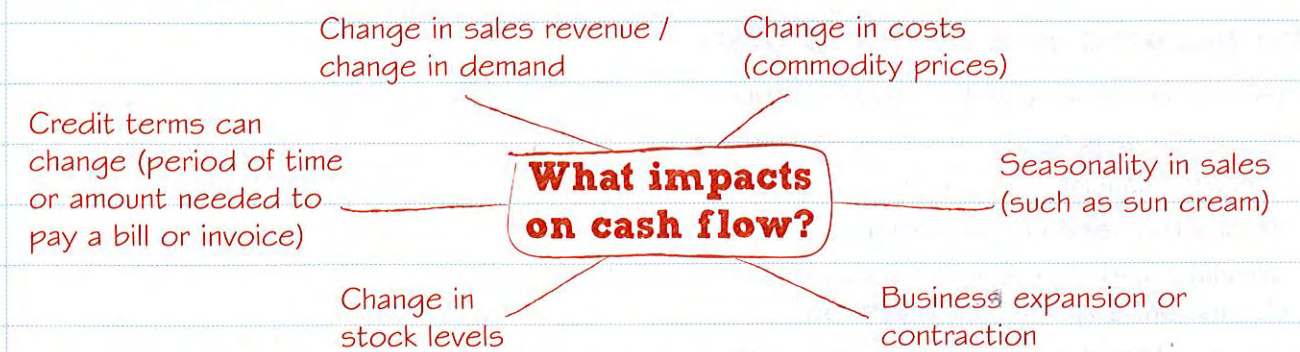


## Forecasting cash flows 2

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.



### Cash flow and insolvency

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

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

### Cash flow, profit and risk

Cash flow is not profit. A profitable business may still have a cash-flow problem and go out of business.

Cash flow is an important part of any **BUSINESS PLAN**. Planning to avoid cash-flow problems can reduce **RISK**.

### 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)

- target C-B**
- 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

### EXAM ALERT!

Just under half of students scored both marks for this question. The question asks which methods are **most likely** to improve its cash flow position. Market research might help in the longer term but Options C and D are more immediate and obvious ways to improve cash flow.

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

### Now try this

- target C-B**
- 1 Monthly sales at PrintZone remain unchanged from April to October. Given this fact, which **two** of the following are possible reasons for the worsening cash-flow position of the business during this time? Select **two** answers. (2 marks)

- A  Increased spending on stocks of ink cartridges and printers by PrintZone
- B  Change in the interest rate on PrintZone's bank loan from 5% to 4%
- C  Monthly rent on PrintZone's premises changing from £700 to £650
- D  More favourable trade credit terms provided by suppliers to PrintZone
- E  PrintZone's monthly advertising costs changing from £800 to £1400



# 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 business plan links together other sections of your course. For example, a business plan will include a cash-flow forecast and business objectives, and it will help an entrepreneur to answer important questions about their business, such as 'What if?' questions. As a result, a business plan can help reduce the risk of starting a business.

## What goes into a business plan?

### Overview

Name, location, type of business and its purpose (i.e. the products it will sell).

### Objectives

What the business hopes to achieve in a specific period of time (e.g. in the first six months or within three years).

### Market Research

Size, growth, features and trends in the market.

### Personnel

Who will work within the business and what their roles will be.

### Finances

Sources of finance, cash-flow forecasts, revenues, cost and profits.

### Production

Information on suppliers and how products will be made and supplied.

## Worked example

target  
D-C

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

Select **three** answers.

(3 marks)

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, E and F are all relevant information normally included in a business plan.

- 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
- F  A summary of the market research she has carried out

## Now try this

target  
C-B

1 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

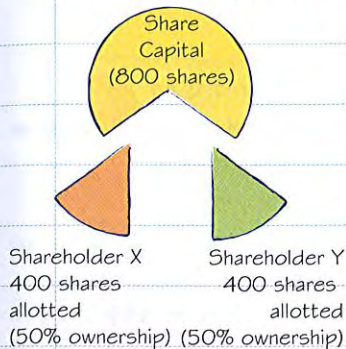


# Obtaining finance 1

## Long-term sources of finance

- Share capital (for limited companies only, not sole traders).
- Personal savings (from the owner).
- Venture capitalist (external investor looking for fast growth and return on their investment).
- Grants.
- Loans (from a lender such as a bank).
- Mortgage (a loan secured against a property).
- Retained profit (if there is any).
- Leasing (renting a property, equipment or vehicle instead of buying it).

## Selling shares



A share is a part-ownership in a business. A start-up, that is 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.

## Security (Collateral)

Often when money is borrowed the lender will be given some form of security or **COLLATERAL** against the loan. In the case of a mortgage this is the property. The incentive for a bank to loan money is the **INTEREST** they will receive. The rate of interest or nature of the security determines the level of risk associated with lending the money. That's why an entrepreneur is a risk taker!

## Worked example



As a sole trader, which **three** of the following are long-term sources of finance for Sonia?

Select **three** answers.

(3 marks)

- A  Profit                      D  Trade credit
- B  Overdraft                      E  Share capital
- C  Bank loan                      F  Personal savings

## EXAM ALERT!

Only two in ten students got all three marks for this question. The context of this question is a 'sole trader' and not a limited company. Only limited companies can raise capital through selling shares.

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

ResultsPlus

Options B and D are **short-term sources** of finance (short-term sources are covered on page 24), leaving Options A, C and F as correct long-term sources.

## Now try this



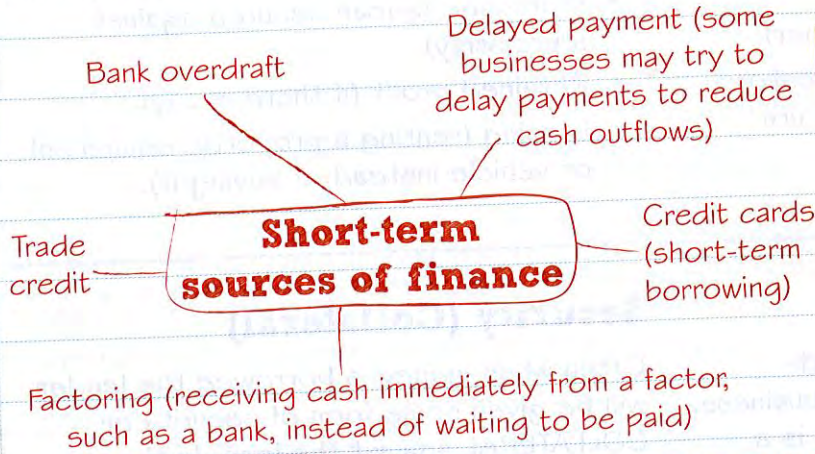
Mark is a qualified hairdresser looking to set up as a sole trader. Mark is considering different sources of finance to start his business.

- 1 Which **two** of the following would be **most appropriate** for Mark to start up his business? Select **two** answers. (2 marks)
- A  Personal savings                      D  Retained profit
- B  Selling the business's assets                      E  Bank loan
- C  Issuing shares to new shareholders



# Obtaining finance 2

Businesses may require finance in the short term, as well as from long-term sources (see page 23 for more on long-term finance). Short-term sources of finance are sources that are repaid immediately or fairly quickly, usually within a year.



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



What would be the most appropriate way that Sparkle Oven Cleaning Company Ltd could cope with its negative cash flow in August and September?  
Select one answer.

(1 mark)

- 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



Cash flow is an immediate issue and therefore it requires a short-term source of finance to resolve the problem. Option C is an 'overdraft' and the only short-term source of finance mentioned.

## Now try this



1 Match the terms on the left with the correct definitions on the right.

(4 marks)

Term		Definition
Grants	i	a Receiving cash immediately from a third party, instead of waiting to be paid. Debt is then passed on to the third party to collect.
Venture capitalist	ii	b An individual or company that buys shares in what they hope will be a fast-growing company.
Overdraft	iii	c An amount of money provided to a business from the government or a charity, which does not have to be repaid.
Factoring	iv	d A short-term loan allowing a business to overspend on their bank account up to a limit and with interest charged.
		e A source of finance where owners are entitled to a share of any profits generated.



## Customer focus

Understanding customers and focusing on their needs is a vital if a business intends to attract people to buy their products. There are three stages of being CUSTOMER FOCUSED.

### Being customer focused

**1** Identifying needs – using techniques such as market research to find out what customers want.



A business asking customers to complete a questionnaire as they leave the store.



**2** Anticipating needs – the best businesses are able to identify needs in advance to give them a competitive advantage.



A pub opening a beer garden, anticipating warm weather, or a fashion brand changing clothing in its stores to match the styles at a national fashion show.



**3** Meeting customer needs – a business must be able to provide whatever customers want, whether that is quality, low prices or excellent service.



A business adapting elements of the marketing mix, e.g. using recycled packaging for environmentally conscious customers.

### Worked example



Sparkle Oven Cleaning Company Ltd offers an oven cleaning service. The owner, Eddie Lowe, says the focus of the business is competitive prices, high standards and good customer service.

Which **one** of the following might be a key part of the customer focus for Sparkle Oven Cleaning Company Ltd? Select **one** answer. (1 mark)

- A  Making sure that appointments are kept on time
- B  Ensuring staff do the job in as short a time as possible to maximise sales
- C  Monitoring competitors and charging slightly higher prices than them
- D  Managing a business so it can make the maximum profit possible

Customer focus is about identifying, anticipating and meeting customer needs. Option A is the only answer that is focused on the customer and not either driven by profit maximisation or in the interests of the business itself.

### Now try this



**1** Which **two** of the following would be essential elements of customer focus for a business? (2 marks)

- A  Anticipating customer needs
- B  Ordering stocks of raw materials
- C  Providing customers with what they want
- D  Paying customer tax
- E  Paying employees



# The marketing mix

## 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 try to differentiate their products.

## 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.

## 3 Promotion

**PROMOTION** is communication between the business and customer that makes the customer aware of its products, including:

- advertising
- sponsorship
- sales promotions
- public relations.

## 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, such as commodity prices (see page 31) and the price set by competitors.

### Worked example



Lisa believes there is a market for gardening services and has carried out market research. Some of her 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 element of the marketing mix should Lisa focus on in her business?

Select **one** answer. (1 mark)

- A  Place      C  Product  
 B  Price      D  Promotion

From the table we can see that 'quality of the work' and 'customer service' receive the highest responses. These two factors contribute to the 'product' that Lisa provides in her gardening business.

### Now try this



Chocolicious is a small business making handmade chocolates. The market it operates in is very competitive. One source of competitive advantage it holds is in the quality of its chocolates. The owners are worried by the recent rise in the price of cocoa.

- 1 Chocolicious has decided that it needs to change its marketing mix in response to the rising price of cocoa. Which **two** changes to the marketing mix would you advise, given what is happening in this market? Select **two** answers. (2 marks)
- A  Reducing its Corporation Tax payments      D  Making five members of staff redundant to cut costs  
 B  Producing a new business plan  
 C  Contacting supermarkets to seek new retailers for its products      E  Using cheaper ingredients in the product



# 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 up to the amount that they have invested. Their personal belongings are not liable.

## The differences between sole traders and Ltds

	Sole traders	Private limited companies
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 control of the main owner will depend on the proportion of the business sold as shares to other shareholders.
Profits	The owners keep 100% of the profits.	Profits are shared proportionately between the shares owned by shareholders.
Privacy	There is more privacy.	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
- 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



- 1 Identify **one** disadvantage of unlimited liability for a sole trader. Select **one** answer. (1 mark)
- A  The need to pay higher taxes
  - B  Less control of the business
  - C  Sharing profit with other shareholders
  - D  Risk of losing personal possessions



# Start-up legal and tax issues

There are regulations and tax issues that all businesses have to adhere to. Every business must keep up-to-date records on its business activity, and trade under a unique name.

## Why have legislation?

Businesses have to adhere to legal requirements:

- so that the government can keep a track of business activity
- so taxes can be collected
- to protect businesses from illegal activity
- to protect customers from illegal business practices.

## The legal requirements of a small business

- Register and trade under a unique name that promotes the business (a limited company will have Ltd at the end).
- Keep records of sales, purchases and names of businesses they have worked with.
- Register with Her Majesty's Revenue & Customs (HMRC – the government authority in the UK responsible for collecting tax).
- Pay the appropriate level of tax to HMRC.

**Value Added Tax (VAT)** – a tax on the value of sales of a business. Businesses that sell more than a certain amount will register to pay VAT.

## Taxes on small businesses

**Income tax** – a tax on the income earned by workers and sole traders.

**National Insurance Contributions (NIC)** – a tax on earnings of workers and sole traders linked to state benefits.

**Corporation tax** – a tax paid by limited companies on the profits of the company.

## Worked example



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

Which **two** of the following taxes will Marcus have to pay in the course of running his business? Select **two** answers. (2 marks)

- A  Corporation tax      D  Labour tax  
 B  Distribution tax      E  National Insurance Contributions  
 C  Income tax

## EXAM ALERT!

Only one in five students scored both marks for this question. Know your taxes and which types of businesses have to pay them. As Marcus is a sole trader he is required to pay Income Tax and National Insurance Contributions. Remember, National Insurance Contributions are still a tax even though 'tax' does not appear in the name.

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

**ResultsPlus**

## Now try this



Marie set up a new private limited company selling gift bags.

- 1 Which **one** of the following would be the **most likely** reasons why Marie has to keep a record of her business's income and spending? Select **one** answer. (1 mark)
- A  So that she could return any faulty goods she bought to the shop  
 B  To be able to prove to Her Majesty's Revenue & Customs that she is paying the right amount of tax  
 C  To be able to prove to her family that she is running the business properly  
 D  So that if she made a loss she could see what item of spending caused the loss



# Customer satisfaction

CUSTOMER SATISFACTION is a measure of how much a business or its products meet customers' expectations.

## Good customer service

To meet the needs of customers, businesses must provide effective CUSTOMER SERVICE. How can they do this?

- Dispatching orders quickly.
- Being 100% accurate in orders / deliveries.
- Offering excellent after-sales care.
- Providing a personal service.
- Going the 'extra mile' to get what customers want.
- Being convenient.
- Being polite and friendly.
- Responding immediately to any complaints.



Providing a personal service is an example of good customer service.

## Benefits of good customer satisfaction

- ✓ Repeat purchase.
- ✓ Loyalty.
- ✓ Business can charge a premium price.
- ✓ Improves business reputation (good public relations and word of mouth).
- ✓ Can differentiate a business and become their USP.

## Keeping the customer coming back

REPEAT PURCHASES help achieve long-term sales and therefore the success of a business. Repeat purchases can be stimulated through:

- cheaper prices than competitors
- easy and convenient service
- effective customer service
- promotions and special offers
- building good relationships with customers (good communication).

## Worked example

target  
E-D

Martin Hudson runs Buckingham Ltd, a business selling high-quality office furniture to other businesses.

Which **two** of the following are likely to be the most effective methods that Buckingham might use to deliver high levels of customer satisfaction?

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

- A  Securing repeat purchases by customers
- B  Fulfilling customer orders accurately
- C  Setting non-financial objectives
- D  Introducing a 24-hour customer helpline
- E  Advertising on local radio stations

## Now try this

target  
F-E

In this question, only Options B and D have anything to do with improving the service to customers. Option A might be a benefit from high levels of customer satisfaction, but it will not achieve it.

- 1 Which of the following is a reason why customer service is important to the success of a small business?  
Select **one** answer. (1 mark)

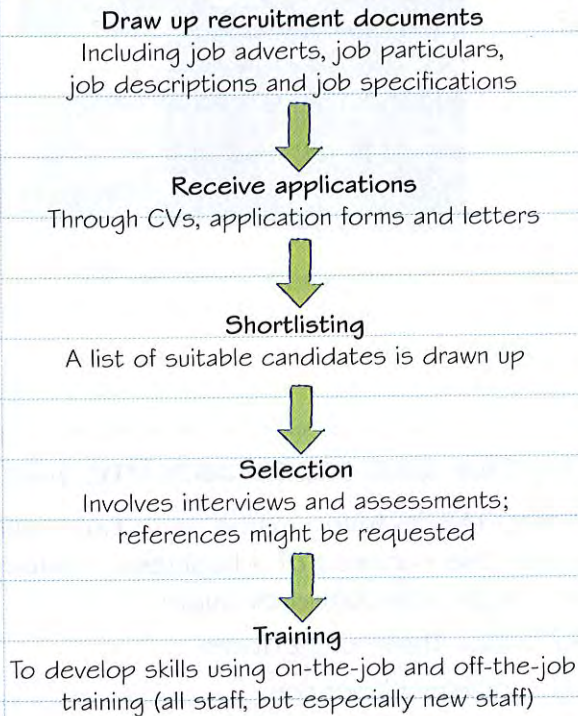
- A  Customers are the ones who add value
- B  A small business wants to get repeat purchases
- C  Customers will buy a product if the price is right
- D  It has to meet legal requirements



# Recruiting, training and motivating

As small businesses grow they may employ workers to fill new roles in the business. Businesses want the **RIGHT EMPLOYEES FOR THE JOB**. The recruitment process is crucial in achieving this.

## The recruitment process



The candidate selected must have the right **SKILLS** (e.g. the ability to operate computers or machines) and **ATTITUDES** (e.g. flexibility or hardworking).

## Motivation

A motivated workforce will be more committed and productive. A business can motivate staff by:

- paying fair and competitive wages
- providing good working conditions
- providing perks, such as company cars
- delegating power and responsibility
- training and nurturing staff development
- encouraging teamwork and good relationships.

## Employment legislation

Employers must abide by laws that protect employees in a number of areas:

- Recruitment – employees cannot discriminate on the basis of sex, age, gender or disability.
- Pay – employees must be paid equally for doing the same job.
- Discipline – employees are protected from unfair dismissal.
- Working hours – employees cannot be expected to work over a certain number of hours.

## Worked example

target  
B-A

Which **three** of the following documents are used in the recruitment process? Select **three** answers. (3 marks)

- A  Job description
- B  Business plan
- C  Person description
- D  Job advert
- E  Application form
- F  Cash flow forecast

## EXAM ALERT!

Fewer than four in ten students got all three marks for this question. Many students incorrectly chose 'person description'. Most questions have at least one distractor. Remember this, and think carefully before choosing your answers.

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

ResultsPlus

## Now try this

target  
D-C

1 Which **one** of the following might be the most effective method of motivation for workers? Select **one** answer.


- A  They are given free pens
- B  They are given a book on motivational theories
- C  The quality and range of training they are given gives them confidence to perform their role well
- D  They are paid a bonus



# Market demand and supply

The prices of GOODS and COMMODITIES change constantly. These changes in price are influenced by the relationship between SUPPLY and DEMAND.

Supply for a product is the amount that sellers are willing and able to sell at any given price.




**SUPPLY** →

Farmers supply wheat to make flour

Demand for a product is the amount that buyers are willing and able to purchase at any given price.

→ **DEMAND**



Bakers demand flour to make bread

The surplus and shortage of commodities in a market will affect prices.

Demand	Supply	Impact
High	Low	SHORTAGE – prices rise
Low	High	SURPLUS – prices fall

## Market differences

- A MARKET is where buyers and sellers meet to exchange products and services.
- COMMODITY MARKETS are markets for raw materials, such as oil, steel and wheat, used in the production of other goods.
- GOODS MARKETS (normal markets) are markets for everyday products, such as clothes and food.

## Costs

Changes in raw material and energy costs affect the costs of small businesses. How much it affects them will depend on:

- their proportion of total costs (a great deal, greatly affected)
- how much costs go up (a little, not greatly affected)
- the ability to pass on costs to customers or to absorb them (passed on, not greatly affected).

## Worked example

Which **three** factors below are the most likely causes of the rise in price of cocoa? Select **three** answers.

- A  Lower demand for cocoa from chocolate producers
- B  Increased profits made by cocoa producers
- C  News reports suggesting some health benefits from cocoa
- D  Greater supply of cocoa by producers
- E  Poor weather leading to a poor harvest of cocoa
- F  Higher demand for cocoa by chocolate manufacturers



(3 marks)

## EXAM ALERT!

Three in ten students got all three marks for this question. A rise in the price of cocoa would be caused by a fall in supply and / or an increase in demand.

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

**ResultsPlus**

## Now try this



Pasta is made from wheat. In 2009, good weather led to a large increase in the wheat harvest.

- 1 Which of the following is the most likely effect of this increase? Select **one** answer.

(1 mark)

- A  The price of wheat will fall
- B  People will have to pay more for their pasta
- C  The cost of wheat will rise
- D  The demand for wheat will fall



# The impact of 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 hard for a business to plan against.

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.

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 **three** possible effects of this on her business.

Select **three** answers.

(3 marks)

- |                                       |   |                                       |  |
|---------------------------------------|---|---------------------------------------|--|
| A <input type="checkbox"/>            | A reduction in fixed costs due to lower repayments on her overdraft | D <input type="checkbox"/>            | A greater chance of rivals entering the market                       |
| B <input checked="" type="checkbox"/> | A worsening net cash-flow position                                  | E <input checked="" type="checkbox"/> | A fall in sales due to lower levels of consumer spending             |
| C <input type="checkbox"/>            | A rise in sales due to higher levels of consumer spending           | F <input checked="" type="checkbox"/> | 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



- 1 If interest rates rose in the UK, which **two** of the following would be the most likely effects on a small business? Select **two** answers. (2 marks)

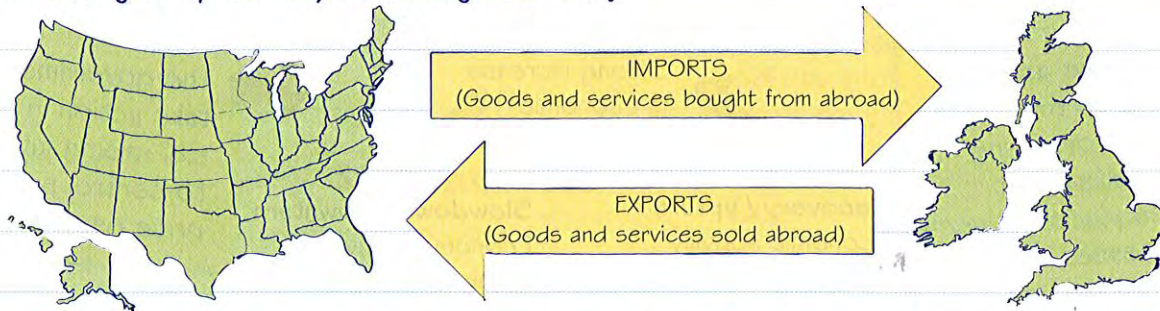
The business would:

- |                            |   |                            |  |
|----------------------------|---|----------------------------|--|
| A <input type="checkbox"/> | see no difference because it did not have any savings | D <input type="checkbox"/> | see its sales slow down                                      |
| B <input type="checkbox"/> | see its costs rise                                    | E <input type="checkbox"/> | see its sales rise because customers are now more interested |
| C <input type="checkbox"/> | see its costs falling                                 |                            |  |



# Changes in 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, or how many pounds they have to give up to acquire foreign currency.



## Calculating the cost of foreign exchange

Exports: £1 = \$2

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

Imports: £1 = \$2

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

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 £10 000 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 ( $\pounds 10\,000 - \pounds 9375$ ). Assuming everything else remains the same, this will increase profit by £625.

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, what effect does this change have on the profit level?

Select **one** answer.

(1 mark)

- A  Decrease by £1350    B  Remain the same    C  Increase by £625    D  Increase by £1600

## Now try this

- 1 Charles buys 100 kg of pasta a month. The price of pasta is €5 per kg. In April, the exchange rate is £1 = €1.25. How much will this cost Charles in pounds sterling? Select **one** answer. (1 mark)

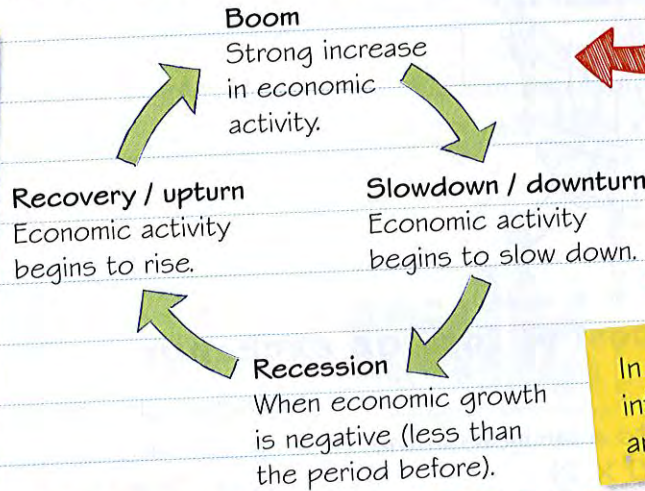
- A  £625    B  £500    C  £400    D  £250



# The business cycle

The business cycle refers to fluctuations in the level of economic activity over time. Businesses are affected by the business cycle in different ways. A business selling essentials, such as food, will not be as affected as a business selling luxuries, such as new cars or cruise holidays.

Economic activity refers to the amount of buying and selling that takes place between businesses and consumers in a period of time. If this rises it is known as **economic growth**.



The government may take action in a boom, e.g. raising interest rates to control spending and price rises.

In a downturn it may cut interest rates to reduce costs and encourage spending.

## In a boom

- Consumer and business confidence high.
- Consumers borrow and spend more.
- Sales increase.
- Businesses take on more employees.
- Businesses invest and expand.

## In a downturn or recession

- Consumer and business confidence low.
- Consumers borrow and spend less, preferring to save.
- Sales fall. Prices may have to be cut.
- Businesses may make some employees redundant.
- Businesses save and cut back on spending.
- Businesses more likely to experience cash-flow problems.

## Worked example

Identify **three** likely effects on a small business of a downturn in the business cycle. Select **three** answers. (3 marks)

- |   |   |   |
|---|---|---|
| A <input type="checkbox"/> Higher sales owing to rising consumer incomes              | C <input type="checkbox"/> Less risk of the business becoming insolvent | E <input checked="" type="checkbox"/> Lower demand owing to business closures     |
| B <input checked="" type="checkbox"/> Lower fixed costs owing to lower interest rates | D <input type="checkbox"/> More difficulty recruiting employees         | F <input checked="" type="checkbox"/> Lower prices on goods bought from suppliers |

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

Pink Ladies is a taxi service for women only, based in Warrington.

- 1 Which **two** of the following might lead to a fall in sales for the Pink Ladies taxi service? (2 marks)
- Select **two** answers.
- |   |   |
|---|---|
| A <input type="checkbox"/> A rise in unemployment in Warrington                           | C <input type="checkbox"/> A fall in interest rates                                       |
| B <input type="checkbox"/> A rise in the prices charged by other taxi firms in Warrington | D <input type="checkbox"/> A reduction in the price of late night bus fares in Warrington |
|   | E <input type="checkbox"/> An upturn in the business cycle                                |



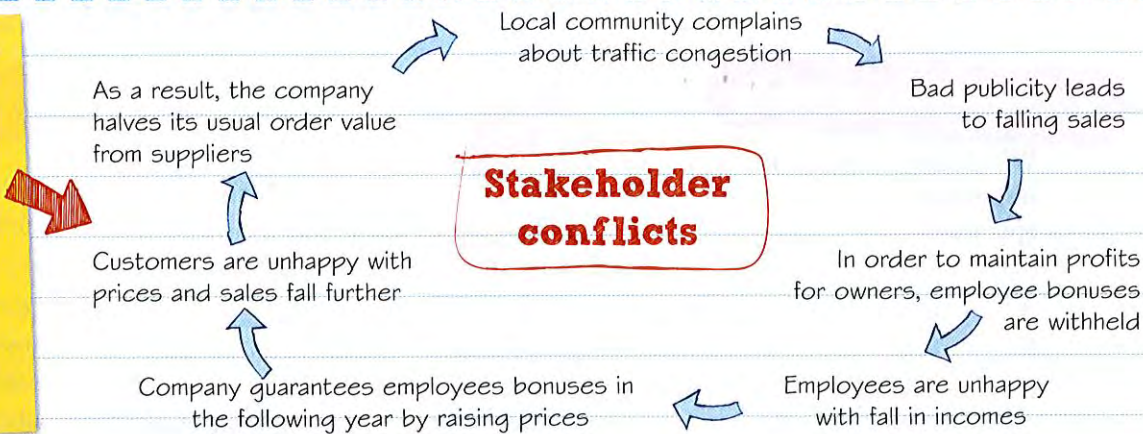
# Business decisions and stakeholders

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 their stakeholders. Therefore, business decisions must take into account stakeholder needs.

Stakeholders may have conflicting interests. It can be difficult for a business to meet everyone's needs.



## Worked example



The Elm Tree is a successful traditional pub in the village of Elmton 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.

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.

Which stakeholder is the extension most likely to have a negative impact on? Select **one** answer. (1 mark)

- A  Customers      B  Government      C  Local residents      D  Employees

## Now try this



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

- 1 Which **one** of the following stakeholders is most likely to benefit from this decision. Select **one** answer. (1 mark)
- 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



## Exam skills 1

You will have 45 minutes to complete the Unit 1 exam paper. The paper is worth 40 marks and will contain multiple choice and objective test questions. These questions test your knowledge and understanding of a topic. They usually test your knowledge of key terms so make sure you have revised these.

### Multiple choice questions

When tackling multiple choice questions:

- underline the key terms in the question
- read all the options carefully
- rule out the ones you know are wrong
- select what you think is the right answer
- double check the remaining options.

### Choosing the best answers

You need to be really careful when you are choosing your answers. There are often choices which look sensible, but aren't suitable for the **CONTEXT** of the question. Always read the question carefully and choose the **MOST APPROPRIATE** options for the context.

### Worked example

Which **two** of the following are **most important** in spotting a new business opportunity?

Select **two** answers.

(2 marks)

- target G-F**
- A  Recognising a need in the market place
  - B  Being able to sell at a low price
  - C  Knowing someone who has already started a business
  - D  Knowing who your competitors are
  - E  Being a brilliant accountant

This question is asking you to find the two **most important** options.

Options C and E are not relevant to **spotting** a business opportunity so are not good choices.

Option B is a possibility because a new business might be more competitive by selling at a low price. However, this is not the **most important** thing when spotting a new business opportunity.

Options A and D are the correct answers.

### Worked example

JayCD is a small independent CD music store which operates on very narrow profit margins. It is facing strong competition from a local supermarket in the town selling chart CDs at very low prices.

Which **two** of the following are the **most likely** methods JayCD might use to compete with the local supermarket?

Select **two** answers.

- target E-D**
- A  Lower its prices below 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  Improve the quality of customer service

Some multiple choice questions will have a case study. You will need to think carefully about the context when you are answering the question.

Start by underlining the key points in the case study. Then look at each of the options in the context of these key points.

Option A is not a likely method as the company already has a very narrow profit margin.

Options B and D are likely to be too expensive for a small, independent company.

Options C and E will allow JayCD to create competitive advantages by offering a specialist service and quality customer service.



# Exam skills 2

Some questions in the Unit 1 exam require you to calculate the correct answer from a set of figures, so make sure you revise your formulae as well as key terms for the exam.

## Calculations

- ✓ Read all the information carefully.
- ✓ Make sure you understand what the figures in the question are showing you.
- ✓ Identify the formula you need to use.
- ✓ Work out the correct answer – write your workings on the exam paper if you need to.
- ✓ Double-check the remaining option/s.

## Matching definitions

You might be asked to match key terms to the correct definitions in the exam.

When answering these questions, take time to read through all the definitions and key terms first before matching any. Some might be quite similar, so make sure you take the appropriate time to choose the correct answers.

Make sure it's clear which key term you are linking to which definition.

## Worked example



The following table shows the costs, revenues and profits for a business for the first three months of the year.

Fill in the five blanks to complete the table.

	January	February	March	
Total receipts	£24 000	£30 000	£32 000	i
Fixed costs	£3 000	£3 000	£3 000	ii
Variable costs	£6 000	£7 500	£8 000	iii
Total costs	£9 000	£10 500	£11 000	iv
Profit	£15 000	£19 500	£21 000	v

(5 marks)

i Total receipts = total costs + profit  
 = £10 500 + £19 500 = £30 000

ii Fixed costs = £3 000

iii Variable costs = total costs – fixed costs  
 = £11 000 – £3 000 = £8 000

iv Total costs = total receipts – profit  
 = £32 000 – £21 000 = £11 000

v Profit = total receipts – total costs  
 = £24 000 – £9 000 = £15 000

## Now try this



1 Match the definition on the left with the correct term on the right. Select the definition and then the term. There is only **one** correct term for each definition.

	Definition	Term
Information about opinions, judgements and attitudes	i	a Quantitative data
Goods or services sold to foreign buyers	ii	b Imports
Part of a market that contains a group of buyers with similar buying habits	iii	c Market map
Raw materials such as coal, oil, copper, iron ore and wheat	iv	d Exports
The way in which a business sets out the key features of its market	v	e Qualitative data
		f Market segment
		g Commodities
		h Marketing mix

## EXAM ALERT!

One in three students got full marks for this question. Make sure that you read the terms and definitions carefully.

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

