Unit 1 Setting up A Business:
• Introduces the issues involved in setting up & running a business
• Looks at what businesses do
• Why they Succeed or Fail
• Explores the different perspectives of the various stakeholders involved in a Business
• 1 hour examination, 60 marks, 40% of GCSE

Topics:
1. Starting a Business Page 2 - 25
• Starting A Business Enterprise
• Setting Business Aims & Objectives
• Business Planning
• Choosing The Appropriate Legal Structure For The Business
• Choosing The Location Of The Business

2. Marketing Page 26 - 38
• Conducting Market Research With Limited Budgets
• Using The Marketing Mix

3. Finance
• Finance & Support For A Small Business
• Financial Terms & Simple Calculations
• Using Cash flow

4. People in Business
• Recruiting
• Motivating Staff
• Protecting Staff Through Understanding Legislation

5. Operations Management
• Production Methods For Manufacturing & Providing A Service
• Customer Service
1. Starting a Business:-

Topics:-
- Starting A Business Enterprise
- Setting Business Aims & Objectives
- Business Planning
- Choosing The Appropriate Legal Structure For The Business
- Choosing The Location Of The Business
- How people start up a business
- How they plan ahead
- How they decide to locate a business

Starting a Business Enterprise Topics:-
- Reasons for starting a business
- Sources of business ideas
- How entrepreneurs look for a gap in the market
- How they identify a product idea or market niche
- Advantages & disadvantages
- How they plan ahead

People who start up a business are called entrepreneurs.

Entrepreneurs: someone who is willing to take the risks involved in starting a business. Entrepreneurs believe that the rewards of starting a business are worth the risks & costs involved.

Characteristics of Entrepreneurs:
- Personal organisation.
- Communication: written, oral, negotiating, interpersonal.
- Numeracy: general math skills, collecting/recording/analysing/presenting data.
- ICT Skills: text/graphics manipulation, email & internet use
- Team player & innovative (new/different)
- Negotiation/leadership skills
- Motivating others & decision making
- Using initiative & adaptability
- Optimistic, creative & confident.

Reasons for Starting a Business:
- Interest/hobby: make money
- Self-satisfaction
- Want to be own boss & make own decisions
- Want to keep all the profits
- Need a job (if start a business employed) & can hopefully make profit
- Provide a service for others

Entrepreneur Self-Assessment Test

The Entrepreneur Self-Test was developed by the Chamber of Commerce to be used as a resource. It is not comprehensive or an exact evaluation but can provide you with an overall view of your entrepreneurial potential. This test assesses your character qualities, problem-solving methods, motivations, relational skills, business knowledge and support system known to be critical in successful entrepreneurship. Please answer the questions objectively to generate a realistic and useful interpretation.

If you are able to answer “yes” to 18 of the questions below then you have the potential to successfully start your own business.

If you answered less than 18 questions “yes” then you need to improve some of your own skills.

It takes a variety of different skills to successfully run a business, so look at each question to which you answered “no” as an opportunity for improvement.

You should understand what a business is and the reasons why businesses are set up. eg to produce goods, supply services, distribute products etc. Businesses should include social enterprises. You should understand the advantages and disadvantages of operating as a franchisee, rather than setting up an independent business.
Social Enterprise = a business that is set up to help society rather than to make profit.

Tip: to decide whether a business is successful or not look at their original aim, if to be a service or to make profit then decide.

Business sectors - classified in terms of stage in production process

Key Terms

Products

Goods

Physical Items

Services

Intangible

Physical items can be consumer goods. Consumer goods can be provided for consumers, they may be single use like food (consumable goods) or durables like TV’s, fridges (durable goods). Business to business goods, called capital or producer goods, allow one business to help another business produce e.g. machinery. Services cannot be seen, like a hair-cut or insurance or your car.

Key Terms

Primary Sector: Use raw materials (1st stage of production) e.g. farms, fishing fleet.
Secondary Sector: Use primary resources & convert into products (2nd stage of production) e.g. manufacturers & printers.

Tertiary Sector: Provide services e.g. schools, estate agents & delivery firms.

Source of business ideas: -
• May be own idea
• Can be an expansion of an already existing idea - making sure it has a USP (Unique Selling Point)
• Can be based on an already existing popular idea but can base your business in another part of business e.g. allowed to mix cereal in some stores idea came from Body Shop
• Basing a business on an interest/hobby
• Looking for a gap in the market & then basing the business on this
• Noticing/growing trend in the market e.g. popularity of recycled products has increased lately.
• Can establish a business by buying someone else’s idea- franchise e.g. pizza hut

Adv: saves time, reduce risk of failure, support from franchiser
Disadv: dictated to by franchiser

Need an Idea that:-
• that can work
• has a market
• that you can provide or service
• that you can meet your objectives

Entrepreneurs conduct market research to find this out......

Market Research= is the process of gathering, analysing & presenting data relevant to marketing.

Adv: highlighting market opportunities & preventing mistakes being made
Disadv: entrepreneurs may not conduct enough research, funds limited, so limit research taken.

Research:
• Key features of market
• Types of potential customers for the product
• Likely competitors
• Occurring trends in the market

e.g. size of market may be measured by volume/amount of sales or value of sales (amount of money spent on products)

Trends in the market:
• Is the market as a whole growing? (e.g. size of market- online films & music, interest in environment & healthy eating)
• Are particular parts of the market growing? (e.g. specific types of music)
• Who is the main competition (Market share of competitors important) & what is your business USP

Your business

You are considering setting up a local business. You will need to invest £10000 in your business.

You are quite rightly nervous about losing £10000 so you decide to carry out market research.

Complete the table below to show what questions you would ask.
### Type of business

<table>
<thead>
<tr>
<th>Question</th>
<th>Reason for asking question</th>
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#### Market share

- Market share = is indicated by the sales of one product (sales levels) compared to the total market sales.

- Is a niche emerging? - niche market is a small part of a bigger market e.g. shoes made of rubber rather than leather - for those who don't like killing animals.

**Adv:** niche markets are small, a new business will unlikely to be competing against a huge existing business.

When conducting market research, entrepreneurs may conduct:

- **Primary Market Research:** involves gathering & analysing marketing data that has not been collected before.
- **Secondary Market Research:** involves gathering & analysing marketing data that has been collected already.

#### Activity

A new chocolate bar is being developed. It is given to school children to test in a survey.

Is this data being collected primary or secondary? Explain your answer.

Give one advantage of collecting data this way.

Give one disadvantage of collecting data this way.
Define the following terms

Entrepreneur

Social enterprise

Products

Consumer goods

Durable goods

Services

Market research

Primary market research

Secondary market research

Market share

What is the difference between business in the primary, secondary and tertiary sectors?

State three reasons why it is important for a business to have objectives?

Describe characteristics of an entrepreneur.

Setting Business Aims & Objectives:

Topics:
- Types of business objectives/aims
- Purpose of setting objectives
- How a business might use objectives to measure it success
- How stakeholders can influence business objectives

You should be aware of the main types of business aims, including: survival, profit, growth, market share, customer satisfaction, ethical and sustainable. You should be familiar with the role of objectives in running a business and how they can be used to measure the success of a business. You should have an understanding of the importance of stakeholders in influencing the objectives of a small business.

When one sets themselves objectives it easier to sort out their priorities & make decision e.g. how much time & effort to devote, prepare
themselves for possible future situations.

Objective (Aim)= a target that is set for a business to achieve.
  • Provides a focus for everything an entrepreneur does
  • Enables them to look back & see whether they have accomplished their aims.
  • Will be clear on exactly what the business is trying to achieve
  • Helps decision-making & establishing priorities
  • Helps investors to understand the direction in which the business is heading - helps them make their decisions (e.g. if they want to invest - helps attempt to raise money to set up a business
  • Provides a target so that everyone can compare the actual results with the planned results to decide how successful the business has been.
  • Motivates everyone connected to the business as they know what the business is trying to achieve & how they can measure their success.

Typical of objectives for starting up a business

<table>
<thead>
<tr>
<th>Does it have…?</th>
<th>Equipment (facilities)</th>
<th>Money (finance)</th>
<th>People (staff)</th>
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<tbody>
<tr>
<td>Are the targets SMART(ER) OBJECTIVES ?</td>
<td>(E= Extending/Evaluate)</td>
<td>(R= Reviewed/re-evaluate)</td>
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<tr>
<td>Are they strategic: long term &amp; have a back-up plan?</td>
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  • Providing a good product:
    To prove an entrepreneurs self-satisfaction & to prove to others they can do it. Doing a good job, taking pride. Encourages a entrepreneur to try hard to make a business work.

  • Earning a profit:
    Entrepreneurs accept low profit in the short-run. In the long-run entrepreneurs want to make a decent amount of profit - essential to stay in business. Entrepreneurs idea have own ideas how to do this. For some a reasonable amount of profit to have a reasonable standard of living is enough. Others set ambitious targets & aim to make a large amount of money & then sell business & retire.

  • Customer Satisfaction:
    Want to achieve a particular level of customer satisfaction by providing better service or selling wider range of products than competitors - in long run helps make more profit - satisfied customers likely to comeback & buy more products they will also d word of mouth advertising for the business.

  • Market Share:
    Target of share of market they hope to achieve: market share measures the sales of one product or business as a percentage of the total market sales.
    Equation:
    \[
    \text{Market Share} = \left( \frac{\text{sales of a product}}{\text{Total market sales}} \right) \times 100
    \]
    e.g. If your sales are £20,000 & the total market sales are £400,00 your market share is:
    \[
    \frac{20,000}{400,000} \times 100 = 5\%
    \]

  • Being Ethical:
    Decide what is right or wrong e.g. paying staff reasonable wages, treating suppliers & customers with respect & being honest to them about business. Unethical businesses may be criticised by the media & may lose customers. By being ethical Business may be getting favourable media coverage, using its ethical message in its marketing, so attracting customers, investors & employees.

  • Environmental & Sustainability targets:
    - make sure business activity does not harm environment; limit energy they use, limit carbon footprint, achieve recycling targets, reduce wastage, reuse supplies. May want resources from sustainable sources .
**Private sector Organisations**: are owned by individuals:
- aim to make profit

**Public sector Organisations**: are owned by the Government:
- free service, non-profit making- aim to benefit particular cause that they were set up to help.

**TIP**: always look at the objectives of the people starting up a business- only then can you make proper judgment whether or not they have succeeded. You may not be happy with £20,000 a year but someone may be.

Objects allow an entrepreneur to measure their performance as:
Provides point of focus & help them to make decision about what to do & to review how things are going. Enable them to make appropriate decision if things get bad. Help you to analyse the reasons if performance of business goes bad & helps find solutions. Help stop same mistake happening again. Helps time management. Helps analyse decision & their effectiveness & make future decisions.

**Stakeholders**: are individuals & organisations that are affected by and affect the activities of a business. Include: owners, employees, buyers, suppliers, government, distributors & local community etc.

All these groups will have their own objectives & these may influence the targets set by business.
E.g. employees: want to grow a business so have promotion opportunities. They want to behave ethically- because that’s the sort of business they want to work for- these aims may affect the types of objectives the business sets.
Supplier: want to be paid on time. So the business may target to pay bills on time.

A small firm selling to a large market may have to accept the terms offered by the supermarket if it wants to succeed, this means buyers affect what realistic objectives a start-up business aims.

Stakeholders influence a business:
- Negotiation: Employers may demand for a better pay. Suppliers may want better terms & conditions.
- Direct Action: Customers might soak up buying a product, employees may go on strike
- Refusal to cooperate: local councils refuse to cooperate with a business if they do not like its behaviour. E.g. they could refuse planning permission. Employers can express their grief by not working hard.
- Voting: owners can have a vote on the actions an organisation takes. E.g. Two owners may out-vote another owners decision.

**Activity**

Define the following terms

<table>
<thead>
<tr>
<th>Objective</th>
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<tr>
<td>SMART target</td>
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<tr>
<td>Private organisations</td>
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<tr>
<td>Public organisations</td>
<td></td>
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<tr>
<td>Stakeholders</td>
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</table>

**Revision questions**

What is the difference objectives of survival, making a profit and providing a service?

Explain how the objectives of being ethical and gaining market share may be aided by each other?
If total sales in a market was £1 million and one business had sales of £250,000. What would be the market share of that business?

**Business plan**

**Topics:**
- the purpose of business planning
- the main sections within a business start-up plan
- uncertainty and risk for start-up businesses.

You need to understand how business planning assists in the setting up of a business and the raising of finance. You should know the main sections of a business plan. You will not be expected to write a business plan. You need to be aware of the risks faced by businesses and what can be done to minimise risk.

**Key Terms**

- **Business Plan:** is a document setting out what the business does at present, plus what it intends to achieve in the future and how this will be accomplished. The plan will include marketing & financial plans.

- **Business Planning:** is the process of producing a business plan.

- a plan beforehand of starting a business, helps remember what one wants to do & in which order they want to do it in. This is helpful to groups within & outside the business.

**Setting the Scene**

Purpose of a Business Plan: a business plan states what a business is trying to achieve over the next few years & how it intends to accomplish these aims.

Main sections within a business plan:
- Background information on the founders & investors & their previous experience.
- An analysis of the market & the firm's position within it
- The firm's objectives
- The firm's plan on how it will compete
- An explanation of how the business will compete against its rivals- how it will be competitive, and what it makes it better than the competition (USP)
- An analysis of the financial position of the business, including forecasts of sales, profits & cash flows.

**Business planning**

- important when setting up a business
- In order to anticipate any problems - if problems are identified beforehand then the stakeholders will be better at dealing with the problems.
- Shows possible investors, an investor would want to see what the manager intends to with their business & when the investor will see a return on their investment & they would want to know why the managers think the business will succeed. E.g. how much sales are expected to increase, what the profit target is & why they will attract customers.
- But a business plan needs to be regularly reviewed & updated- as managers need to know where their business is going & how it is going to get there. Conditions are always changing, with new laws, competitors & customer taste changing.

**Difficulties of Business planning:**

- Uncertainty- hard to predict accurately future sales figures & market events. Plans might not be totally accurate. Market conditions can change very quickly (e.g. a new competitor may set up), so plans can become easily out of date. A manager's plan or target of a particular market may be unsuccessful. Although business plans reduce the risks of doing something wrong it does not remove the risk altogether.
- Lack of experience- people starting a business may not have the skills to plan ahead effectively- they may not effectively imagine changes in the future, although they may be excellent at doing their job. Bigger businesses can use experts & have access to more resources e.g. expensive market research, start-up business may lack these advantages.

**Key Terms**

- **Risk:** is the possibility of something going wrong.

- **Uncertainty:** is something that cannot be sure will happen.

Business plan helps entrepreneurs & stakeholders plan ahead, there are risks when starting up (e.g. a business may not succeed a an entrepreneur may lose their original investment) a business plan does not guarantee success, they can reflect their business activities to their business plan to ensure they are on track.

**Business plan reduce risks:**

To try to reduce the risk of business plans going wrong entrepreneurs can:
- Research market thoroughly
- Talk to experts & consultants (if they can afford it)
• Plan for a variety of possible outcomes.
• Regularly review & update the plan so it is relevant & problems are spotted quickly.

**TIP:** producing a business plan can help a business to organise its activities but it does not guarantee success. To judge how useful a plan is, you need to look at who produced it, how it was produced & the research that was undertaken. If things go wrong is it because of bad luck or poor prediction?

### Activity

Define the following terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Business Plan</td>
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<tr>
<td>Risk</td>
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<tr>
<td>Uncertainty</td>
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### Revision questions

Describe the different sections of a Business Plan.

Why is business planning important?

What difficulties exist when business planning?

### Choosing the appropriate legal structure for a business:

**Topics:**
- Advantages & disadvantages of setting up as different legal structures: a sole trader, partnership, or private limited company (Ltd)

Legal structures anyone setting up a business need to think about the legal structure a business will have in the eyes of law

<table>
<thead>
<tr>
<th>Key Terms</th>
<th>Definition</th>
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<tr>
<td>Sole trader</td>
<td>is an Individual who set up in business on his/her own. So manages it by themselves. You don't need to register with the government or fill out forms- just start trading - popular form of business.</td>
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Sole traders may employ staff

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<tr>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>You are your own boss</td>
<td>Unlimited liability</td>
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<tr>
<td>Can decide things quickly, as don’t need to consult others</td>
<td>May lack finance, rely on relatives as banks charge a lot to small businesses, as many of them fail</td>
</tr>
<tr>
<td>Easy to set up</td>
<td>Heavy workload</td>
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<tr>
<td>Keep all the (retain) profits that are earned</td>
<td>May not have all the skills required</td>
</tr>
</tbody>
</table>
**Unlimited liability**: occurs when the personal possessions of the owners of the business are at risk if there are any problems. There is no limit to the amount of money the owners may have to pay out.

Although she’s been cooking since the age of 14, it was only when she launched her own restaurant in Belfast in 2006 that Natasha Ramdin sealed her reputation as one of the most exciting young chefs in the UK. Born in 1980 in Mauritius, Natasha’s early exposure to food came from her mother and grandmother, both of whom were keen cooks.

After completing an advanced diploma in catering from the Norwich City Hotel School, she worked in a number of restaurants right across the UK before landing the job of head chef in the Cayenne restaurant in Belfast in 2002. After a disagreement with the owner of Cayenne she left and opened her own restaurant Ramdin’s in 2006 with the help of a loan from her father. The restaurant has proven a huge success and won the prestigious Michelin star award in 2008.

Setting up as a sole trader is a relatively simple process. All Natasha had to do to begin trading was to register herself as self-employed with Revenue and Customs and apply for a trading licence. A trading licence is only required for the operation of businesses such as nightclubs, nursing homes, pet kennels and restaurants such as Ramdin’s.

1. How are the profits divided in a sole trading business?

2. Why are sole proprietorships easy to set up?

3. Which type of sole trading business would require a special trading licence?

4. Natasha Ramdin had unlimited liability. What does this mean?

5. What would happen to Ramdin’s restaurant if Natasha died?

6. Why do sole traders often find it difficult to borrow money from banks?

7. A lack of expertise can hinder the performance of a sole trader. Explain why.

Nicola Lynch is a mother to three lively boys. The boys aged 6, 9 and 13 are very active and love skateboarding and mountain biking. When the last of the boys started school last year she began making clothes for young boys in her spare room. The designs and materials are inspired by her three sons who because of their active lifestyle, go through clothes very quickly. She currently operates as a sole trader, trading under the name Active Kids Clothing. Nicola designs and makes the products by hand in her spare bedroom and sells them over the internet and in two local stores. She always had high hopes that she could make a successful business selling her products but even she has been surprised to find that she now sells £35,000 worth of goods a year. Nicola is a talented designer but by her own admission she feels she could know a lot more about the other aspects of business.

1. Explain what is meant by the term sole trader. (2 marks)

2. Analyse 3 advantages Nicola gets through operating as a sole trader. (6 marks)
3. Analyse 3 disadvantages Nicola might experience through operating as a sole trader. (6 marks)

Partnership: is formed when two or more people set up in business together. People who invest their own capital into a business are called partners. Max. 20 partners exceptions are solicitors, accountants, auctioneers & estate agents.

1890 Partnerships Act

Deed Of partnership: is an agreement between partners that sets out the rules of the partnership, such as how profits will be divided & how the partnership will be valued if someone wants to leave.

- it's a legal document which sets out the rules of the partnership it includes details of:
  • how to divide profits e.g. this may be related to how much input they put in the beginning of the business or how much work they do related to the amount other owners do.
  • How decisions are going to be made e.g. voting rights
  • How to value the business if someone leaves
  • How to decide whether other people can join in to become partners.

The purpose of the deed of partnership is to avoid disputes, if there is none then profits must be paid equally regardless of individuals input in the business or how much work they do.

<table>
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<th>advantages</th>
<th>disadvantages</th>
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<td>Share workload, can cover for absent partners, so owners can have holidays, less stressful</td>
<td>may disagree with other partners, disputes between different owners stakeholders who will want a say. Decisions will therefore be made slower because of consultations between partners.</td>
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<tr>
<td>More sources of finance than a sole trader as partners can contribute money into the business</td>
<td>Unlimited liability, so partners become liable for the actions of other partners.</td>
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<tr>
<td>Share skills, better decisions as there will be insight in previous experience &amp; greater knowledge &amp; ideas. Specialist knowledge in more areas of the business.</td>
<td>Rewards &amp; profits have to be shared between partners.</td>
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Partnerships & liability: In a normal partnership- where partners all play an active role in the business, all partners have unlimited liability - they can lose personal possessions if anything goes wrong- every partner is liable for the actions or mistakes of other partners- so partners must trust each other.

Limited partnership Act 2000 Partnerships can have general & limited partners. A general partner has unlimited liability & in a limited partnership there has to be at least one general partner.

A limited partner can contribute to a business but cannot take this money out or take part in the day-to-day management - in return they have limited liability (they can lose the money they have invested but nothing else, not their personal possessions)- there’s a limit to how much they can lose.

Partnerships can seek investors & promise them limited liability provided these investors do not take part in the business decision making.

Active Kids clothing has been operating for the past 18 months as a sole trading operation under the ownership of Nicola Lynch. Nicola currently performs all the management functions of the business including, design, manufacture, sales and marketing. The business continues to grow from strength to strength and currently Nicola is finding it difficult to complete all the work she has to do. Nicola regards herself as a
talented designer but by her own admission she feels she could know a lot more about business and recently one of her close friends suggested that she should either take on a partner or change the company to a limited company.

1. Explain why forming a partnership might be a good idea for Nicola. (4 marks)

2. Analyse two difficulties Nicola might face as a result of taking on a partner. (6 marks)

3. Nicola has been advised that if she does form a partnership she should draw up a partnership agreement. Explain which areas should be covered in this partnership agreement. (6 marks)

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Tom’s Travel is owned by Tom and Mary Gillen. Their business was founded in 1997 with the assistance of a further partner Tom’s brother Declan Gillen. Tom and Mary met on a cruise ship in the Bahamas where Mary was the travel rep. They married in 1992 and decided that they would like to open their own travel agents. In the beginning Tom kept his job in the bank while Mary ran the business. As the business expanded Tom left the bank to work full time in the business. In 2006 Declan decided he wanted to retire so Tom and Mary bought his share of the business. The business has gone from strength to strength and they now employ two full time sales representatives.

1. What is meant by the term partnership?

2. What is the maximum number of partners in a general partnership?

3. What is a deed of partnership?

4. If there is no Deed of partnership how will the profits of Tom’s Travel be divided?

5. What advantages do partnerships and sole traders have in common?

6. What advantages does a partnership such as Tom’s Travel have over a sole trading business such as Ramdin’s restaurant?
7. What disadvantages do partnerships and sole traders have in common?

**Companies:** are businesses that have their own legal identity. They can own items, owe money, sue & be sued.

**Stock/Shareholders:** is an owner of a company. Each shareholder owns a share of the business.

**Stakeholders:** is an individual or organisation that affects or is affected by the activities of a business. Shareholders are stakeholders but so are suppliers, employees, distributors, the Gov & the community. - can be internal (part of business- gain lose money from it) and external (influence business).

Is a form of business that is created when individuals complete two documents:

- **The Memorandum Of Association sets out:**
  - The name of the company
  - The overall purpose of the business
  - Where the company is registered
  - A general statement of the firm's activities

- **The Articles Of Association sets out:**
  - The voting rights of the shareholders
  - How profits are distributed
  - How directors are elected
  - The duties & powers of the directors

These docs are sent to Companies House & the firm receives a Certificate of Incorporation- new company has been created.

2 types of companies public limited company (plc) & private limited company (ltd). Ltd's are for new start-up businesses.

- **Public limited company (PLC):**
  - Can advertise share to public, greater chance of attracting potential investors- finance expansion
  - Attract more media coverage- cheap form of publicity - because have shareholders.
  - More status & more bigger than ltd- impress customers
  - Investors willing to buy share as can sell easily- lot of people willing to buy.
  - Media coverage can portray plc badly if they make a mistake
  - Cannot control share & manager lacks control when a competitor may buy a share & take over.
  - More law involved more detailed financial info has to be sent to shareholders yearly.
  - Disputes over decisions between owners.

A company is owned by its investors- shareholders. There are different types of shares but most commons ones are ‘ordinary shares’. Owners of ordinary shares have one share for every share they have. E.g. if one has 51% of shares they have 51% of the total votes.

A company has its own existence in law- it can own land & equipment. Member of the public can buy products from the actual company rather than the individual who own it.

By creating a company, shareholders are distinguishing between what they own as private individuals & what the company owns- they have limited liability. People can invest in companies & be fully aware that they are have limited liability, this is important as they would not have to worry that they will lose everything is something goes wrong (unlimited liability).

- **Private limited company (ltd):**
  - It is owned by shareholders. When a business starts its shareholders tend to be its founders, they can bring outside investors if they want more funding. Shareholders of Ltd tend to be family members.
  - It cannot advertise its shares to the general public. If shares are sold this is done privately.
  - Can include limitation in the Articles of Associations to limit who the shares are sold to e.g. only family members.- so makes sure owners do not sell shares do a person the others do not want.
## Advantages

| **Limited liability, start-up businesses help gain investors to fund**<br>Can bring in investors | **Have to register, various legal procedures need to be taken;**<br><br>**- little time & some money** |
| **Better status in the eyes of some customers, companies are**<br>seen **better** than other form businesses, companies can be a good marketing move. | **Have to disclose information on sales & profits, a summary of the business’s financial accounts must be produced & available to the public, competitors lose privacy.** |
| **Continues after death of the founders**<br>Whoever owns the shares continues with the business.<br>Can bring in investors. | **Have to have accounts independently checked by accountants - auditors. - additional cost, have to pay corporation tax (individuals pay income tax) - may be more than an individual pays.** |
| **Managers can be employed to run day-to-day business while owners retain control & profits are distributed amongst shareholders.** | **If there are other investors the original founders is not in full control of the business. As investors become important stakeholders, every share they own, will have a vote - direct influence to business - may not have same values & aims as original owner. Styles may clash - disputes.** |

## Activity

Recent reports suggest that a large number of small business owners are converting their businesses to limited companies. The bulk of this increase is thought to have come from existing sole trader or partnership businesses such as taxi drivers and milkmen who have decided to incorporate their businesses to take advantage of new tax laws for limited companies. However, analysts are worried that many of those who have set up companies don’t understand the legal obligations of a limited company and the potential fines and prosecution they face for not complying with them. Failure to file accounts on time, for example, can lead to fines of up to £5,000 and in some cases to the winding up of the company.

1. Explain what is meant by a private limited company.
2. Analyse some of the advantages that a small businesses such as a self-employed taxi driver or milkman might gain from converting his businesses into private limited company.
3. Explain some of the difficulties they might face after they incorporate their businesses.

## Activity

Cafédirect is the UK’s largest Fairtrade hot drinks company. Their brands, Cafédirect, Teadirect and Cocodirect are sold through most of the major supermarkets. They buy from 39 producer organisations in 13 countries, ensuring that over a quarter of a million growers receive a decent income from trade. The company was founded in 1991 by a number of charities including OXFAM and Traidcraft. Today they work with 39 grower organisations across 13 developing countries, encompassing 264,666 farmers and directly improving the lives of more than 1.4 million people. In 2004, the company successfully executed the UK’s biggest ethical public share issue to become a publicly listed company, raising £5 million from 4,500 investors which allowed the company to put in place ambitious plans for growth.

1. What type of company was Cafédirect when it was formed in 1991?
2. What type of company was Cafédirect after 2004?
3. What do you think are the main reasons why Cafédirect would have wanted to make this change to its legal status in 2004?
<p>| | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>What do the letters Ltd indicate?</td>
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<tr>
<td>2.</td>
<td>What documents does a business have to complete before it can be registered as a company?</td>
</tr>
<tr>
<td>3.</td>
<td>Using the yellow pages, name 5 private limited companies who operate in your local area.</td>
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<tr>
<td>4.</td>
<td>If Ltd was to go bust leaving debts of £500,000 how much would the owners have to pay as a result?</td>
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<td>5.</td>
<td>What advantages does a Private limited company have over a sole trader or partnership?</td>
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<td>6.</td>
<td>Explain why the business affairs of a private limited company are not as private as those of a sole trader.</td>
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<tr>
<td>7.</td>
<td>What do the letters PLC represent?</td>
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<tr>
<td>8.</td>
<td>Where does a PLC sell its shares?</td>
</tr>
<tr>
<td>9.</td>
<td>What advantages does a PLC have over a private limited company?</td>
</tr>
<tr>
<td>10.</td>
<td>List 5 PLC’s that operate in your local area.</td>
</tr>
<tr>
<td>11.</td>
<td>What is meant by the divorce of ownership and control?</td>
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</tbody>
</table>
TIP: exam Q’s may ask compare adv. Of a business structure with another- so learn lists in this section, think about:
- Liability of a business structure
- Control of a business structure (do owners want complete control or willing to share control)
- The skills & experience required (owners have enough skills & would they benefit from others experience)
- Whether or not owners want to work with others.

Define the following terms

**Sole trader**
<table>
<thead>
<tr>
<th>Partnership</th>
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<tbody>
<tr>
<td>Unlimited liability</td>
<td></td>
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<tr>
<td>Deed of Partnership</td>
<td></td>
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<tr>
<td>Company</td>
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<tr>
<td>Private limited Company</td>
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<tr>
<td>Public limited Company</td>
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<tr>
<td>Franchise</td>
<td></td>
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<tr>
<td>Stock/shareholder</td>
<td></td>
</tr>
<tr>
<td>Stakeholder</td>
<td></td>
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<tr>
<td>Limited liability</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Type of Business Ownership</th>
<th>Ownership</th>
<th>Control/Decision Making</th>
<th>Finance</th>
<th>Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Trader</td>
<td>Only 1 owner can have any number of employees</td>
<td>Sole Trader has complete control and is in charge of all the decision making</td>
<td>Money is raised by the sole trader, typically from own funds, borrowing from family/friends</td>
<td>Unlimited Liability – sole trader is personally liable for all debts of the business. Personal possessions may be at risk if the business cannot pay debts.</td>
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<tr>
<td>Partnership</td>
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<tr>
<td>Private Limited Company</td>
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<td>Type of Business Ownership</td>
<td>Ownership</td>
<td>Control/Decision Making</td>
<td>Finance</td>
<td>Liability</td>
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<tr>
<td>Public Limited Company</td>
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<tr>
<td>Franchise</td>
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</table>

**Key Terms**

**Brand image:** popularity, basic image of a business, makes a business easy to remember.

**Choosing Location:**

**Topics:**
- Factors influencing start-up location decisions.

**Location affects:**
- Costs: amount of rent & to buy premises varies according to location. Costs of facilities can affect the level of profit a business makes.
- Sales: whether a business gets customers e.g. footfall affects this.
- Image: where some products they are produced can have an impact on their image e.g. perfume, wine.

**Factors influencing start-up location:**
- **Type** of business: e.g. web design business can be set up from a bedroom, a shop needs to be near customers taking into account the transport e.g. road system, factories needs are concerned about supplies & transport systems.
- **Availability of locations:** best locations are already taken by already established firms. Good available locations tend to be expensive. Other businesses who want to buy the same place are likely to get it over new start-up businesses.
- **Competitors:** location to competitors, some businesses want to be close to their competitors who tend to be close to potential customers whilst others may want to be at a distance with their competitors.

**TIP:** new businesses do not always want to avoid being near competitors

- **Availability to raw materials (natural resources):** some businesses rely on raw materials, so will want to be near them e.g. Dairy products would want to be next to cows.
- **Availability and cost of labour (workforce):** some businesses want highly skilled & able staff, often these people found in universities so businesses set up next these places, make good links with it. Some relocate of production to countries where labour costs are cheaper e.g. Chine & India - wages are lower.
- **Transport (infrastructure) links:** businesses that want to export will want to be near airports so transporting is easy. Some will want to be near the city but may find premises costs to high so may locate near or outside the city where they have good train, bus links to the city.
- **Technology:** many business rely on good communication systems e.g. Internet access & mobile communications. This means business activities such as designing, writing, editing & programming can be done from home.
- **Costs:** if businesses can afford, the predicted revenue & cost of the premises/rent will be used to see how much a business can afford to spend on their location. For start-up businesses their funds are often limited. Later on a business can relocate when they can afford more money to be situated in a better location.
- **Footloose industries:** can locate anywhere.
- **External economies of scale:** firms working together sharing expertise & training.
- **Central Gov funding:** offers incentives to firms who prepared to move in certain place
- **Channel of distribution** (wholesaler, retailer, customer)

**TIP:** right location of a business will depend on the nature of the business what does it need? Raw materials? How close does it have to be near its customers.
Bob is considering where to set up his business selling stationary. After contacting local estate agents he has come up with several local places—all within 3 miles of where he lives. Site A costs the most but is in the middle of the High street. Site B costs 20% less but is off the main high street where the number of pedestrians is significantly lower. Site C is the cheapest location out of the town centre and costing half of site B. As he is about to sign the papers to his preferred choice, his friend, John asks why he isn’t setting up an online business.

Which of the 3 sites would you select and why.

<table>
<thead>
<tr>
<th>Site A</th>
<th>Site B</th>
<th>Site C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most expensive, middle of the high street.</td>
<td>20% less cost, off the main high street.</td>
<td>Half of Site B, cheapest out of town centre.</td>
</tr>
</tbody>
</table>

How would changing your business to an online business affect the decision, if it did?

Exam practice

June 2012

Fish 'n' Chips 4 U
Marco has been running successfully the local fish and chip shop, Fish 'n' Chips 4 U, for over 20 years. However, he noticed last year that his revenue was falling. He thinks that the cause of this may be a new pizza takeaway that has opened nearby which also offers a delivery service. Due to the competition, Marco has had to reduce the hours of the six part-time staff that he employs. He is wondering whether he should now change his business objectives. In order to compete with the new pizza takeaway, Marco is considering reducing the price of his best-selling cod and chips meal. He is also considering whether he should offer a delivery service and, if so, whether this would increase demand for his traditional range of meals.

1 (a) State two possible business objectives that would be suitable for a small business such as Marco’s.

1 (b) Describe the effect that the opening of the new pizza takeaway might have on two different groups of stakeholders of Marco’s business.

Stakeholder 1
Effect

Stakeholder 2
Effect

(4 marks)
Jewels4All  Darren is thinking of setting up in business to make and sell jewellery. He studied art and design at school and enjoyed making jewellery as part of the course. He has some savings to help him start up in business but he will need some additional finance to buy the equipment that he will need to make the jewellery. His Business Studies teacher had said that he should try and find a gap in the market for his ideas. Darren will need to decide how he will sell the jewellery. His research shows an increase in online shopping. He is good with computers and is considering making the jewellery at home and selling it over the internet. Alternatively, Darren could rent a stall at the busy weekly craft fair.

1 (a) State two objectives that businesses, such as Darren’s, might have in their first year of operation.

Objective 1 ..............................................................................................................................................................................................................

Objective 2 .............................................................................................................................................................................................................. (2 marks)

1 (b) Darren knows from his Business Studies course that good planning will be very important if his business is to succeed.

(i) List two main sections of a business plan.

Section 1 ..............................................................................................................................................................................................................

Section 2 .............................................................................................................................................................................................................. (2 marks)

(ii) Explain the benefits to Darren of producing a business plan.

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1 (d) Darren needs to decide whether to sell his jewellery over the internet or from a stall at the busy weekly craft fair. Advise Darren which option is likely to be the better one. Give reasons for your advice.

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Tasty Snacks  Jenny is studying for her A-levels. At the same time, she enjoys working part-time in a local café in the village where she lives. She has noticed that the prices charged to customers in the café seem to be much higher than the actual costs of making the meals and drinks. She is sure that the owners must be making a good profit. Jenny is now considering whether she should carry on with her studies or whether she should just leave school and set up her own café. Jenny could set up the café in the village where she lives which is in a tourist area. She is also considering a busier but more expensive location such as the shopping centre in the town near to where she goes to school. A recent advert has caught her attention. It is advertising ‘Franchise opportunities with well-known fast food brands’. She would need at least £5000 to take up one of these opportunities. Jenny is unsure whether to set up the café as a sole trader or as a franchise.

1 (a) State and explain one feature of a sole trader.

1 (b) Jenny is wondering whether to take up the franchise opportunity. Explain one advantage and one disadvantage for Jenny of operating as a franchise.

Advantage ...........................................................................................................................................................................................................................................(4 marks)

Disadvantage ..............................................................................................................................................................................................................................................(4 marks)

1 (d) Jenny is unsure where the best place would be to locate her café. She is considering two locations:
   • the village where she lives
   • the shopping centre in the town near to where she goes to school.

Advise Jenny which is likely to be the best option. Give reasons for your advice.

...........................................................................................................................................................................................................................................(9 marks)
Enterprising DVDs  Tony and Rima met at college where Tony was studying Media Studies and Rima was studying Business Studies. They had been involved in a project to produce a DVD about the college. Several of their friends had shown an interest in buying a copy of the DVD or producing one for other colleges. When Tony and Rima left college, they realised that there could be a market to make and sell DVDs of events such as weddings, birthday parties and other celebrations. If Tony and Rima are to set up in business as a partnership, they will need to market the business and to buy filming and editing equipment. They have worked out that they will need a bank loan of £10 000 to buy the equipment and to cover the marketing of the new business. Rima knows that they will need a business plan if the business is to be successful.

1 (a) State two advantages of Tony and Rima setting up as a partnership.

Advantage 1 ............................................................................................................................................................................................................
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1 (b) Explain two benefits to Paul and Arianna of writing a good business plan.

Benefit 1 ..................................................................................................................................................................................................................
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Benefit 2 ............................................................................................................................................................................................................
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1 (c) Explain how Paul and Arianna’s business would benefit from selling pet food that has been produced using methods that are ‘ethical and sustainable’.

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Starting A Business Enterprise

- Setting Business Aims & Objectives
- Business Planning
- Choosing The Appropriate Legal Structure For The Business
- Choosing The Location Of The Business
- How people start up a business
- How they plan ahead
- How they decide to locate a business

What is working well ...

Even Better if / to improve my understanding and achievements I need ....
Sale!
2. Marketing:
Topics:
- The nature & importance of marketing, a business needs as well as a good idea, customers.
- An entrepreneur will want to know about the associated market and potential customers - involves market research.
- Nature of start-up market research
- Reasons of conducting market research
- The methods that might be used for conducting market research with a limited budget
- Conducting Market Research With Limited Budgets
- Using The Marketing Mix

Market Research: is the process of gathering, analysing & processing data relevant to marketing decisions.

Market research allows an entrepreneur to understand the market, its conditions so that they can make better decisions. Done to understand customer needs

Market Segment: is a group of similar needs within the overall market.

Types of Market Research:
- Primary (field) Market Research: uses data gathered for the first time.
- Secondary (desk) Market Research: uses data that has been gathered already.

Reasons of conducting market research, it enables an entrepreneur to:
⇒ Learn about the market:
  - The market opportunities: a trend in the market can create the possibility for a new business
  - The market size: this measures either the value of sales (how much is spent) or the volume of sales (number of items sold).
  - Market growth: measures the rate at which the market is increasing in size. Entrepreneurs will be interested in the trend & the likely future growth in sales.
  - The market share: of firms already in the market (what percentage of the total sales they have.)
  - Market segments: these are different groups of similar needs within a market. E.g. The ice cream market has an impulse segment (buy & eat) and the take-home segment. The way these products are marketed may be different.
⇒ Learn more about the possible competitors. The research can identify existing or potential competitors & identify their strengths & weaknesses. This will help start-up business to work out how to compete for customers.
⇒ Learn more about customer needs. The entrepreneur will develop exactly the right product, know the price people are willing to pay, the best way of promoting it & where to sell it.
⇒ Better insight into their customer & rivals, their marketing activities would be more effective. E.g. The method of promotion will attract a lot of their target customers.

Secondary (desk) Market Research: uses data that has been gathered already.

Sources: newspapers, books, magazines, journals & the internet. Newspapers regularly carry good business surveys that are useful for exploring general trends in markets. The Gov regularly produces info on issues like the economy & social trends. Also data can be gathered by specialist market research companies - these are available for a fee.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quick &amp; cheap, wide range in-depth information available</td>
<td>The existing data may not be exactly what the start-up business wants, is not relevant to what they are researching precisely.</td>
</tr>
<tr>
<td>Provides info on large sections of the population - Gov can afford to gather detailed info on the whole of the economy - unrealistic for a start-up business to afford this.</td>
<td>Existing data may be out of date, some markets change regularly, out of date research will influence an entrepreneur in to making the wrong decisions. Do not know the source/founder of the research, cannot trust research.</td>
</tr>
</tbody>
</table>

Primary (field) Market Research: uses data gathered for the first time.

It may be gathered by:
- Observing: e.g. watching people walk around a supermarket to see what attracts their attention.
- Experimenting: e.g. trying out a new form of advertisement & measuring the response.
- Surveying: e.g. interviewing people who might buy your products to understand their motives.
Primary Research can be tailored to meet the business’s needs & is up to date- can make it more useful than secondary research. However it can be expensive (e.g. organising a large-scale survey) & if not done correctly can give misleading results (e.g. the researched people may not be represent able for the whole group of targeted customers).

Methods:

• **Telephone surveys**: ringing customers to obtain their view- relatively cheap, conducted from office (if does not require travel expenses). But not everyone has telephone & a lot of people do not trust telephone surveys. What is the best time to contact people?

• **Questionnaires**: can be posted- but response rate low. Surveys can be done in streets but people interviewed may not be representative of customers. May lack working people’s views. People who conduct the research must be trained in being fair if not then the conductor may receive interviewer bias info.

• **Customer/supplier feedback**: customers contact a business through help lines & telephone number on packaging. So able to ask them what they think. But the people who ring up may not be typical customers. Also it relies on existing customers, rather than potential ones. Supplier may give feedback on various aspects of a business e.g. speed of its responses, how it deals with stakeholders & how it compares with other businesses.

• **Focus groups**: small groups of people who are selected to give their views on a business issue e.g. brand name or brand image, whether a business is better or worse than competitors, a proposed advert etc. but these groups may not be representative of the market as only a few people’s views. Give in-depth info on a range of issues. Often brings to light an issue that can be explored in depth by surveying more people (if business can afford it).

• **Internet research**: businesses have on website, chance of customer feedback, possible to track number of web visitors, how they found the website, what search engine used & so provides an insightful info to potential customers.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone surveys</td>
<td>Can call when it’s convenient to you</td>
</tr>
<tr>
<td>Door-to-door surveys</td>
<td>Can see how people react &amp; people who are likely to tell the truth</td>
</tr>
<tr>
<td>Focus Groups</td>
<td>Get in-depth responses</td>
</tr>
<tr>
<td>Internet research</td>
<td>Cheap quick</td>
</tr>
</tbody>
</table>

Difficulties of start-up research

• Often start-up entrepreneurs are short of money & any funds are used to get the business up and running, reluctant to money into market research, many entrepreneurs assume on that customers will agree with their own opinions e.g. If they like a product they assume their potential customers will as well. As a result many businesses fail over a short-time - research must be done.

• Start-up entrepreneurs often have limited budgets, so may have to rely on secondary data which may not specific enough to their needs & any undertaken limited primary research – if done too cheaply it may be inaccurate which means it cannot be relied on.

**TIP:** do not assume that because some market research has been done its useful- check how it was gathered, take into any possible bias results.

Using the following words completed the gap:

Primary Research; New Information; Expensive; Relevant; Questionnaire; Secondary research

Field research is also known as ______________. It is useful finding out ____________________ a popular method is to use a questionnaire ________________. A benefit of using field research is that the information collected is directly ________________ to the needs of the business. A disadvantage is that the information can be very ________________ to collect. Desk research is also known as ________________

List the advantages and disadvantages of primary research.
List the advantages and disadvantages of secondary research.

<table>
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<tr>
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Explain the difference between qualitative and quantitative data.

Activity

Michael wants to start a dog walking business in the town that he lives. Advise him on the types of market research he should conduct and why.
Market research generally involves some form of data collection and can be classified as either primary research or secondary research.

Read the passage below and then generate a mind map of different types of research

Primary research (also known as field research) involves the collection of original data for a specific purpose and is normally collected directly from the source. Examples of primary research include surveys, focus groups, consumer panels and interviews.

Primary research is original. The results gathered will generally be more relevant to the needs of the business. It involves the collection of new information for a specific purpose the data should be more accurate and up to date. However, it often takes a long time to plan and carry out effectively. This can be a particular problem in fast changing markets where firms need accurate information quickly. It also needs a field researcher involved and therefore can be very expensive to carry out.

Secondary research (also known as desk research) involves the processing of data that has already been collected. To collect secondary data, market researchers will consult previously published material such as government reports, press articles or previous market research projects. Secondary research is often quicker to complete than primary research. In recent years the development of the internet has helped. It is much cheaper than field research, since the data used in secondary research has been collected already for some other purpose. The main disadvantage of secondary research is that previous studies may not have targeted the exact issue that the current research requires and therefore the data may be of limited use. Even when relevant the current study it may be out of date and therefore the results achieved may be inaccurate. Data may be biased as it has been collected by some other group. It is important when using secondary data that this potential bias in the data is considered.

Exam practice

June 2012

Fish 'n' Chips 4 U

Marco has been running successfully the local fish and chip shop, Fish 'n' Chips 4 U, for over 20 years. However, he noticed last year that his revenue was falling. He thinks that the cause of this may be a new pizza takeaway that has opened nearby which also offers a delivery service. Due to the competition, Marco has had to reduce the hours of the six part-time staff that he employs. He is wondering whether he should now change his business objectives. In order to compete with the new pizza takeaway, Marco is considering reducing the price of his best-selling cod and chips meal. He is also considering whether he should offer a delivery service and, if so, whether this would increase demand for his traditional range of meals.

Marco is considering whether he should offer a delivery service. In order to see whether this would increase demand for his traditional range of meals, Marco knows that he must undertake some reliable market research. His options include: ● interviewing some of his current customers or ● giving out questionnaires in the local shopping centre. Advise Marco on what he should do. Give reasons for your advice.
**Marketing Mix**: refers to all the activities influencing whether or not a customer buys a product. The elements of the mix can be analysed using the four Ps: Price, place, product & promotion.

– using the marketing mix helps firms using marketing activities to satisfy customer's needs.

**Topics**:
- The elements of the marketing mix
- Factors that influence the appropriate marketing mix for a small business
- About the use of ICT in assisting international marketing.

**Attention, Interest, Desire, Action**

**Product life Cycle**: Development, Introduction, Growth, Maturity, Decline.

**Channel Of distribution**: Producer, wholesaler, Retailer, Customer.

Factors that affect what type of distribution:
- Type of product
- Market & market segmentation, time-period, consumer response, legal restrictions & structure.

**Market segmentation (target Audience characteristics)**: Sex, Health, Age, Religion, Education, Occupation, Lifestyle/location, Ethnicity.

**Four Ps: Product, Promotion, Price, Place**

**Product**:
- Includes design, specifications, features of the product.

A business may alter its products to increase their appeal for different customers but must make sure earned money covers the costs of doing this.

**Extending the product life cycle**

Businesses are always looking for ways to increase their sales and one way to do this is to try and extend each of the stages of the product life cycle. Examples of strategies to extend the product life cycle include:

1. **Product modification** - A common strategy often used by firms to extend the life cycle of their products is to modify the products in some way so as to make them appear different or superior to the original product. The iPod was upgraded many times over the last decade or so with new models added to the range which included the Classic, the Mini, the Nano and the Shuffle.

2. **Repackaging** - Making alterations to a product's packaging can be a very simple but useful strategy when trying to extend the life cycle of a product. Repackaging is very common in the retail sector where the introduction of new labels, new colour schemes or new containers have all proven to be successful at extending the product life cycle.

3. **Re-branding** - The term re-branding refers to the process of selling the same product or service under a new or different brand identity. The purpose of re-branding is to give the product a new image which will appeal to consumers.

4. **Reducing price** - Reducing the price at which a product is sold is another strategy frequently used by firms to extend the life cycle of their products. A price reduction can be an effective tool in extending all of the stages of the life cycle since it is likely to attract additional custom and therefore increase the level of sales achieved in each stage.

**Promotion**:
- means communicating about a product. Might be letting people know your business exists, about a new product, a special offer, highlighting the difference between your offer & what else is on the market.

Many ways: advertising online, on a local newspaper, sponsoring a sport event or using posters around town. The right form of promotion depends on the type of product. A small budget limits their choice of promotion. National advertising would be too expensive (TV, magazine, newspaper ads). Postcards in shops, ads in own shop windows, word of mouth recommendations are cheaper.
The **product life cycle** is a model which charts the stages a product will typically go through over its lifespan and measures the sales it is likely to have over this period.

The **saturation point** is the point at which sales are at their peak and very few new customers can be found.

**Re-branding** is the process of selling the same product or service under a new or different brand identity.

**Advertising** refers to the process of drawing attention to a product, a brand or a company.

**Loss leaders** are items which are sold at a loss to attract consumers into the store.

**Sales promotions** are short term incentives used to encourage consumers to purchase a good or service, e.g. BOGOF.

**Price:** Can a customer pay full amount now or instalments? Pay with a credit card or cash? Any discounts in buying large quantities? Does price compare well with competitors? Businesses have to consider what the customer is willing to pay for a product, these factors influence if a customer thinks a product represents value for money - does not necessarily mean product has to be low priced. Customers may pay large amounts if they think product & brand are worth their money. A business has to think about costs, the price has to be able to cover costs to make a profit. Taking into account the affect the price will have on the demands. Low price products do not make much profit on their own, but overall a lot of low priced product can make a lot of profit. If they do not have a well-established name or proven track record they have to make sure the price is seen as reasonable. Once more established & powerful can increase price because of brand loyalty.

There are different types of pricing:

**Cost plus pricing** covers all costs and adds an acceptable profit margin of top. **Contribution pricing** sets a lower price covering variable costs and contributing to fixed costs. **Predatory pricing** sets a below cost price but is illegal. **Psychological pricing** sets a psychologically attractive price such as £1.99 rather than £2. **Competitive pricing** sets a price similar to competitors. **Market skimming** sets a high price seeking to attract the top end of the market.

Price is important because it influences demand for customers. When price is low, demand tends to be high. When price is high, demand tends to be low.

Price is also important for businesses. Price multiplied by quantity gives revenue for the business. Profit is the difference between revenue and costs and is the reward for being in business.

**Place:** way which products are distributed: directly via internet or via shop? Do they come direct from factory to shop or brought buy a wholesaler first? How stores like- depends on type of product being sold. E.g. apple shops are distinctive & elegant like their products.

Choosing the mix:
Managers must make decisions on each of these elements they must work together & be effective. E.g. high-quality product- high price- sales in quite exclusive outlets & promotion to relatively high-income earners.

Will depend on:
- **The product** - is it distinctive? Products need a unique design? How long does customer expect it to last? Something unique & long-lasting-higher price.
- **Competitors price** - what do they offer? & how does it compare with your product?
- **The target customers** - who you trying to sell to? How much do they earn? & how they likely to buy your product? How much do they need it? What do they do with their time( to reach them at a good time with promotion)? so differently compared to different target customers & so marketing mix is adjusted accordingly.
- **Business approach** - trying to match what competitors do? If so develop a similar but cheaper product. Or trying to be better& different than competitors (with a USP)? Than can justify by being more expensive.

Use of ICT in international marketing:
- Before had to open shops in different places in order to advertise on a large scale, it was expensive & it made it difficult for small businesses to expand overseas.
• Now Internet gives limited budgeted small businesses to reach much wider markets, as can establish its own website relatively cheap & reach people world-wide. It may purchase online advertising space so site can be easily reached from targeted online locations. While some small businesses focus on national branches other expand internationally without having shops abroad.

**TIP:** different elements of marketing mix must work together, all combine to make a customer buy a product

### Activity

**Answer the questions below.**

1. What happens during the development stage of a product's life cycle?

2. List the 5 stages of the product life cycle.

3. For each of the 5 stages identify one product which is currently at that stage.

4. What is an extension strategy?

5. Explain the difference between rebranding and repackaging.

### Case Study

**Bernard Matthews** Norfolk turkey producer Bernard Matthews has begun a rebranding exercise which the firm hopes will restore its fortunes. The company saw a fall in sales after TV chef Jamie Oliver had singled out the company's Turkey Twizzlers for criticism in a series about healthier eating for children, and an outbreak of bird flu was discovered on its farm in Holton in January. Simon Middleton, from Turton Middleton advertising agency in Norwich, said: “It’s been a very grim period. ‘They really needed to go almost back to basics and review what Bernard Matthews stood for, because that essentially is what a brand is about - and it looks, on the surface, as if they’ve done that.’ The company is also creating a range of products, called “Big Green Tick”, which have no artificial colours and flavours and has lower levels of saturated fats and salt. It is also changing the company logo.

**Guinness** is one of Britain’s best loved brands, yet sales of the famous black stout have been falling year after year both in the UK and Ireland. In the last two years Guinness sales have declined by 13% in the UK and things are even worse in Ireland, where sales are down nearly 30% since 2001.

In the UK and Ireland, a growing taste for wine and other more refreshing drinks, and a long term shift to entertaining at home, have taken their toll on Guinness’s sales. (Source: BBC News 23rd Nov 2007)

1. Identify the stage of the product life cycle reached by Guinness in 2007.
2. Explain some of the reasons why Guinness might have reached this stage.

3. Evaluate some of the strategies Guinness GB could use to reverse the decline in sales and extend the product life cycle.

### Activity

**Advertising gives Diageo a boost** Successful marketing campaigns and a focus on premium spirits helped drinks giant Diageo to report a small profits rise for the last six months of 2007. A new advertising campaign helped to revive Guinness sales in the UK and the Irish Republic, which lifted overall sales in Europe by 4%.

The latest in the series of “Good things come to those who wait” Guinness adverts helped to revive the fortunes of the stout in the UK and the Republic of Ireland, lifting sales there by 4% after sales fell last year. Part of a £10m marketing campaign, the advert, which features hundreds of villagers creating a massive domino effect, was the most complex and expensive yet. The boost helped the Irish Republic reclaim its position as the stout’s second biggest market, after its popularity in Nigeria saw the African nation temporarily take its place last year. The UK remains the world’s largest Guinness consumer. (Adapted from BBC News Feb 2008)

### Activity

**Online advertising on the rise** Money spent on UK television adverts fell last year for the first time since 2001, according to new research. TV advertising spend declined 4.7% from 2005 levels to £4.59bn - but still accounted for the second largest advertising medium after the printed press which has by far the largest share of total advertising expenditure at 43.7%. 

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1. Explain 3 alternative forms of sales promotion which could be used by Diageo to promote sales of a new brand of Vodka.
At the same time UK spending on internet adverts increased by 47% to over £2bn. “I believe online spend could overtake TV within the next three to four years,” said Guy Phillipson, chief executive of the Internet Advertising Bureau, the trade association for the internet marketing industry.

Apart from the internet, the largest gainer was outdoor advertising. Spend on Outdoor advertising also increased 4% to £1bn, overtaking radio which dropped 7.7%. (Adapted from BBC News May 2007)

1. What is meant by the term advertising

2. The article suggests that radio advertising has fallen by 7.7%. Explain 2 factors which might account for this fall

3. Analyse two reasons why internet advertising is becoming increasingly popular with UK businesses.

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**Activity**

Answer the questions below.

1. What is meant by competitive pricing?

2. Explain why penetration pricing might not be an effective strategy for selling cars.

3. Calculate the price of a product if its costs of production are:
   - £10 and the mark up is 10%
   - £25 and the mark up is 50%

4. Why might predatory or destroyer pricing be seen as a risky strategy for a firm such as O2?
5. Explain how the level of competition a firm faces is likely to impact on the price it charges for its products.

### Activity

**Radiohead**  English rock band Radiohead have caused a massive stir in the music industry by turning their backs on the long established music business model. The band who have been described as the best rock band in the world, have decided to drop their record label EMI and distribute their new album exclusively through a specially designed website.

Lead singer Thom Yorke explained the band’s motivation in a recent interview with TIME magazine: “I like the people at our record company, but the time is at hand when you have to ask why anyone needs a record company. In the past bands needed recording companies to distribute their music to the music retailers; however advances in technology mean that bands can now sell their music directly to the listener”.

The new album “In rainbows” will only be available from the bands website and will not be available through any of the traditional channels. Interestingly the band are also letting customers choose how much they want to pay for the album.

1. What is meant by the term channel of distribution?

2. What are the advantages to Radiohead of distributing their music in this way?

3. Explain why it might be unwise for Radiohead to use only this method of distributing its music.
Tony and Rima met at college where Tony was studying Media Studies and Rima was studying Business Studies. They had been involved in a project to produce a DVD about the college. Several of their friends had shown an interest in buying a copy of the DVD or producing one for other colleges. When Tony and Rima left college, they realised that there could be a market to make and sell DVDs of events such as weddings, birthday parties and other celebrations. If Tony and Rima are to set up in business as a partnership, they will need to market the business and to buy filming and editing equipment. They have worked out that they will need a bank loan of £10 000 to buy the equipment and to cover the marketing of the new business. Rima knows that they will need a business plan if the business is to be successful.

Tony and Rima are planning how to raise awareness of their new business in the local area. They are considering two options: a professionally designed website or a series of adverts in local newspapers.

Recommend to Tony and Rima which of these options you think would be most suitable. Give reasons for your recommendation.

Trading Fair was set up five years ago as a local enterprise to raise money and to help provide better prices and working conditions for farmers and workers in Africa. Trading Fair is run by a group of friends who decide how the enterprise should operate. The enterprise imports products such as jewellery, toys and shopping bags. These are then packaged and labelled by local volunteers. The products are sold directly to the public at charity events and stalls at local markets. Trading Fair sells good quality products at prices that are similar to charity shops and has many loyal customers.

One volunteer has suggested that Trading Fair should raise the price of its jewellery to enable it to make more money for the African workers. It could also introduce an online service by selling through a website. There would be extra costs to start up this service. Some members of the group are not in favour of the website as they believe that it would be risky. It would turn their local enterprise into a big business which they would not recognise or feel part of. Other volunteers believe it would mean more customers from a wider area.

Explain why raising the price of the jewellery might not be a good idea.

| The nature & importance of marketing, a business needs as well as a good idea, customers. |
| An entrepreneur wants to know about the associated market and potential customers. Involves market research. |
| Nature of start-up market research |
| Reasons of conducting market research |
| The methods that might be used for conducting market research with a limited budget |
| Conducting Market Research With Limited Budgets |
| Using The Marketing Mix |

What is working well ...

Even Better if / to improve my understanding and achievements I need ....
Before a new business can start trading, it needs to raise money (raising finance) to pay rent/buy premises etc.

- Finance & Support For A Small Business
- Financial Terms & Simple Calculations
- Using Cash flow
- Importance of finance to a business
- Examine the sources of finance available when setting up.
- How a business might raise money - why this might be difficult & who might help an entrepreneur start a new business.
- Sources of finance for a new business
- Sources of advice & help for new businesses.

Raising finance reasons:

- **Renting/buying a premises (building):** might be a shop, office, factory - likely to be expensive.
- **Vehicles:** Many businesses will require cars to visit customer & suppliers or vans/lorries to deliver products.
- **Advertising the business:** potential customers won’t know about a business unless it promotes itself. - many new businesses spend lots of money on advertising, even before they start to trade.
- **Equipment & machinery for the business:** most businesses require some equipment & machinery especially if they are planning to manufacture products.
- **Stock of raw materials:** a shop will stock to sell or use to construct goods, so need finance to purchase this.

**Key Terms**

**Sources Of finance:** money put into a business by its owner(s) - Capital. How many owner(s) invest depends on the business legal structure, more number of owners the more important funds become.

**Owners' Funds:** money put into a business by owner(s) - capital. (Source of finance normally used for start-up businesses, have to for sole traders & partnerships - good because no interest) the more owners the more important their funds become - number of owner(s) depends on the legal structure of the business. It is common for owners to use redundancy payments as a source of finance - money that is given as compensation to one who loses their job.

**Bank loans:** if a bank believes an entrepreneur has a good business idea & will repay what it lends, it may create a loan (large amount of money) to help start a business - on the condition the business will pay it back in instalments over the next few years, the owners will be charged interest (extra payment borrower has to pay so that bank makes a profit on its activities) on the loan. - if interest rate is high (which is the offer given normally to start-up businesses) then bank is an expensive source of finance.

Also banks may ask for Collateral (something that can be sold if business does not pay back loan).

Interest: is a payment made in order to borrow money. It means a business pay back more than it borrows.

Mortgages: are loans from banks & building societies that are used to buy land & buildings such as offices & shops.

The business has to pay regular payments until the loan & any interest has been paid - normally long-term loans of up to 30 years, amount borrowed very large amount because of land/building expense is high. The building/land purchased is often used as collateral for the security of the loan.

**Key Terms**

**Overdrafts:** give entrepreneurs & businesses the right to borrow variable amounts of money up to an agreed limit.
- flexible loans as businesses only use them when required.

A bank may not want to give an overdraft to a new business, or might give very high-interest rate on it - expensive source & a bank may withdraw the overdraft with little notice to the business, leaving it in financial problems.

How a business might use its overdraft ↓

**Key Terms**

**Loans from family & friends:** Advantage: easy to arrange, money may be lent free of interest payments. Disadvantage: may not be able to lend enough money or may need it back suddenly, less likely to look at business plan & entrepreneurs future business plans if entrepreneurs cannot pay back to relatively on time it may damage their relationship.

**Key Terms**

**Hire purchase & leasing:** cannot raise large sums of money from these:
Hire purchasing: method of purchasing assets & paying in instalments- special form of loan- expensive way of buying & business will not own the item till completely paid for.
Leasing: rent assets such as vehicles & photocopiers- business never owns it but does not have to get large amounts of money to purchase it. Item is maintained by business that rents it.

**Key Terms**

**Government grants:** Gov encourages people to start a business because this creates jobs. Businesses also pay tax to the Gov. Grant: a sum of money given to an entrepreneur or business for a specific reason. UK gives if a business creates jobs, where many don't have a job or for footloose businesses. Gov grants only cover part of the money needed, business pays for the other part. Grant for Business investment (GBI) for new businesses, helps pay building, machinery & vehicles. Grants are difficult to obtain, - businesses may have to do a number of conditions before receiving it. Also include completing a lot of forms & an interview. EU, local Gov & charities provide grants.

**Key Terms**

**Issuing shares:** only companies can sell shares & a new business may be set up a LTD, companies sell shares in order to start & expand their business. Shareholders- owners of a business. Selling shares easy & cheap source. Companies don't have to pay interest to shareholders, although they pay a share of profits (dividends) if profits are large enough. But if company sells to many shares then owner can loose control over the business.

**Selecting the source of finance:**

- Can use more than one method:

**TIP:** think about which source(s) of finance are best for different types of new businesses.

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Sources of finance</th>
<th>Key issues</th>
</tr>
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</table>
| Sole trader      | Owners' funds, Gov grants & loans. | - Banks unwilling to lend to small businesses  
- Have few internal sources of finance |
| Partnership      | Partners savings, banks, Gov grants, Hire purchase & Leasing companies. | - Don’t often have enough collateral  
- Partners may disagree |
| Private Limited Company (LTD) | Suppliers, Banks, Leasing & hire purchase companies, Gov grants, loans, Venture Capital & private share issues. | - Larger LTD companies find it easier to borrow  
- Loss of control by existing shareholder |
**Key Terms**

Sources & types of advice for small business:

**Business link:**
Gov keen in encouraging new businesses—may provide help to entrepreneurs. Business link is a major way of which they do this, its an organisation operating in UK helps new & existing business to grow, become efficient & competitive, give business advice & support.

**Private Websites:**
Many privately owned websites that give advice to small businesses, some may charge for their advice others are paid via their adverts. E.g. SmallBusiness.co.uk its sponsored by banks: Lloyds TSB, offers advice on starting a business, finance, marketing, recruiting & the law for small businesses.

**Banks:**
UK’s well known banks offer advice & guidance, bank services to new businesses:
- Help with writing business plans
- Advice on starting a business in particular industries e.g. agriculture
- How to find suitable buildings for businesses
- The issues involved in employment
- How to trade online.

Banks may give free advice to a business if the business opens an account with bank.

**Accountants & Solicitors:**
Entrepreneurs can receive professional advice from Accountants & Solicitors. Accountants give support in financial matters e.g. borrowing money & paying taxes. Solicitors offer help with legal matters e.g. setting up a LTD or signing a franchise agreement. They will expect to be paid for their services—can be expensive if business is struggling financially.

**TIP:** Think about the adv. & Disadv of each sources of finance for a start-up business—will help choose the best one in a particular situation.

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<th>Activity</th>
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<td>In your own words, explain the different sources of advice available to businesses</td>
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42 AQA GCSE Business Studies D Holland
Tony and Rima met at college where Tony was studying Media Studies and Rima was studying Business Studies. They had been involved in a project to produce a DVD about the college. Several of their friends had shown an interest in buying a copy of the DVD or producing one for other colleges. When Tony and Rima left college, they realised that there could be a market to make and sell DVDs of events such as weddings, birthday parties and other celebrations. If Tony and Rima are to set up in business as a partnership, they will need to market the business and to buy filming and editing equipment. They have worked out that they will need a bank loan of £10 000 to buy the equipment and to cover the marketing of the new business. Rima knows that they will need a business plan if the business is to be successful.

**Enterprising DVDs**

Tony and Rima have worked out that they will need a bank loan of £10 000. State two features of a bank loan.

State one other source of finance and explain why it might be suitable for Tony and Rima.

January 2013

**ICT at Home**

Chris has been working as an information technology (IT) technician in a large organisation since he left school. He enjoys the work and is skilled in all areas but he finds working in an office boring. It is not well paid. His friends and family often ask him to help them with their computer problems. Chris is gaining a reputation for good quality work. He believes that there is a gap in the market for repairing computers in people’s homes but he has not done any market research. He is sure that he could earn good money through this type of work and would like being in control of his own business. Chris believes his only competition would be from local computer shops that are seen as being expensive and inconvenient.

If Chris did start his own business, he would have to decide whether to set up as a sole trader. He could set up as a private limited company and sell shares to raise money. He would need a small van but has very little money saved up. He wonders whether he should delay setting up his business until he has done more planning and saved more money.

In order to buy a small van, Chris will need to choose between having a bank loan for £10 000, or selling shares in which his friends and family could invest. Advise Chris which is likely to be the better option. Give reasons for your advice.
Using the information opposite, describe each of the forms of support offered by Nat West Bank.
Financial terms & simple calculations:

Topics:-
* Key finance terms
* How entrepreneurs calculate their business costs & revenue
* Using the above learn how to calculate a business's profit or loss.

Key financial terms:

- **Price**: is the amount a business asks a customer to pay for a single product. Products often have a price attached to notify the customer how much they have to pay. The important decision for the entrepreneur is the price to charge for their product, they will be guided by 2 things:
  - The prices set by similar & competitor businesses
  - How much it costs to produce the good/service that the business sells.

  Businesses often change their prices, if popular demand they increase the price, at other time they may sell it at a lower price. Prices depend 
  & very at special occasions & seasons (at Christmas demand is higher so may be the price).

  TIP: remember if a business including, the price of a product it is likely to sell a smaller quantity of its product, a price cut may lead to more sales- these are good arguments to use in exam.

- **Sales**: refers to the number of products sold by a business over a time period. Remember sales are not stated in terms of money. Revenue explains how sales are given a monetary value.

- **Revenue (Income/Turnover)**: is the income that a firm receives from selling its goods or services. Will depend on the price at which it sells products.

  Revenue = selling price x sales (number of products sold)

- **Costs**: are the spending that is necessary to set up & run a business.

  Main types of costs a business pays for:

  1. **Fixed Costs**:

     Do not alter when a business changes its output- (Fixed costs do not change as the firm produce more or less)- can be a burden when a business is not producing & selling enough of its product quantity. E.g. Rent, business rate (whether business is attracting large or small number of customers), insurance for the business’s buildings/products, fees paid to the businesses accountant.

  2. **Variable Costs**:

     Vary directly with the business’s level of output & sales. E.g. if a shopkeeper is serving lots of customers then business will have to buy more stock to sell, hire more staff to serve in the shop. E.g. raw materials & wages vary.

     **Total costs= fixed costs + variable costs**

  Costs paid by a business can be divided in another way- useful for new businesses these are:

  * **Start-up costs**:

    Whenever a business starts owners have to pay one-off costs- will not have to be paid on a regular basis as they are associated w solely with starting a business

    e.g. :

    ➢ **Buildings (premises)**: businesses require some. Can be office, factory, shop. Can be bought or leased. Buying a building means investing a large sum of money & possibly taking out a mortgage (loan for buildings). To lease (rent) a business will have to pay an initial sum of money to buy the lease & then monthly rent as well.

    ➢ **Machinery & Equipment**: factories: need production line equipment & computers to manage production. Offices: photocopiers, computers & printers. Shops: electronic tills, computer & closed-circuit television (CCTV) for security. These are expenses that the firm pays at the start of its life & are essential to start & to trade.

  * **Market Research**: gathering of data on consumers’ buying plans & opinions on products. Market research gives info that helps businesses improve marketing decisions such as price at which a product will sell, where it should be sold, & the design of the product/service. it’s a costly activity before the business has started trading.

  * **Running costs**:

    These costs are expenses that a business has to pay regularly as a normal part of trading:

    ➢ **Rent**: if a business leases its premises, the owners will expect to receive a payment for the use of these buildings each month.
➢ **Raw materials & components**: manufacturing businesses use a lot of raw materials & components & have to pay for these regularly.

➢ **Wages**: most business employ people & have to pay wages wither weekly or monthly

➢ **Businesses taxes**: HM Revenue & Customs collects tax e.g. value added tax, income tax & cooperation tax- these are paid either quarterly or annually.

**Profits (or losses) = revenue-total costs**

**Key Terms**

- **Profit**: is the amount by which a business’s revenue from all its sales exceeds its costs
- **Loss**: is the amount by which a business’s costs are larger than its revenue from all sales.

New businesses do not make profit immediately because: takes time to gain customers to create enough revenue to cover total costs. In a loner-term an entrepreneur will expect to earn a profit as the business grows more customers will buy products. Profit I the reward for an entrepreneur for taking the risk of starting a new business.

**Financial Calculations**:

- **TIP**: always show your calculations in exam if you are asked to calculate costs, revenues or profits, the examiner will awards some marks even if you make an error.

**Calculating a business’s revenue**:  
**Revenue= selling price x number of products sold**

- e.g. a house builder builds & sells five houses each year. The average selling price of the houses is £175,000. The business revenue = £175,000 x 5 = £875,000.

- If a business increases its price, amount of revenue earned rises, as it continues to sell the same quantity (or even possibly the quantity sold falls).

**Calculating total costs**:

- **Total costs: fixed costs + variable costs**

- e.g. a toy shop has fixed costs of £4,000 per month & in a typical month has variable costs of £7,525. The shops total costs will be £11,525

**Calculating Profits**:

- **Profits= revenue - total costs**

- E.g. a café’s revenue each year is £198,000 & its total costs are £168,000 for the year. This means the business has made a profit of £30,000 over the year.

- **TIP**: make sure you understand the relationship between sales & variable costs. Think: if a business’s sales increase what would you expect to happen to the variable costs? How might this affect its profits?

**Activity**

Define the following terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td></td>
</tr>
<tr>
<td>Loss</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
</tr>
<tr>
<td>Costs</td>
<td></td>
</tr>
</tbody>
</table>
In the table below indicate which costs are fixed and which are variable by placing a tick in the appropriate box.

<table>
<thead>
<tr>
<th>Fixed</th>
<th>Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance for vehicles</td>
<td></td>
</tr>
<tr>
<td>Mortgage</td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td></td>
</tr>
<tr>
<td>Marketing and advertising expenses</td>
<td></td>
</tr>
<tr>
<td>Raw materials</td>
<td></td>
</tr>
</tbody>
</table>

Exam practice

January 2012

**Meals for All** - has recently been set up as a local social enterprise. It prepares and cooks quality hot meals five days a week for elderly people. The meals are collected from **Meals for All** by volunteers, who deliver them within the local area. The premises are provided free of charge by the local council.

To satisfy its customers' needs, **Meals for All** offers a wide choice of meals, which changes each day. Customers telephone each morning to find out the menu for the day and to make their choice. This means that sometimes one choice runs out but others go to waste and meals are often delivered late. The cost of ingredients is likely to increase over the next few months. The cook is considering many options to reduce the costs of the meals including buying cheaper ingredients. Another way would be to offer less choice and to ask customers to order a day in advance. This would mean that the exact amount of ingredients could be bought and there would be less wastage. However, some of the customers have indicated that they would not like this and would prefer to give their first and second choice of meal.

**Calculate the weekly profit or loss made by Meals for All if it receives 950 orders a week. Show your workings in the space provided.**

January 2013

**Trading Fair** was set up five years ago as a local enterprise to raise money and to help provide better prices and working conditions for farmers and workers in Africa. **Trading Fair** is run by a group of friends who decide how the enterprise should operate. The enterprise imports products such as jewellery, toys and shopping bags. These are then packaged and labelled by local volunteers. The products are sold directly to the public at charity events and stalls at local markets. **Trading Fair** sells good quality products at prices that are similar to charity shops and has many loyal customers.
One volunteer has suggested that Trading Fair should raise the price of its jewellery to enable it to make more money for the African workers. It could also introduce an online service by selling through a website. There would be extra costs to start up this service. Some members of the group are not in favour of the website as they believe that it would be risky. It would turn their local enterprise into a big business which they would not recognise or feel part of. Other volunteers believe it would mean more customers from a wider area.

Trading Fair currently sells 1000 products a week at an average price of £8 per product. It spends £5000 a week on importing these products, and the packaging and labelling costs are 50p per product. Calculate the weekly profit.

June 2012

Fish 'n' Chips 4 U
Marco has been running successfully the local fish and chip shop, Fish 'n' Chips 4 U, for over 20 years. However, he noticed last year that his revenue was falling. He thinks that the cause of this may be a new pizza takeaway that has opened nearby which also offers a delivery service. Due to the competition, Marco has had to reduce the hours of the six part-time staff that he employs. He is wondering whether he should now change his business objectives. In order to compete with the new pizza takeaway, Marco is considering reducing the price of his best-selling cod and chips meal. He is also considering whether he should offer a delivery service and, if so, whether this would increase demand for his traditional range of meals.

Marco currently sells cod and chips meals for £5 and sells 100 a week. If he reduces the price to £4, he is sure he can sell 150 meals. Calculate his weekly revenue if he does sell 150 meals at the new price.
Using Cash flow:

Topics:-
• What is meant by the term cash flow
• How to interpret simple cash flow forecasts & statements
• Why cash flow statements are important forecasts & statements
• The ways in which small businesses can solve cash flow problems.

Cash Flow: is the money that flows into & out of a business on a day-to-day basis.

Cash Inflows: means that money becomes available to the business:
• Income from sales (sales revenue/turnover): The money business earn from selling goods/services
• Loans from banks: it is common for new businesses to borrow money to sell buy new items such as vehicles, machinery or property, when the loan is given is a cash inflow
• Money invested by the business's owner(s): owner(s) may invest money into a business

Cash Outflows: when a business makes a payment it causes an outflow of cash:
• Establishing the business: starting a new business requires one-off payments e.g. advertising the new business, buying equipment & vehicles.
• Buying raw materials: most business to buy raw materials to allow them to trade e.g. a restaurant will need to buy ingredients to make the food as well as buying drinks.
• Wages: all businesses especially selling services suffer an outflow of cash due to the payment of wages to employees.
• Rent: many businesses rent buildings- shops, offices or factories, mortgage is a similar outflow.
• Interest on loans: paying interest of loans on a regular basis
• Taxes: businesses have to pay sales taxes & taxes on profits

Time is important in cash flow. Cash outflow occurs before cash inflow- business is likely to be short of cash. Thus, when managing cash flow, entrepreneurs should attempt to ensure that cash inflows take place in time so that the funds are available to finance cash outflows.

TIP: do not write about profits if the question is on cash flow- they are two different concepts.

The cash that a business has at the start of the month is its opening balance. The business's cash balance at the end of the month is its closing balance. If the cash inflow are greater than the cash outflow at the end of the month's trading, there is said to be a net cash flow surplus. If the cash inflows are lower than the cash outflows at the end of the month's trading there is said to be a net cash flow deficit. The money needed for the day to day running of a business is called working capital. At times when the business has a shortage of working capital it may be necessary to arrange an overdraft.

Interpreting cash flow forecasts & statements:

<table>
<thead>
<tr>
<th>Cash Inflows</th>
<th>December</th>
<th>January</th>
<th>February</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peter &amp; Sue's savings</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Loan</td>
<td>7,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Revenue from 'Sue's'</td>
<td>3,800</td>
<td>6,000</td>
<td>8,800</td>
</tr>
<tr>
<td><strong>Total cash inflow (A)</strong></td>
<td><strong>16,300</strong></td>
<td><strong>6,000</strong></td>
<td><strong>8,800</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Outflows</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of stocks of food &amp; drinks</td>
<td>8,000</td>
<td>4,250</td>
<td>3,900</td>
</tr>
<tr>
<td>Wages</td>
<td>4,000</td>
<td>3,500</td>
<td>3,700</td>
</tr>
<tr>
<td>Interest on Bank Loan</td>
<td>250</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>Rent (for 3 months)</td>
<td>4,250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity &amp; Gas</td>
<td>250</td>
<td>220</td>
<td>210</td>
</tr>
<tr>
<td><strong>Total cash outflow (B)</strong></td>
<td><strong>16,750</strong></td>
<td><strong>8,220</strong></td>
<td><strong>8,060</strong></td>
</tr>
<tr>
<td><strong>Net Cash Flow</strong> (C = A-B)</td>
<td>-450</td>
<td>-2,220</td>
<td>740</td>
</tr>
<tr>
<td>Opening Balance (D)</td>
<td>1,000</td>
<td>550</td>
<td>-1,670</td>
</tr>
<tr>
<td>Closing Balance (E= D+C)</td>
<td>550</td>
<td>-1,670</td>
<td>-930</td>
</tr>
</tbody>
</table>

- Cash inflows are normally at the top- when added together- they equal the ‘Total cash inflow’ (A)
- Second section is cash outflows- added together to give ‘Total cash outflow’ (B)
- The third section include

Cash flow forecast: if a plan of the expected inflows & outflows to & from a business over a period of time.
• Help plan ahead & predict any future problem & how to deal with them or avoid them.

Cash flow statement: is a historical record of the cash inflows & outflows that have taken place over a period of time.
• Analysing activities of previous cash flows trading period help to plane future management of cash, in the future one can take actions to avoid any problems from happening again.

Cash flow forecast of Peter & Sue opening a restaurant:
‘Net Cash Flow’ (c) = total cash inflow - total cash outflow
• Amount of cash held by the business at the start of the month is the ‘Opening Balance’ (D). The closing balance for one month becomes the opening balance for the next month
• The amount of cash the business has at the end of the month is the ‘Closing Balance’ (E) - adding the ‘Opening Balance’ (D) & ‘Net Cash Flow’ (c)

Interpreting the cash flow forecast:
• What can Peter & Sue learn from the cash flow forecast??
• Major info- January & February: business short of cash will spend £1670 more than what's available, so won't be able to pay suppliers & possibly staff.
• In February the case is a bit better the negative figure has decreased to £930
• It also gives them info about the cash inflows & outflows. Info helps them make decisions how to improve position of their business.

Peter & Sue’s Cash Flow statement:

<table>
<thead>
<tr>
<th>Cash Inflows</th>
<th>December</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peter &amp; Sue's Savings</td>
<td>5,000</td>
</tr>
<tr>
<td>Bank Loan</td>
<td>7,500</td>
</tr>
<tr>
<td>Sales Revenue from ‘Sue’s’</td>
<td>4,200</td>
</tr>
<tr>
<td><strong>Total Cash Inflow</strong></td>
<td><strong>16,700</strong></td>
</tr>
</tbody>
</table>

| Cash Outflows                 |                |
| Purchase of stocks of food & drink | 7,900          |
| Wages                          | 4,100          |
| Interest on Bank Loan          | 250            |
| Rent (for 3 months)            | 4,250          |
| Electricity & Gas              | 220            |
| **Total Cash Outflow**         | **16,720**     |

| Net Cash flow                  | -20            |
| Opening Balance                | 1,000          |

Interpreting the cash flow statement:
• Can compare there cash flow forecast with the previous actual situation in the statement.
• Look back at their forecast, you will see they received more cash inflows in December than they expected- £16,700 rather than £16,300, there cash flows were just a little higher (mainly because of spending more on wages ) - as a results cash outflows were only £20 higher than their inflows. Do you think Peter & Sue are pleased with the info given in the statement? Why?

Importance of Cash Flow Forecasts & Cash Flow Statements:
Common for new businesses to experience cash flow problems. Can be managed if the entrepreneurs are aware of the possibility & are prepared to take the necessary actions to overcome them.

Cash Flow forecasts help entrepreneurs:
• Can identify times when the business might be short of cash
• Can take action to avoid cash shortages becoming a major problem.

Peter & Sue can see from the Cash Flow Forecast any problems & can plan ahead. Problems arising from cash shortages will vary from business to business. E.g. Peter & Sue may not have enough cash to pay their bills & suppliers might stop providing them the food & drink. Peter & Sue can plan ahead & avoid difficult trading periods. They can see they will be short of cash during Feb & Jan and now can take steps to fix this possible situation.

Entrepreneurs can use cash flow forecast& statements when applying for banks for overdrafts & other loans.- banks more likely to lend to people who have a positive but realistic cash flow forecast. Small businesses are unlikely to have any unexpected cash flow problems- makes it easier to lend to these businesses for Banks.
Cash Flow statements help entrepreneurs to understand where & when cash was spent- assists them in making decision on how to reduce cash outflows if necessary. Statements show the timing & sources of cash inflows. This info helps managers decide how to improve cash inflows if necessary.

**TIP:** do not always think that cash flow problems will lead to a business becoming insolvent & having to stop trading. In many cases, entrepreneurs & managers can take actions to overcome the problems.

**Consequences of Cash Flow problems:**
Businesses cannot continue to trade without having enough cash to pay bills as they arrive. Managing cash carefully is therefore an important task for managers. If a business does not have enough cash to pay its bills it is said to be insolvent & has to stop trading by law.

When a business becomes insolvent, a person called a ‘receiver’ is appointed to administer the business. The receiver will try to sell the business as a whole & as a ‘going concern’. this may not be possible potential buyer may think the business will never be successful- so the receiver may decide to close the business down & sell its assets o raise as much as money as possible- the money will be paid to the businesses & individuals to which the business owns. A business administered by a receiver is said to be ‘in receivership’.

**Insolvency:** occurs when a business is not able to meet its financial commitments when they are due.

**Receiver:** is a person who takes responsibility for an insolvent business & makes arrangements to pay its debts.

**Solutions to cash flow problems:** the ‘best’ choice to take depends on the business's circumstances.

- **Delay Payments:** may be possible for a business to agree with its suppliers or others to whom it owns money to, to delay payment (outflows). If this gives sufficient time for the business to receive cash inflows- problem may be solved.

- **Speed up cash inflows:** can be achieved by persuading new customers to pay on delivery. Customers who owe money to the business chased up & persuaded to pay promptly.

- **Find new sources of cash inflows:** may be possible for a business to generate extra cash inflows. E.g. offering different & new activities.

- **Reduce cash outflows:** Employing few staff, or holding smaller stocks of raw materials, use cheaper sources of fuel or raw materials.

- **Arrange an overdraft with the bank:** is a short-term flexible loan that provides the business with cash it needs- but can be expensive form of borrowing.

- **The owners could invest more money into the business:** interest free source of finance- but must have sufficient funds to be effective in solving the problem .

**TIP:** solutions to cash flow problems often bring their own problems. In answering higher mark questions on cash flow you may need to mention these.

Most proposed solution to cash flows have disadvantages: e.g. advertising more will involve additional costs- outflows of cash - when considering a solution should consider the disadvantages of a proposal.

cash flow forecasts are only predictions- may not be accurate- which are common for new businesses- as don't have cash flow statements to compare forecast against the business’s cash position could be better or worse than the forecast suggests.

**Cash flow forecast:**

- **Essential to produce a cash flow forecast- particularly if borrowing money from the bank, Venture Capitalists (bank managers) unlikely to lend to a person unless they are almost certain the money will be repaid. Anyone starting a new business will need to produce a business plan.**

- **It helps a business plan the timings of its payments & receipts so that it is able to meet its financial obligations. Realistic forecasts should indicate times when businesses may need to borrow money (or try to increase sales) to prevent the business from being short of Working capital.**

- **The finance section of the business plan should include: Break even forecast, profit/loss forecast, cash flow forecast & balance sheet**

- **9/10 business that fail (go bankrupt) are unlimited liability (sole traders & partnerships). Business go into liquidation/administration are LTD’S & PLC’s**

- **Admin b4 liquidation**

- **Bankruptcy: when entrepreneur(s) can not repay their creditors.**

- **Administration: an LTD or Plc have limited liability is taken into receivership by auditors & consultants who try & identify problem areas &**
find strategies to make the business a success.
• Liquidation: when businesses assets (fixed & current assets) are sold bit by bit to pay creditors.

Reasons + solutions for cash flow problems (1st reason den = solution):
• Starting phrase- start up cost high (first stage of running a business) = Get owner(s) to invest more money (or get grants or loans from family & friends)
• Promotion costs are higher in introduction/growth of a business
  = consider more direct method of promotion (leaflets/special offers)
• Business is slow = offer more/different services for longer hours
• Therefore net cash flow deficits are likely
• In general: in the beginning cash outflows tend to exceed cash inflows.
• Spending too much on stocks (use Just In Time-JIT) = don’t store too much (ties up cash) working capital unnecessarily - order just as much as you need when needed (need reliable suppliers)
• Credit customers are not paying on time (cash flow deficit therefore need a overdraft) = improve credit control, friendly reminder/letter, interest- increase on payments, civil action - court orders-for bailiffs to recover assets.
4. People in Businesses:

Topics:
- How businesses recruit, motivate & retain employees.
- Ways in which businesses recruit (hire) employees
- Difference between wages & salaries & how the business decide how much to pay their employees.
- Financial & non-financial benefits that employees might receive
- Why & how businesses recruit employees
- How businesses decide on the level of wages & salaries.
- The monetary & non-monetary benefits given to employees.

**Key Terms**

Recruitment: is the process of finding & appointing new employees.

**Why businesses recruit employees:**
A business will recruit employees if its owner(s) cannot carry out all the tasks & duties themselves- too much to do, entrepreneurs might not have all the skills required.

<table>
<thead>
<tr>
<th>Types of employees</th>
<th>Full time - works full or part time for a limited period e.g. 2 months.</th>
<th>Part time - works less than a 'standard' week e.g. 22 hours/week</th>
<th>Temporary - works for a limited period e.g. 2 months.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advantages</strong></td>
<td>Available for lots of hours &amp; can carry out a large number of tasks during that time. Become experienced in how business works &amp; may be able to take decision and make suggestions for improvements - helps make business successful</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Disadvantages</strong></td>
<td>More expensive for a business to have full-time employees as their total pay will be higher than that of someone who works fewer hours.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Recruiting the right people:**

The right employees will need the acquired skills & are willing to work hard. If wrong people recruited a business may suffer:
- Customers may leave. If the person appointed is unable to do the job effectively the business’s customers may be unhappy at not receiving a high-quality or good service.
- Time & money must be spent recruiting someone else.

**TIP:** think about adv & Disadv. To an entrepreneur or business owners of using different types of employee. Exam Q’s might ask to explain the adv & Disadv Of certain employee types, or say which is the best in a given situation.

**How businesses recruit employees:**
Most business have job vacancies at some point- they need to recruit some employees to carry out roles within the business.
**Internal Recruitment:** takes place when a job is filled from within the existing workforce.

Firms often recruit internally by promoting existing employees to a more senior role or by transferring employees to a different job within the business.

A senior employee recommending someone for a post- personal recommendation. Big business- advertise, Small business-tell employees

Benefits:
- Candidates will have experience of the business & will be familiar with its methods of working
- Candidates will know many of the people with whom they will be working
- Internal recruitment provide employees with the chance of promotion- helps motivate them
- Internal recruitment is cheaper- avoids advertising expenses.

**External Recruitment:** is filling a job vacancy from any suitable person not already employed by the business.

A business looks to hire employees who do not already work in the business. This is done by:
- Advertising: common, invite interested people to apply by a certain date.
- Job centres: run by Gov department for work & pensions & can put businesses in touch with skilled unemployed workers.
- Employment agencies: businesses that help other business recruit employees- supplies employers with details of suitable applicants for vacant posts- employer has to pay fees for the agency service

Benefits:
- Managers have a wide chose of candidates & result in higher-quality candidates- especially if job is advertised nationally.
- New external employees may bring in fresh ideas & enthusiasm
- New employees with right skills immediately. Training existing employees can take time. But can be expensive

**Training:** is the giving of job-related knowledge & skills to an employee e.g. teaching a new employee to drive a fork-lift truck.

**Choosing employees:** choosing an employee from a num of people who have applied for a job- selection .

Selection procedure to prevent wrong choice of employing:
- **Interviews:** common- one or two interviews or even an interview panel of several people. Are cheap & allow a two-way exchange of info. BUT comparatively unreliable as a selecting method as some perform good in interviews others don’t. well-performing applicants may not perform well if appointed.
- **Psychometric tests:** reveal the personality of a candidate for recruitment/promotion. multiple-choice Q’s frequently used to asses people’s commitment to the job or ability to work as part of a team.

**How businesses decide on the level of wages & salaries:**

**Remuneration:** the payment of employees.

Most work to receive money- other reasons to.

**Wages:** is money paid by businesses to employees in return for work & are normally paid each week. E.g. £250 Sometimes worked out depending in the num of hours worked. E.g. £7.50 an hour for a 40 hour week.

Work out:
**Weekly wage:** num of hours worked x the pay rate per hour
Da example: 40(hours) x £7.50= £300

**Salaries:** is money paid by businesses to employees in return for work & are normally paid monthly or stated as a figure that a person earns over a whole year. E.g. a shop assistant earns £18,000 per year, monthly earns a twelfth of this.

**Factors that influence how much someone is paid:**
**TIP:** new businesses cannot pay high wages as they do not normally have much money. They may have to recruit less experienced employees or those with fewer skills. Remember this when writing about what influence the pay rates of a new business.
- **Skills:** Highly skilled employees are likely to be paid more money than someone without skills. A skilled employee is a valuable employee whose skills mean that the owner of the business is able to charge customers high prices for high-quality products. Thus the owner is prepared to pay high wages in return for these skills. If not many people have these skills than the business may offer even higher wages or salaries.

- **Experience:** a business is willing to pay higher salaries/wages to employees with experience- as they are unlikely to need training.- so business won’t have to pay for it. The business will expect the employee to perform the job efficiently as soon as appointed, allowing the business to satisfy customers- helps it to remain competitive.

- **The general level of wages or salaries:** businesses have to take into account what other firms offer for payment to employees - if a job is more demanding or tiring or has non-social hours e.g. working evenings & weekends, a higher wage or salary might have to be paid to attract good-quality employees. The levels of unemployment can influence the levels wages/salaries paid., unemployment level rising in UK as people losing their jobs. The unemployed willing to work for lower wages/salaries than in the past, just because jobs harder to find.

**Monetary & non-monetary benefits given to employees:**

**Monetary benefits:** are additional payments made to employees on top of their wages/salaries e.g. bonuses.

Businesses can attract & keep good and reliable employees by financial means other than just paying high salaries/wages:

- **Bonuses:** some employees receive bonuses (extra amounts of pay) if they achieve certain targets in their jobs.
- **Paying towards employees’ pensions:** most employees have pension (savings fund that they will use when they retire) employs pay part of their wages/salaries into their pension every time their paid.- common for a business to pay a amount of money into the employees pension every time it pays them.- attracts employees as when they retire they will have a higher pension.
- **Profit sharing:** employees working in certain businesses are given a share of the profit the business makes- if business is not profitable then employees do not receive an additional pay- encourages employees to work harder to make the business more successful (profitable).

**Non-monetary benefits:** are rewards given to employees that are not in a monetary form e.g. free lunches.

Sometimes called ‘perks’ - they’re intended to make employees more satisfied with their jobs & less likely to leave:

- **Flexible hours:** employees may value being able to work hours that suit their responsibilities outside work.
- **Free lunches:** this can save employees money & time in making/buying lunch- gives employees chance to socialise- improves working relationships.
- **Parties & outgoings:** some businesses offer their employees special occasions parties or outings- these are paid by the business
- **Being part of a team:** being valued as part of a team- makes working much enjoyable- managers try to deelop teams within the work place & often allow them to make decisions.

Businesses may choose non-monetary benefits because they cost less than paying monetary benefits- this is important for a new business that does not have much finance available.

**Motivating staff:**

**Topics:**

- What’s it meant by motivation
- Why it’s important
- The benefits to a business of having motivated staff
- The methods of motivation used by small businesses

**Key Terms**

**Motivation:** is the range of factors that influence people to behave in certain ways.

In business, motivation is the force that drives an employee to work very hard & to carry out his or her job as effectively as possible. Different people are motivated by different things:

- **Motivation from within the employee:** employees will work hard if they enjoy their jobs & therefore happy to put effort into it.
- **Motivation from outside the employee:** can be an outside factor e.g. a reward (money) or the threat of a punishment (threats to reduce/loss of pay).

**TIP:** these 2 views on the causes of motivation explain the different techniques or methods used by small businesses to motivate staff. Do remember this when explaining why businesses use different techniques or when thinking about what might be the best method in a given situation.
Why do people work?
Working people are motivated by factors. People are different meaning they are motivated by different factors. Maslow - a psychologist explained this in his theory ‘Maslow’s hierarchy of needs’. He identified 5 human needs & said if people by working met them it would motivate them.

Benefits to businesses of motivated staff:
Most entrepreneurs setting up a business would say that to have employees who are motivated is a very important factor that helps to make a new business successful. Why?

- **Hard-working employees**: work hard & try to do job as well as possible - motivation helps employees come on time, work effectively, show politeness & be helpful to customers. - helps business gain a good reputation & attract customers.
- **Employee loyalty**: motivated employees likely to be loyal to the business & to remain with it even if there are tempting job offers - adv as avoids cost of advertising & training for new employees. New colleagues tend to take time in getting to know the job & to work as a team with others even if they have the suitable work-related skills. It gives an entrepreneur more time to focus on establishing the business rather than focusing on recruitment.
- **Offering support to the entrepreneur**: anyone starting a business is busy - they have to run the business on a daily basis & manage it too. Motivated employees may make useful suggestions to improve the running of a business - offer to take on extra duties - makes a huge difference in the early days of a new enterprise.

Methods of motivation used by small businesses: - they have limited funds & must choose relatively cheap methods of motivation. Might use one or more of the following:

**Job Enrichment**: is designing a job to give interesting & challenging tasks.

**Training**: is giving people the chance to increase their job-related skills & knowledge.

**Authority**: means having power or control over something.

<table>
<thead>
<tr>
<th>Method of motivation</th>
<th>Needs that must be met according to Maslow</th>
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| Job enrichment which increases authority (some employees loose motivation because they find work boring - this method makes their job more demanding & challenging & give employees authority alongside their normal duties) | • Ego & self-esteem  
• Self-actualisation |
| Training (they may not take on job enrichment without being trained - they may lack the skills needed for it motivates the employee as it shows the owner values them & inc. self esteem, make the workplace safer as the employee with learn health & safety training.) | • Safety needs  
• Ego & self-esteem  
• Self-actualisation |
| Working in teams (employees are motivates because they develop good working relationships with other member of their team - teams give more power to make decisions - helps motivate through self-esteem.) | • Love & belonging  
• Ego & self-esteem |
| Financial rewards (bonuses/higher pay rates/share of profits - allows employees to meet needs & allow them to live a nice life - gives self-esteem) | • Physiological needs  
• Ego & self-esteem |

**TIP**: exam may ask suggest how group of employees can be motivated or whether an existing way is the best. Consider if Maslow's needs are being met & which are not. What methods of motivation can fulfil the needs that are not being met? Remember different people are motivated by different things.

Protecting staff through legislation:
Many laws/legislations that affect businesses - a lot of them protect a business’s employees while they are at work. We will look at how these affect how a business operates & affect a business.

**Topics**:
- Equal pay & minimum wage laws
- Discrimination laws
- Law giving employees rights
- Health & safety laws

**Legislation**: is a set of rules that governs the way society operates. It is another term for laws.
**TIP:** This section outlines a number of laws that apply to businesses- you do not have to quote the names of these laws in your exam, but you must understand how they can affect small businesses.

The law is a framework of rules controlling the way which society is run- law relating to staff attempt to strike a balance in the workplace between rights of employees & the rights of employers- the aim is to allow employers to use labour efficiently while preventing unfair treatment of employees when a law comes into operation it is known as an Act Of Parliament.

**Minimum wage:** is the lowest hourly wage that an employer can legally pay an employee.

**Piece-rate pay (piecework):** is a system under which employees are paid a fixed amount for each unit of output that is produced. E.g. apple pickers may be paid £4 for each box of apples they picked.

- **National Minimum wage 1998:** minimum wage rates increased every October.
  - a general minimum hourly wage
  - A separate (and lower) minimum hourly level for 18-21 & 16-17 year olds.
  - Those on piece-rate pay must receive at least minimum wage
  - All part-time & temporary workers must be paid the minimum wage.
- **Equal Pay Act 1970:**
  - Treat employees of both sexes equally. Applies to pay pensions, bonuses & non-monetary issues. A women doing the same job as a man must receive the same pay & working conditions.

For a small business it means:
The effects of minimum wage & equal pay legislation are too increase the costs of production for businesses. Business's costs are higher than they might be without this law & may make the business less profitable- impact of equal pay is the same.

UK small business has to pay an unskilled worker aged over 21 at least £5.73.
Small businesses may employ fewer employees- because of high wage costs - happens if employees are relatively unskilled & it is easy to use machinery in their place.

**Discrimination:** is treating one person differently from another without having a good reason to do so.

- **Sex discrimination Acts 1975 & 1986:** discrimination on the grounds of sex is made illegal in employment & education. - cannot just advertise a job for one sex (only a few exception when gender is a job description required- acting) & when choosing employees for promotion must not treat sexes differently.
- **Race Relations Acts 1976:** illegal to discriminate in relation to employment against a men or women, marital status, colour race.
- **Disability Discrimination Act 1995:** illegal for an employer to treat a disabled person less favourably than others. - employers to make 'reasonable adjustments' to the working environment to allow the employment of the disabled e.g. build ramps- for wheel chairs & adapt equipment so that the disabled can use it.
- **Employment Equality (age) Regulations 2006:** illegal to discriminate against an employee under the ages of 65 on grounds of age. - employers must not say a new employee should be above or below a particular age. Also sacking employee & denying them of training opportunities as other workers on age grounds is illegal.

**TIP:** legislation can help & hinder a business. Try to write a balanced answer to Q’s about employment laws. E.g. laws relating to health & safety might mean that a business’s employees have fewer accidents. A business may pay less compensation & does not lose the services of experienced employees.

**Affects on businesses:**

- **Recruitment**- owners have to make sure job ads are not discriminating & are treated equally when hired.
- **Promotion & transfers**-People must be treated equally & must not be denied any opportunities.
- **Training**-People must be treated equally & not denied any opportunities.
- **Pay & monetary & non-monetary benefits**- once someone is hired must be paid same rate for the same job , irrespective of age, gender, racial group etc.
- **Dismissal**-must not dismiss someone because of their age, gender etc e.g. if a person reaches an older age say 40 cannot sack them because of their age.
- **Extra costs in business**- may need legal advice on employment law this can be expensive.
- **Benefits:** discrimination being stopped means experienced & efficient workers will be employed. (e.g. older workers tend to have experience). Health & safety laws mean business pays less compensation as less incidents will happen.

**Effects on businesses of laws giving employment rights:**

- Female employees are entitled to take 52 weeks leave at the time of the birth of their child. Employers have to pay minimum level pay during this time, but can reclaim most of it through the Gov. Job has to be open for her when she returns if she wishes.
- All employees have a legal right to paid holiday. Full time employee’s in UK have legal right to have a 24 days' paid holiday.
• Working hours are subject to legal limits. 18+ employees limited 48-hours week on average. Workers have the right to sign an opt-out agreement.
• Employees have legal right to choose whether or not they wish to belong to a trade union. The owner of a small business cannot say they have or should not be a member of a trade union.
• Employees have to be given a Contract of employment and this must state the amount they are to be paid & when they receive their payment (weekly/monthly)
• Provide a safe working environment
• Provide suitable training

Trade Union: is a group of workers who act together to improve their pay & working conditions.

Contract of employment: Is a legal document stating hours, rates of pay, duties & other conditions under which a person is employed.

These laws mean for small businesses:
• Small Business pays more costs (e.g. has to pay maternity leave in the same way as larger businesses, also the replacement employee is likely to be unfamiliar with the job & may need training- inc. in costs spent.
• Benefits: improved motivation (e.g. employees are able to take off time to look after a dependent child or if in a crisis- they are likely to feel respected & valued by the business. - improves motivation & job performance when they return.
• Damaging disputes between workers will dec. as employees will learn to create good relationships with the trade union & its member at their meetings- it will help form a good working relationships at work.

Health & Safety Act 1974

Laws on this prevent employees putting themselves in danger & so protect the workforce- laws try to stop accidents happening at the workplace.

It covers the following at work:
• Installation & maintenance of safety equipment & clothing
• Maintenance of workplace temperatures
• Employees having breaks during the working day
• Providing protection against dangerous substances
• Fitting guards on dangerous machinery
• Writing & displaying a safety policy.

Employees must follows the health & safety procedures. Act can be updated & ‘the health and safety Executive’ (HSE) oversees any serious accidents & inspects business premises.

Law means for small businesses:
• Extra costs & time-consuming (e.g. carrying out health & safety inspections & putting up notices).
• Benefits: prevent pay large fines for serious incidents, motivations needs (according to Maslow’s hierarchy) are met. The law encourages & guides small businesses in meeting those needs.

TIP: you may argue in the exam Q’s that the effect of employment laws is greater for small businesses than for larger ones. Small businesses do not have as much money to spend on meeting the requirements of the law & are unlikely to employ experts in the law.
Past Exam Question: Hospital Charity Shop

Two years ago, St Joseph’s hospital set up a charity shop to raise funds to provide equipment for ‘chill-out’ areas for teenagers who have to stay in the hospital. It decided to open the shop in the town centre near to where the hospital is located. The charity shop is staffed by a paid manager and a large number of unpaid part-time volunteers. The volunteers often do not have all of the skills needed to be good shop workers. For this reason the shop and the window display are often not very well laid out. Also, many volunteers stay for only a few weeks as they are often unclear about what needs to be done and do not feel valued by the manager. The charity shop only sells clothes. The stock room is untidy as it is full of poor quality clothes that are not selling very quickly. The manager is thinking about also selling books and CDs. Many of the volunteers who work in the charity shop stay for only a few weeks. The volunteers are not paid to work in the shop and so are not motivated by the level of their wages.

Explain two other ways in which the manager of the charity shop could motivate the staff so that they will carry on working at the shop. (6 marks)

A to Z Frames

A to Z Frames has been a successful small business for over fifty years. It makes a large number of three different sizes of picture frame which it sells to local gift shops. It also operates a framing service for pictures of any size, with a range of quality frames available. This service is popular with artists as well as photographers. A to Z Frames uses batch production for the frames that it sells to the local gift shops and job production for the framing service. A to Z Frames has five skilled and highly paid employees who have worked at the company for many years. It does, however, have one vacancy. The company is also facing competition from cheaper imported frames and is considering how it can reduce its costs. One idea is to pay the workers on the basis of how many frames they make. This might also improve the workers’ motivation which is currently poor.

Explain two possible reasons why A to Z Frames has highly paid workers. (4 marks)

A to Z Frames needs to lower its costs because of the competition from imports. It is considering whether it can reduce its costs by paying the workers on the basis of how many frames they make. Discuss whether or not changing the way it pays its workers would be the best way of reducing costs. (9 marks)
5. Operations management:

- Production methods for manufacturing & providing a service
- How important operational decisions are in managing a business successfully
- How operations management & technology can make a business more effective
- Production process & how can be done with few resources as possible
- Issue of quality & consider how businesses can produce goods & services that satisfy their customers
- Methods of production a business can use
- How production can be carried out efficiently
- The quality issues involved in production

Methods of production:
Production is the process of changing inputs e.g. raw materials, energy & labour services into goods & services that can be sold - a central part of supplying services as well as manufacturing.

Job Production:
Method of production of which a product is supplied to meet the exact requirements of a customer. Small business use job production rather than supplying standard products from which customers can choose:
- Garden design: businesses designing (or redesigning) garden will discuss the customer’s needs, offer their own ideas & supply a product that is unique to that customer.
- Restaurants: meals are prepared & cooked to meet specific customers’ needs. E.g. someone may order a steak would say how they want it cooked & might choose a particular combination of vegetables to go with it.

Used to get an adv. Over rivals. E.g. a small business cannot supply as cheaply as a large company. However, small businesses may be able to justify its higher prices because it provides personal service - job production is a good way to supply personal services e.g. hairdressing - where each customers' needs are different & best approach when its not possible to use technology to produce large quantities of similar products. BUT: job production expensive method of production as each product is different & involves changes in the production process - unless the business is sure it can charge high prices - may be hard to a make a profit. Also requires skilled employees & therefore considerable amounts of training.

Production: is the process of changing inputs such as labour services into goods & services that can be sold.

Job production: is a method of production in which a product is supplied to meet the exact requirements of a customer

Batch Production: is a method of production in which a group of similar products are produced at the same time.

Batch Production: is a method of production in which a group of similar products are produced at the same time, one stage at a time-products can be slightly different. Can be used by new & small businesses as they begin to grow.

Batch production in a bakery

White rolls
Sausage rolls
White loaves
Wholemeal loaves
Groups (batches) of products made together in relatively small quantities.

E.g. Bakeries: is likely to produce a bath of one type of bread, followed by another different batch & another bath again slightly different. The loaves & rolls in each batch may be slightly different.
Batch production likely when machinery is available, to help production process- this way can produce a large quantity at one time- allows employees to specialise & be efficient in one task, rather than switching tasks. BUT-business has to estimate sales- wrong estimations may leave unsold products- a loss. Also business has to invest in expensive machinery if method is to be effective.

**TIP:** when revising know when a business would use batch/job production and the adv. & Disadv. Of each method.

**How production can be carried out efficiently:**
- Efficiency can increase if can produce a large amount of output using the same or fewer resources- technology helps.
- Technology helps: cost of technology is relatively low-enables small businesses to use it. e.g. can use computer & printers to produce materials quickly & cheaply- helps production process.
- Expensive technology helps reduce costs- can make products one after another with same machinery- although expensive to buy it reduces costs of production in the long term.

**Efficient production:** takes place when a business uses minimum amount of resources to produce its goods & services.

**Efficiency, technology & costs:**

**Technology:**
- help a business become more efficient in selling their products: e.g. small businesses can use internet to advertise & sell products to customers world-wide.- so businesses don't have to pay for expensive national adverts or pay commission to shops for selling their products/services.
- Help a business cut its labour costs- replace employees with technology so don't have to pay wages or pay for training or for the costs recruiting workers.
- Reduce waste- can produce identical or similar products every time with the same quality (if part of a manufacturing business). Or motion-sensitive when no-one is in a room it turns off.

**Quality issues involved in production:**

**Quality:** is the extent to which a consumer is satisfied with a product.

Customers expectations vary according to the type of product.

Businesses attempt to produce products as cheaply as possible to allow them to make as much as profit- but they have to balance this against its quality.

If consumers are not satisfied with the product's quality they will not buy it & the business' profits will be damaged. E.g. business open & closing times affects customers satisfactions therefore the sales.

**TIP:** in exam, don't argue that quality is only the result of producing expensive luxury products. Remember cheap basic products can be good quality if it meet the consumers' expectations.

**Customer service:** small businesses find it difficult to compete with larger rivals on price. Because of this have to find other ways to compete e.g. customers high standards of service.
- The importance of customer service.
- The main consumer protection laws in the UK.
- The ways in which ICT can help small businesses to offer good customer service.
Importance of customer service

What is good customer service? - means keeping customer happy. - a lot ways do this, which allows small/new businesses to compete with large established firms.

Customer service: is the part of a business's activities that is concerned with meeting customer's needs as fully as possible.
After-sales service: is the meeting of customer's needs after they have purchased a product e.g. by repairing/servicing the product.
Premises: are the buildings used by businesses- these may include offices, shops & factories.

The products themselves: can provide quality customer service by making sure products/service they supply meet the needs of customers.
Reliability-do exactly what is expected of them. Safety-safety when buying products.

Product info: customers expect clear info about goods & services- helps them make a right decision about which product to buy. E.g. food & food labels. Info Labels on products for customers.

After-sales service: includes:
• Dealing quickly & fairly with complaints.
• Delivering products without delays- important when products are perishable e.g. fresh foods.
• Exchanging goods that are faulty or do not meet customers' needs.
• Repairing goods (free of charge- if guarantee)
• Offering customers advice & support after they have bought the products.

Employees: employees need right skills & attitudes:
• Employees should be helpful, respond quickly & in a friendly way to enquiries from customers.
• Employees should receive training- to insure they know the business & its products- so to be able to answer customers' Qs.
• Training in communication skills- help employees to give polite clear answers.- important in telephone convo's when customers can't see employee.

Premises: must maintain premises & present well to keep customers happy:
• Premises should be clean, especially where food is cooked, prepared, eaten.
• Customers should be able to find their way around the business- clear signs.
• Disabled customers will be dissatisfied if unable to see a business's products- recent law says all businesses have to make reasonable changes to allow disabled people to buy their products.
• Customers expect good facilities e.g. baby nappy changing rooms.

Payment: businesses may benefit from meeting customers' needs by offering a variety of ways to pay for goods/services. - small businesses ca increases sales by accepting cheques & credit cards & by providing small quantities of product at low prices.

Benefits of customer service: helps businesses to be competitive- important for small business when setting up & entering a market. A way which new businesses make themselves distinctive & compete against larger rivals.

Short-term adv:
• Informing potential customers about a new product
• Attracting customers

Long-term adv:
• Increasing revenue & profits
• Rising market share
• Customer loyalty

TIP: when answering GCSE exam Qs, think of features of customers service that are relevant to the type of business on which the Q is based. E.g. a restaurant - might offer high quality customer service by providing attentive waiters & a menu that gives a lot of info about the food & wine.

Customer loyalty: means that a business's customers makes repeat purchases because they prefer the business's products to those of its rivals.

Informing customers about the products: important adv of good customer service for new & small businesses. Websites, labels, signs help customers to understand what is on offer, but also provides good advertising for a new product.

Attracting new customers: if a new business Is supplying a similar good or service to those that is already on the market, than good customer service can make it distinctive help it to gain new customers. If a new bed & breakfast business provides a lot of info about the area
in which it is located to help holiday makers get the most of their visit they could gain customers.

**Increasing sales revenue & profits:** big long-term adv of providing good customer service. Satisfied customers will be attracted to the business & may buy again from that business as well as encouraging others to do so. This increases the business's sales revenue & should therefore increase its profits- higher profits will be even more likely if the business feels able to charge higher prices because of its excellent customer service.

**Rising market share:** market share is the percentage of sales in a particular market that is achieved by a given business. If customers are satisfied or more than satisfied by the service the receive- they may use word of mouth advertise & promote the business to friends-good publicity in local newspapers- this may lead to increased sales & a bigger share of the market.

**Getting customers’ loyalty:** a new business that gives its customers what they want in customer service is less likely to lose them to other businesses.

**Main consumer protection laws in the UK:**
- Businesses can treat customers unfairly: by selling goods/services that are not as they describe
- By selling products that are unsafe
- By selling products that do not work properly
- By selling products at unfair prices
- By passing on/selling info about consumers to other businesses without the consumers consent.

**Consumer protection laws:** are laws that have been introduced to prevent businesses from treating their customers unfairly.

**Labelling of products:**

*TIP:* you do not need to give the details of these laws in the exam. You do not need to state what year the law was passed. Just a broad understanding is all that’s necessary.

Labels provide consumers with a lot of info & help them to make decisions on whether or not to buy a product.
- **Labelling of Food Regulations 1970:** packaged food must contain the ingredients listed on the label.
- **Weights & Measure Act 1986:** weights & measures must be stated on packets/containers. Measures must be correct.
- **Unfair Trading Regulations 2008:** illegal to give consumers incorrect info on packaging & labels- outlaws aggressive selling tactics by door-to-door salespeople.

**Sales of Products:** when buying goods/services.
- **Consumer Credit Act 1974:** stops businesses charging very high rates of interest to consumers if they take out a loan when buying expensive products e.g. vehicles. Allows consumers a week during which they have the right to change their minds about agreeing to a loan.
- **Sale of Goods Act 1979:** makes sure products when sold, should work as expected & be undamaged. Goods should be as described & of the expected quality.

**Using information incorrectly:**
Businesses collect data about their customers much of it held on computers. Normal for businesses to have customers’ names, addresses, credit card details & tel. numbers- info must be used properly:
- **Computer Misuse Act 1990:** act prevents people looking at info stored on computer that they have no right to read.
- **Data Protection Act 1998:** controls use of consumers’ info. Business store info about consumers must do so securely & avoid theft/loss. Prevents consumers’ personal details being sold/ given to other businesses without the consumers’ agreement.

**Safety of products:**
- **Food & Drugs Act 1984:** laws list what can(not) added to food products
- **Consumer Protection Act 1987:** prevents firms selling dangerous products to consumers. Makes businesses liable for any illness or injury to consumers caused by their products.
- **Food Safety Act 1990:** illegal to sell food to consumers that is unsafe & may cause illness.

**How ICT can help small businesses to offer good customer service:**

**Information & communications Technology (ICT):** are the computing and communications systems that a business might use to help to give good customer service.

Help businesses to improve their customer service in many ways, and usually the amount of money that has to be invested in ICT is small.

**E-commerce:** is the act of selling a product using the internet.
E-commerce offers adv to small business:

**Global markets:** are made up of customers from across the world.

**Using Websites:**
New small businesses can have their own website, websites offer customer up-to-date info about businesses & the products that they sell. Relatively cheap form of advertising, website help offer good customer service:
- Give the customer info about business, includes: videos, pics, to tell them about the product & the business. Helps the customer to make a well-informed decision about whether or not to buy the product.
- Help advertise a small business to a much larger group of customers, leading to inc. sale. Can use it to sell its products to people world-wide.
- Include answer to frequently asked Qs (FAQs)- quick way for customers to find out- a way to find out simple answer- emails allow people to contact business fast who have any complaints/problems.
- Offer advice to current customers if they have problems with products they brought. May find a solution or can use site to contact business for help.

**E-commerce:** sell products directly through the web to customer- not expensive.- sent by post or specialist delivery services.
- Selling online means don't have to pay parts of profit on shops in return of selling their products.
- Order can be placed any time of the day- more sales. Shopping includes peoples free time to go shop -specific times.
- donot have to pay for a shop.
- Helps sell world-wide.

**Selling in global markets:**
World-wide & Popular- global market.

**TIP:** remember that owners & employees of small businesses might not have the skills needed to use technology. The costs of using technology can be high at first as it may mean that employees need training.

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### PRACTICE EXAM PAPER

**Time allowed**
1 hour

**Instructions**
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer all questions.
- You must answer the questions in the space provided. Answers written in margins or on blank pages will not be marked.
- Do all rough work in this book. Cross through any work you do not want to be marked.

**Information**
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 60.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in question 1 (c), 2 (c) and 3 (d).

#### ITEM A
Jane Lawson wants to start a company that produces cheerleading outfits in London. Jane wants to employ homeless people to manufacture and sell the products. Jane has no business experience but her friend Ravish has a degree in business and capital to fund a business start up.

1 (a) Describe what is meant by a social enterprise? (2 marks)
1 (b) Identify and explain one aim and one objective Jane could have for her company. (4 marks)

1 (c) Recommend whether Jane should be a sole trader or run the company as a partnership with Ravish. (9 marks)
ITEM B

Zyneb and Josh run a chain of milkshake shops called The Cow Shed, which allow customers to bring in or buy at the shop their own ingredients to make a milkshake of their choice. They have been currently making a small profit for the five years they have been trading. Currently The Cow Shed offers only milk shakes but Zyneb wants to start selling Coffee alongside their current product range. Josh feels there is too much competition from more established competitors.

Zyneb and Josh want to invest in new computerised cash registers to replace the system they have in place.

2 (a) Describe what is meant by a niche market? (2 marks)

(Extra space)

2 (b) Identify two appropriate methods of promoting The Cow Shed (5 marks)

(Extra space)

2 (c) Explain two suitable methods of market research they could conduct to decide whether to sell coffee. (5 marks)

(Extra space)

2 (d) Identify and discuss two sources of finance for the new computerised tills. Justify your choice of one. (9 marks)
ITEM C
Gary manufactures bicycles for adults and children. Gary sells 20 bicycles a month and at an average price of £200. Each bicycle costs £75 to produce. Gary also spends £50 a month to maintain a website for the company. At the moment Gary employs 7 people in a wide range of roles. Gary is currently using job production to manufacture the bicycles. Recently two bicycle shops have opened in the area, which has already affected Gary's sales. Gary is considering re-locating his business.

3 (a) Using ITEM C calculate how much profit Gary makes each month. Show all workings. (5 marks)

(Extra space) ............................................................................................................................

3 (b) Explain how moving from job to batch production will benefit the business. (5 marks)

(Extra space) ............................................................................................................................

Total marks for this question 21 marks.
3 (c) Describe the factors which affect the choice of location when Gary re-locates. (5 marks)
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3 (d) Discuss how Gary could respond to the threat posed by the new businesses opening. Give reasons for your answer. (9 marks)
Total for this question 24 marks.

END OF QUESTIONS