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# Topic 1.1.1 Dynamic Nature of Business

## Key Vocabulary

**Business –** an organisation that seeks to satisfy the needs and wants and wants of consumers through the production of goods and services

**Dynamic** – continual change

**Consumer** – the end user of the product or service

**Obsolete** – outdated; a product that has declining sales or come to an end

**Entrepreneur** – an individual who comes up with a business idea and is willing to take a risk to develop it

## Core Knowledge

The world changes constantly, and therefore so do consumer needs, and so businesses must therefore be dynamic to respond to these changes, or they risk failure.

Business ideas come about because of:

1. Changes in technology
2. Changes in what consumers want
3. Products and services becoming obsolete

Business ideas come about because

1. An entrepreneur has a completely original idea – this is invention
2. Adapting an existing idea – this is innovation

Adaptions to products can be:

- New flavours
- Different colours / pack sizes
- Online access to a product or service
- Offering personalisation

## Don't be a "man on the street"

- Innovation and inventions are not the same thing
- Avoid statements like "ALL customer have….."; "NOBODY uses…."
- Don't assume that all products that have declining sales will become totally obsolete – some see revivals, e.g. vinyl records
- Don't assume that all ideas will be successful – unfortunately a lot do not succeed

## Wider Business World

**Apple –** great example of business that continually adapts products

**Iceland** – changed from frozen only foods to non-frozen and non-food goods because this is what consumers want when they shop

## Synoptic Links

**Marketing** – the product life cycle states that all products eventually need to be removed from sale

**Technology** – changes in technology have led to obsolete products and changes in consumer tastes

**Role of enterprise** – entrepreneurs are the individuals who develop new ideas

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# Topic 1.1.2 Risk and Reward

## Key Vocabulary

**Risk –** something bad / negative that could happen

**Reward –** something good / a positive effect

**Financial –** related to money

**Non-financial –** non-money related

**Profit –** what a business has left from its income after paying all of its costs

## Core Knowledge

Starting and running a business are risky activities. A large percentage of start-up businesses fail in the first five years.

Risks are things that can go wrong. These include:

- Business failure
- Financial loss
- Lack of security due to not having a regular income

Business can fail because:

An entrepreneur does not know the market well
Not having enough capital to start the business
Poor decision making
Competition from other businesses
Not meeting the needs of customers

Rewards are what can be achieved through business success. These include:

- Profit
- Personal independence

## Don't be a "man on the street"

- Although risks can cause a business to fail, careful planning and research can reduce risks
- Don't confuse the term 'security'. It is not about prevention from theft, but about regular income

## Wider Business World

**Thomas Cook, BHS** – businesses that have failed. Find out why

**Richard Branson** – an entrepreneur worth billions, but he still takes risks when starting new ventures. Why would this be?

## Synoptic Links

**Role of enterprise** – entrepreneurs are the individuals who take risks

**Ownership** – different types of ownership have different levels of risk for the owner

**Customer needs** – knowing what these are helps to reduce risk

**Market research** – doing this helps to reduce risk

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# Topic 1.1.3 Role of Enterprise

## Key Vocabulary

**Goods –** physical items that a business can produce or sell

**Services** – non-physical products; things that you can experience, e.g. a haircut

**Needs** – the essential products that consumers need to survive: food, water, shelter, clothing, warmth

**Wants** – anything that is not a basic need.  Often referred to as luxuries

**Customer** – the person who buys the product

**Consumer** – the person who is the eventual user of the product

**Adding value** – adapting a product so that the selling price is higher that the cost of creating the product

**USP** – Unique Selling Point

**Factors of production** – resources needed to produce goods and service: land, labour, capital, enterprise

## Core Knowledge

A business will produce goods or services

Goods or services must meet the customer needs, or they will not sell

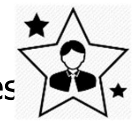
The entrepreneur is the uses and organises the four factors of production in order to produce goods or services.

A business can sell its product at a higher price than the cost of the manufacturing by adding value. This can be through:

- **Branding** – creating an image for a product that sets it apart, e.g. Apple logo
- **Quality** – for example using better cuts of meat in a pie
- **Design** – unique features and designs can lead to consumers paying higher prices
- **Convenience** – when something saves a customer time, this can lead to them paying a higher price, e.g. pre-prepared vegetables
- **USPs** – a characteristic or feature of a product that can not be replicated by an alternative

A business will be likely to use a combination of the above

## Don't be a "man on the street"



- Not all businesses produce goods; some produce services
- WiFi is not a need
- Don't confuse the terms consumer and customer
- Customers will not always want the cheapest product
- Adding value does not meet making the price higher

## Wider Business World

**Gap, Nike, Gucci** – examples of brands that cost a lot more than the actual cost of the materials

**McCain** – produce a lot of ready-meals and pre-prepared items that cost more than the ingredients

## Synoptic Links

**Customer needs** – knowing what these are helps to ensure that that the business is satisfying them

**Risk and reward** – the entrepreneur takes risks, in order to achieve rewards

**Marketing** – the use of branding and USPs

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# Topic 1.2.1 Customer Needs

## Key Vocabulary

**Customer needs** – the specific things that a buyer wants about goods and services

**Customer reviews** – feedback from customers, which can be online

**Word of mouth** – when a customer tells another person about a business

**Repeat purchase** – when a customer returns to the same business

## Core Knowledge

Customer needs are the specific wants or needs that buyers have when purchasing goods

Different customers have different needs

If a business knows and understands its customers' needs it is in a better position to produce the products that customers want, in the way that they want them, leading to increasing sales, and so contributing to long term survival

Customer needs are:

- **Price** that reflects the quality of the product, and is low enough to match consumer incomes
- **Quality –** usually more important for those with higher income levels
- **Choice –** consumers like to select from a range of options, e.g. different flavours, colours or packet sizes
- **Convenience –** making life easier for customers
- **Efficient and reliable service –** such as having enough stock, or longevity of a product
- **Design –** how good a product looks

## Don't be a "man on the street"

- Don't assume consumers always go for the cheapest opti – they have other needs that may override price depending on the circumstances

## Wider Business World

**Aldi & Lidl versus Tesco** – meet different need though the price level and choice available

**Banks** – a variety of ways to access your funds is convenience

**Takeaways** – offer convenience so we pay more than the cost of the ingredients

## Synoptic Links

**Market research –** this is how a business finds out customer needs

**Market segmentation** – how we divide up customers into smaller groups with similar needs

**Added value** – meeting customer needs can allow a business to charge higher prices, i.e. add value to a product

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# Topic 1.2.2 Market research

## Key Vocabulary

**Market research –** the process of gathering, processing and interpreting information about consumers' behaviour

**Secondary research –** using research that has already been carried out for another purpose

**Primary research** – collecting new information

**Qualitative data** – research into opinions and views

**Quantitative data** – data that is numerical

**Focus group** – a small number of consumers who have a discussion

**Market trends** – an overall pattern related to products

**Market gap** – where demand is not being met by the existing products available

**Bias** – a one-sided view

**Sample-size** – the number of consumers that are involved in market research

## Core Knowledge

The purpose of market research is:

- To identify and understand customer needs
- Identify market gaps
- Reduce risk
- Inform business decisions

Methods of research are:

- **Primary** – collecting brand new data to meet the specific needs of the business
- **Secondary** – using research that has already been gathered

Social media has made it easier to collect data using comments, reviews, surveys, and online focus groups

Trends can be identified from tracking hashtags

| | Benefits | Limitations |
|---|---|---|
| Primary | • Up-to-date information<br>• Information secret from competitors | • Can be expensive<br>• Can be time consuming<br>• Results may be inaccurate |
| Secondary | • Easy to find<br>• Cheap or free to obtain<br>• Good overview of whole market | • May be inaccurate<br>• Can be out-of-date<br>• Likely to be unrelated to business needs |

## Don't be a "man on the street"

- Don't assume that a market gap will guarantee success
- Remember that research can be unreliable if the sample size is too small, the wrong target market are questioned or the sample is biased

## Wider Business World

**Innocent Smoothies** – conducted initial market research at a festival using two bins – Yes or No to launching their business

**Survey monkey** – a free online survey platform making it easier to conduct research

## Synoptic Links

**Market segmentation** – how we divide up customers into smaller groups with similar needs

**Customer needs** – market research aims to find out what these are, if they are being met, and what else is wanted

**Risk and reward** – market research can reduce the risk

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# Topic 1.2.3 Market segmentation and market mapping

## Key Vocabulary

**Market segmentation –** splitting up all consumers into different groups that have similar needs or characteristics

**Target market** – the specific market segment a business aims to sell to

**Demographics** – customers based on statistical data relating to the population, e.g. resident or marital status

**Market map** – a diagram that positions all products within a market using two features, e.g. price and quality

**Socio-economic group** – a method of segmenting that uses income and class / occupation to classify people

## Core Knowledge

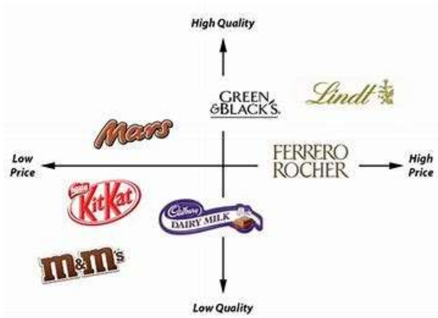
Markets can be segmented by

- **Location**, i.e. where you live
- **Demographics**, e.g. targeting families rather than single people; home owners rather than renters
- **Lifestyle**, i.e. the choices made about how to spend free time and hobbies consumers have
- **Income**, i.e. by how much you earn, the job you do or your social class
- **Age,** i.e. by how old you are

A market map can be used to position and compare products in a market

Allows a business to identify the competition the business faces and any potential gaps in the market

BUT….this may be simplistic and is based on subjective opinion so may not be reliable




## Don't be a "man on the street"

- Don't assume that a gap on a market map indicates a gap to be filled – it could be there because there is no demand for that type of product
- Be careful not to say ALL or WILL – adapt to MOST, MORE LIKELY, e.g. *Most* women are *more likely* to buy make-up than men

## Wider Business World

**Hotel market** – consider the target market of the Savoy compared to a Premier Inn

**Ford cars** – products lots of products to target different segments

**Taylor Wimpey** – a house builder. They produce lots of varieties of new homes to target different groups in terms of income, location and family size

## Synoptic Links

**Market research** – information gathered can help a business to identify which segments to target

**Marketing mix** – the elements of marketing. These will be different for different target markets

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# Topic 1.2.4 Competitive environment

## Key Vocabulary

**Market –** the potential buyers for one product; where goods and services are exchanged

**Competition** – where there is more than one business attempting to attract the same customers

**Monopoly** – a market where there is only one business

**Oligopoly market** – a market where there are a few firms that dominate the market

**Competitive market** – where there are lots of small firms offering very similar products

**Differentiation** – strategies and techniques that a business uses to make their product stand out

**Market share** – the percentage of sales within the market that one business has

**Competitive advantage** – where one business has 'the edge' over the others in a market

## Core Knowledge

A business will need to compete in different ways depending on how competitive the market is. Some firms will choose to use differentiation to stand out from the others, e.g. through the use of branding or offering a USP.

Ways to compete:

- **Price** – offering lower prices can increase demand, but reduces profit margins, and can increase costs. Other businesses may do the same and result in a price war
- **Quality** – improving the quality of raw materials or ingredients, but this increases costs, although customers may be willing to pay higher prices
- **Location** – can attract customers if it is easy to access, has parking, or has a lot of passing trade. However, good premises cost more
- **Product range** – offering lots of choice to the consumer or specialising to provide a better service
- **Customer service** – through great staff, although this costs to train them, or excellent after-sales service

A business may be able to gain a competitive advantage though one of these methods to order to encourage repeat custom and great reviews

## Don't be a "man on the street"

- Don't confuse the term 'market' in a business sense with an actual street market
- Don't assume that a new business can simply compete by offering lower prices – larger firms can negotiate better prices from suppliers
- Remember than improving quality will increase costs

## Wider Business World

**Holiday market** – very few firms now, especially following the collapse of Thomas Cook. An example of an oligopoly

**London Underground** – a monopoly market because there is only one tube firm

**Hairdressers** – very competitive market

## Synoptic Links

**Customer needs –** many of the ways businesses compete are the same as customer needs

**Marketing mix** – this will need to be adapted depending on the level of competition

**Market mapping** – what are your competitors offering? Knowing this can help a business decide on how to compete

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# Topic 1.3.1 Business Aims & Objectives

## Key Vocabulary

**Aims –** a long term goal a business wants to achieve

**Objectives** – more specific measurable steps

**Financial aims** – goals related to money, e.g. survival, profit levels

**Non-financial aims** – goals related to non-monetary aspects, e.g. ethical or environmental issues

**Survival** – having enough sales to cover costs and still be trading

**Profit** – when revenue is greater than costs

**Sales volume** – the number of products sold

**Market Share** – the percentage of total sales that one business has

**Ethical** – morally correct

**Shareholder** – an individual who owns part (a share) of company

**Dividend** – the percentage of profit that is paid to shareholders of a company each year

## Core Knowledge

**What is an Aim?**

Aims are long term goals. Objectives are more specific measurable, time constrained steps. The best objectives are **SMART**.

**SMART** – **S**pecific, **M**easurable, **A**chievable, **R**ealistic, **T**ime-framed

**Examples of Aims:**

- **Financial** Aims: Survival, maximise or increase profit, growth, increase dividends to shareholders
- **Non-financial** aims: ethical, e.g. no animal testing, achieve customer satisfaction, achieve a personal challenge or independence

**Why set objectives?**

Objectives help a business to have a focus, allow them to monitor progress, and to set individual objectives for employees to motivate them

## Don't be a "man on the street"

- All businesses aim to make a profit – not true! Social objectives can be important and so can personal objectives
- Businesses will change their objectives over time – don't assume that they always are aiming for the same thing

## Wider Business World

**Tesco –** used to aim to have more than 50% of its revenue from non-food. Changed after Aldi and Lidl gained 10% market share between them

**M&S** – aims are about environment and sustainability not profit

**Dyson** – James Dyson had a personal objective: to be successful rather than profitable

## Synoptic Links

**Enterprise** – the non-financial rewards for entrepreneurs are similar to non-financial objectives

**Financial data** – understanding the difference between survival (break-even) and profit

**Ownership** – only companies will have shareholders; smaller businesses are more likely to have personal objectives

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# Topic 1.3.2b break even

## Key Vocabulary

**Revenue –** Also called **Turnover**, **Income** and **Sales**. This is the money generated from selling your products

**Output** – quantity of products produced

**Fixed costs –** costs that do not change as the level of production changes. They must be paid even if output/sales are zero, e.g. rent, rates

**Variable costs –** costs that change in direct relation to the amount sold or produced by a business, e.g. raw materials, packaging

**Total costs –** All costs added together

**Profit** – when revenue is greater than costs

**Loss** – when revenue is lower than costs

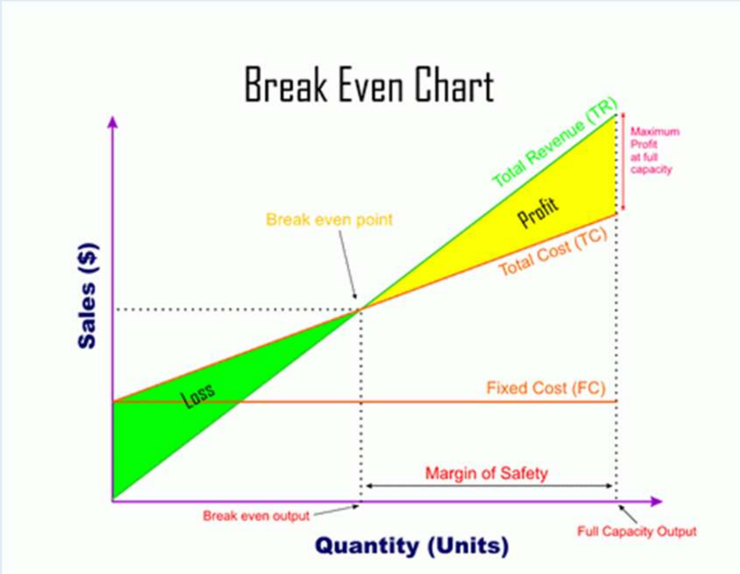
**Breakeven point –** when total revenue = total costs

**Breakeven output** – the number of products needed to break-even

**Margin of safety** – number of products produced above breakeven

## Core Knowledge

Calculating breakeven allows a business to use all its costs to calculate how many products it must sell to cover ALL costs.




The contribution method is a quicker, more accurate way to calculate breakeven:

**Break-even** = Fixed costs ÷ (Selling price – variable cost)

## Don't be a "man on the street"

- A business can easily lower the breakeven point by reducing costs - this may not be true. Fixed costs are out of the control of the business, and buying lower cost materials can affect quality
- Increasing price will make more profit for a business – not always! Increasing the price, will lower the breakeven point, BUT may lead to lower sales

## Wider Business World

**Gordon Ramsey –** watch any of his 'Nightmare' shows to see how he talks about knowing the break-even number of meals, and the importance of costing each meal

**High street retailers** – consider the impact of COVID19 on the breakeven point of most retailers: what were their costs and revenue during this period

## Synoptic Links

**Costs –** knowing the difference between fixed and variable costs and being able to calculate costs and revenue

**Aims** – breakeven (survival) is an aim for a start-up business, or one in a struggling market

**Business plans** – this information is needed in the plan to present to investors

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# Topic 1.3.2a Revenue, Costs and Profit

## Key Vocabulary

**Revenue –** Also called **Turnover**, **Income** and **Sales**. This is the money generated from selling your products

**Demand** – a business term for the quantity of products sold

**Fixed costs –** costs that do not change as the level of production changes. They must be paid even if output/sales are zero, e.g. rent, rates

**Variable costs –** costs that change in direct relation to the amount sold or produced by a business, e.g. raw materials, packaging

**Total costs –** All costs added together

**Profit** – when revenue is greater than costs

**Loss** – when revenue is lower than costs

**Interest** – a percentage charge on borrowed money / percentage reward for saving money

## Core Knowledge

| Fixed costs | Variable costs |
|---|---|
| Rent | Raw materials |
| Rates | Packaging |
| Electricity / heating / phone bills | Delivery costs |
| Salaries | |

**Revenue** = Number of items sold x Selling price per unit

**Total Variable cost** = variable cost per item x number sold

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

**Interest charged** = amount borrowed x (interest rate ÷ 100)

**Total amount repaid** = amount borrowed + interest charged

**Monthly payments** = Total amount repaid ÷ (years of loan x 12)

**% interest charged** = (total repayment – borrowed amount) ÷ borrowed amount x 100

## Don't be a "man on the street"

- Interest is not about how much people like your product!
- Revenue and profit are VERY different
- Loans are not paid at the end of the term – they are paid in instalments each month
- Borrowing money is debt. Debt is *not* a bad thing unless, the business can not pay it back

## Wider Business World

**Amazon –** has no high street retailers so has fixed costs than a lot of other businesses

**Bank of England** – sets the base rate for interest that other lenders then use

## Synoptic Links

**External factors** – changing interest rates can have an impact on consumer spending

**Breakeven** – when total costs are exactly the same as total revenue

**Cash flow** – unpredictable or inconstant revenue can impact on cash flow

**Sources of finance** – interest is charged on borrowing

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# Topic 1.3.3 Cash flow forecasting

## Key Vocabulary

**Cash –** the money a business holds in notes and coins and in its bank accounts

**Cashflow –** the movement of money in and out of a bank account

**Insolvency –** when a business lacks the cash to pay its debts

**Overdraft –** the amount of an agreed overdraft facility that a business uses; when a business has a negative bank balance

**Overdraft facility –** the maximum amount that a business is allowed to into negative balance on its bank account

**Cash inflows –** money entering the bank account, e.g. from sales

**Cash outflows –** money leaving the bank account, e.g. bills for supplies

**Net cash flow –** inflows minus outflows

**Opening balance –** the amount of money at the start of the month

**Closing balance –** the amount of money at the end of the month; Opening balance ADD net cash flow

## Core Knowledge

A business will **predict** the amount of money that will enter and leave the business each month.

This allows the business to identify any periods of shortfall, to plan how to deal with this.

Businesses need cash to pay suppliers, employees and all the overheads.

Difficulty can arise if businesses allow customers to pay on **credit**.

Cash needs to be managed by arranging an overdraft, keeping costs down, keeping inflows up

Improve cash flow by cutting stock levels, increase credit from suppliers, reduce credit to customers

| | Aug | Sept |
|---|---|---|
| Cash inflows | 0 | 85 |
| Cash outflows | 185 | 75 |
| (A) Net cash flow | -185 | 10 |
| (C) Opening Balance | 250 | 65 |
| (B) Closing balance | 65 | 75 |

**(A) Net cash flow** = inflows - outflows

**(C) Closing Balance** = Opening + Net Cash flow

**(B) Opening Balance** = last month's closing balance

## Don't be a "man on the street"

- Do not confuse cash & profit – they are very different things
- A cash flow forecast is a prediction not what has happened
- An overdraft does not mean the business will fail – it simply means that in that month outflows exceeded more than inflows. Debt is not always a bad thing!
- Lots of cash in the bank is not always a good thing – this could be invested to improve the business

## Wider Business World

**Retailers –** they often have seasonal or unsteady cash flow as they need to buy stock before they can sell it

**Hotels / restaurants** - may have seasonal business, so it will be important to build up a balance to support them through periods of low sales

## Synoptic Links

**Costs & Revenue –** know which items are revenue (inflows) and which are costs (outflows)

**Sources of finance –** if outflows are greater than inflows, short term finance is needed

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# Topic 1.3.4 Sources of finance

## Key Vocabulary

**Interest –** the charge on borrowing money

**Share capital** - the investment raised from selling shares (part of the company) to investors

**Dividends** – the part of the profit that is paid to shareholders as a reward for their investment

**Loan** – borrowing an amount of money from the bank which is paid back in monthly instalments at a fixed rate of interest

**Mortgage** – a type of loan that is secured on property. Interest can be fixed or variable

**Venture capital** – a combination of share and loan capital providing by an investor willing to take a risk

**Retained profit** – profit kept by the business from previous years

**Crowdfunding** – raising capital online from lots of small investors

**Overdraft** – having a negative bank balance

**Trade credit** – buying goods and paying for them at a later date

## Core Knowledge

A business will need finance at three key times:

- At start-up to help fund start-up costs, e.g. initial stock
- During periods of expansion to fund new buildings, legal costs, etc
- During periods when cash flow is poor

Short term finance (trade credit and overdraft) are for small amounts and short periods of time. Long term sources are for longer periods and larger amounts.

| | Benefit | Limitation |
|---|---|---|
| **Overdraft** | Flexible – only use what you need when you need | High interest rates |
| **Trade Credit** | Free; helps cash flow | Might not be granted |
| **Personal savings** | No interest to repay | Might not have enough |
| **Retained profits** | No interest to repay | New businesses won't have any |
| **Venture capital** | Advise and support provided | Have to share profit |
| **Share capital** | No need to repay | Have to share profit |
| **Loan** | Fixed monthly payments helps cash flow | Time to arrange and may not be granted |
| **Crowdfunding** | Risk is shared among many people | May not raise enough |

## Don't be a "man on the street"

- Being in debt is not a bad thing and won't always lead to business failure
- The interest rate, is not to do with the number of people who want to buy, but the charge you pay on borrowing money
- Remember you pay back loans and mortgages each month, not at the end of the time period

## Wider Business World

**Dragon's Den –** the Dragons are venture capitalists

**Go Fund Me** – an example of a crowdfunding website

## Synoptic Links

**Interest –** calculating and understanding the interest rate will help to understand which sources are cheaper

**External factors** – influences on businesses include the interest rates

**Ownership** – remember that only LTDs can sell shares

**Costs & breakeven** – interest and loan payments are fixed costs

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# Topic 1.4.1 Business Ownership

## Key Vocabulary

**Unlimited liability –** where the owner's responsibility for debts has no limit, so personal possessions are at risk

**Limited liability –** owner's responsibility is limited to the amount of the original investment

**Sole trader –** a business owned and run by one person

**Partnership –** a business jointly owned by 2-20 people

**Silent partner** – a person who invests into your partnership but does not run it

**LTD** – a private limited company

**Shareholder** – someone who owns part of a company (LTD or PLC)

**Employees** – people who work for your business

**Franchising** – allowing others to use your business name

**Franchisee** – someone who buys into a franchise

**Franchisor** – a person or business who allows others to buy into their franchise business

**Incorporated** – where the business is a separate legal entity to the owners

## Core Knowledge

There are various ways a business can be owned, amongst them

- Sole traders
- Partnerships
- Private limited companies
- Franchise

| | Advantages | Disadvantages |
|---|---|---|
| **Sole trader** | Easy to set up<br>Keep all profits<br>Make all decisions | Unlimited liability<br>Long hours and few holidays<br>Unincorporated |
| **Partnership** | More ideas<br>Can share workload / specialise<br>More start-up capital | Unlimited liability<br>Unincorporated<br>Possibility of disagreements<br>Need to share profits |
| **LTD** | Incorporated<br>Limited liability<br>Easier to raise capital | More expensive to set up<br>Must publish accounts every year<br>Profits shared between shareholders |
| **Franchise** | Already successful<br>Support with training<br>Easier to obtain finance | Rules about what you can sell and how<br>Start-up fee and % of revenue have to be paid to franchisor |

## Don't be a "man on the street"

- Not all businesses are called companies
- Not all business owners are shareholders
- Limited liability means you don't need to pay bills; this is only the case in the event of the business failing
- Sole traders can still have employees

## Wider Business World

Franchise examples include Subway, BSM, JoJingles

LTDs include New Look, Eddie Stobbart

## Synoptic Links

**Risk and reward** – an entrepreneur will need to consider the risk of financial loss

**Business growth** – why a business might choose to change ownership

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# Topic 1.4.2 Business Location

## Key Vocabulary

**Location** – where a business operates

**Proximity** **–** nearness to; how near you are to something

**Market** – the customers / people and businesses who will buy your products

**Labour** – staff who work for you

**Raw materials** – the things a business needs to make its products

**Primary sector** – businesses that extract and provide raw materials from the land, sea or air

**Secondary sector** – businesses that convert raw materials into a finished product

**Tertiary sector** – service-based businesses

## Core Knowledge

Business location is where the business operates. This may be a fixed location on online.

For some businesses the location is more important than others. A business will need to consider

- The nature of the business
- What sector it operates in
- The market / customers' needs
- Type and amount of labour required, i.e. near to labour if skilled labour is needed, and concentrated in a specific area
- Type, size, amount of materials required to produce the product
- Competitors – locate close when customers visit an area for a specific purpose, e.g. a town centre for a night out
- Costs – city centre locations are more expensive than out of town locations

The internet has had a significant impact on location. Small businesses can now use online sites such as ebay and etsy.

Using e-commerce can reduce fixed costs, and allow a business to offer a greater choice, but the business must have efficient distribution systems and an effective returns service

## Don't be a "man on the street"

- Not all retailers sell online as well
- Ebay is for business sellers as well as second hand items
- Cheapest location is not always best

## Wider Business World

**Amazon** – arguably the most successful internet based business

**Primark** – most of the stores in large town centres to benefit from being near customers

**Beauticians / hairdressers** – often set up close to competition to benefit from passing trade

**Medical research** – often located near to a large university

## Synoptic Links

**Technological influences** – the introduction of the internet meant that businesses no longer needed a fixed premises

**Marketing mix** – location costs can affect price; internet affects the place element

**Globalisation** – some businesses can now choose to locate in different parts of the world

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# Topic 1.4.3 Marketing Mix

## Key Vocabulary

**Product** – the actual specific item produced by the business

**Price** – what the customer will pay for the product

**Promotion** – the mix of methods that are used to persuade customers to buy

**Place** – how and where the product gets to the consumer from the supplier

**Customer** – person or business that buys the product

**Consumer** – the end user of the product

**Retailer** – a business that buys from the manufacturer and sells then onto the customer

**Wholesaler** – a business that buys in bulk from manufactures and sells in smaller quantities to retailers

**e-tailer** – an online retailer

**USP** – unique selling point; something that is unique to that product and makes it stand out against the competition

**Target market** – the specific group of customers a business is targeting in terms of gender, income, lifestyle,

## Core Knowledge

Also referred to as the 4Ps. All factors must work together to enable a product to be successful.

- **Product** – this must meet the customer needs and be developed based on market research. A business will need to consider its range, brand and USP. The design, aesthetics and function must all work together
- **Price** – what will be charged. This must be appropriate for the target market, and quality of the product. Usually high quality products have higher prices.
- **Promotion** – the combination of activities that create awareness, boost sales, build a brand and communicate features, including advertising, special offers, publicity and public relations
- **Place** – the methods that are used to get the product from the manufacturer to the consumer, for example through a specialist shop, the internet or a general retailer

Changing customer needs will impact on a marketing mix. For example, an increase in customers wanting plant-based food, will mean that food manufacturers will need to develop new products.

Changes in technology, have impacted on all aspects of the marketing mix: a business can use social media to conduct research to develop products; customers can compare prices more easily; promotion can be digital.

## Don't be a "man on the street"

- Place is not the same as location
- Promotion is not just advertising
- Lower priced products do not always sell more; quality is also important

## Wider Business World

**Apple –** price, place, product and promotion all link

**Chanel** – will not allow Superdrug of cheaper retailers to stock its perfume

**RyanAir / EasyJet** – their prices are much lower than other airlines. Consider how their product and promotion reflects this

## Synoptic Links

**Technological influences** – the introduction of the internet has affected the place

**Customer needs** – the product needs to meet these

**Market research** – will need to be effective for the business to decide on each P

**External influences** – may affect customer income, affecting the price a business can charge

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# Topic 1.4.4 Business Plans

## Key Vocabulary

**Business plan** – a detailed documents setting out the marketing and financial thinking behind a proposed business

**Entrepreneur** – an individual who combines the factors of production to create a product, often taking risks

**Aims** – the long term goals of a business

**Target market** – the specific group of consumers a business is aiming to sell their product to

**Revenue** – the income from sales of the products

**Costs** – items such as rent, rates that a business must pay

**Profit** – revenue minus costs

**Cash flow forecast** – a prediction of the inflows and outflows of money the business will have each month

**Sources of finance** – places, businesses or people that a business can get money from in order to pay start-up and running costs

**Location** – the place where a business operates

**Marketing Mix** – a combination of the 4 Ps; product, price, place and promotion

## Core Knowledge

**Why plan?**

- To reduce risk of failure
- To encourage investors
- Forces the entrepreneur to consider all aspects of the business
- Provides something to refer to and provide direction

**Contents**

1. The business idea
2. Aims and Objectives of the business
3. Target market
4. Forecast revenue, costs and profit
5. Cash flow forecast
6. Sources of finance
7. Location
8. Marketing Mix

**Limitations**

Planning does not guarantee success

Problems can arise if the plan is not flexible and include contingency plans

## Don't be a "man on the street"

- A plan will guarantee an investment – not the case. Banks and venture capitalists are experienced and will be able to spot unrealistic forecasts
- A lot of research will need to go into a plan. An entrepreneur can not write one overnight or without extensive research

## Wider Business World

Watch Dragon's Den – who has a business plan? Are they more likely to get investors?

## Synoptic Links

**Aims and Objectives –** what is the purpose of writing these

**Marketing Mix** – need to be included

**Market research** – types that can be done and reasons why it is necessary

**Risks and rewards** – planning reduces the risk to an entrepreneur

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# Topic 1.5.1 Stakeholders

## Key Vocabulary

**Stakeholder –** anyone with an interest in the business

**Shareholder** – someone who owns part of a company (LTD or PLC)

**Employees** – people who work for your business

**Customer** – someone who buys from your business

**Manager** – someone with a position of responsibility within a business organisation

**Supplier** – someone or a business that provides stock or materials to a business

**Local community** – the people who live around the business

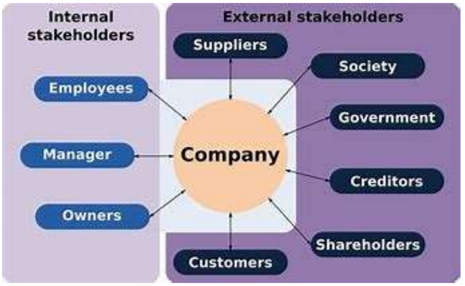
**Pressure group** – an organisation that will campaign for something specific, e.g. workers rights, environmental protection

**Government** – political power that can set laws and regulations that a business must follow

**Conflict** – when stakeholders groups do not want the same thing from a business

## Core Knowledge

Stakeholders are anyone interested in the activities of a business.




Each group is interested for different reasons, e.g. employees want to be paid a reasonable income and have job security.

Stakeholders are affected by business activity, e.g. local community is affected by the noise, pollution and traffic congestion, but may gain job opportunities or community sponsorship.

Each stakeholder group can influence a business, e.g. customers can write reviews of the business

Stakeholder groups may want different things and so there may be conflict between their needs. A business will need to manage this to try to satisfy as many stakeholder groups as possible.

## Don't be a "man on the street"

- Don't confuse stakeholders and shareholders
- Stakeholders are not one collective group
- Managers and owners are not the same thing
- Not all business owners are shareholders

## Wider Business World

Plane Stupid is a pressure group that campaigns against increasing air travel

Greenpeace is a well known environmental pressure group

## Synoptic Links

**Ownership** – sole traders and partnerships have owners / LTDs have shareholders

**Customer needs** – meeting these is important

**Ethical & environmental considerations** – pressure groups can influence these

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# Topic 1.5.2 Technology

## Key Vocabulary

**e-commerce –** buying and selling of goods/services online

**m-commerce –** using a mobile device to trade online

**social media –** interactive channels of communication, via words, photos or videos, such as blogs, Facebook or Instagram

**digital communication –** messages or conversations conducted via email, text or social media

**digital payment systems –** ways of paying electronically, e.g. online payments, contactless and mobile payments

**debit card** – a payment method where the money is taken direct from the customers bank account

**credit card** – a payment method where the business gets paid, but the consumer owes the money to a credit company

## Core Knowledge

Technology has enabled businesses to develop in three main areas:

- **Trading** – being able to buy and sell online through their own websites or websites of a third part, allowing a business to reach a wider market
- **Communicating** – using websites, email, video conferencing allow business to communicate more regularly with consumers
- **Payments** – businesses can accept payments in more ways, attracting more consumers than before

**Impact on Sales** – businesses are likely to sell more because they can reach a wider market, BUT it is easier for consumers to compare prices, so small local businesses may suffer

**Impact on costs** – keeping up-to-date and installing technology is expensive and so increases costs, especially in the short term. BUT if a business can replace stores or staff with technology this can reduce costs in the long run

**Impact on Marketing Mix**

- **Product –** innovation needs to increase to keep up with changes
- **Price –** greater efficiency can reduce prices; consumers can compare so a business must be competitive
- **Place –** a business does not need a physical store. Trading can now be 24/7 365 days a year
- **Promotion –** quicker and cheaper; social media can be used; a business may encourage viral marketing

## Don't be a "man on the street"

- Don't assume everyone has technology or uses social med
- Don't assume that some social media is less popular than others just because you don't use it!
- Don't use brand names, such as Apple Pay or PayPal
- Not all businesses need to sell online to be successful – consider Primark

## Wider Business World

**Primark** – a business that does not have an e-commerce site, yet is successful

**e-bay** – auction site that enables small businesses to trade without a physical store

**amazon** – biggest e-commerce site

## Synoptic Links

**Marketing Mix –** e-commerce has affected all aspects of the 4 Ps

**Location** - e-commerce allows businesses to trade without a physical presence

**Customer needs** – technology helps to meet the need of convenience for the customer

**Costs, Revenue & profit –** technology affects costs, revenue and profit in both short and long term

**Globalisation** – technology has enabled more businesses to sell all over the world

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# Topic 1.5.3 Legislation

## Key Vocabulary

**Legislation -** laws

**National Minimum Wage –** the lowest amount an employee can be paid by law

**National Living Wage** – the minimum amount per hour for a 25-year-old or older

**Equality Act 2010** – Main employment legislation that replaced lots of other laws. Makes it illegal to discriminate against anyone, e.g. because of race, religion, gender

**Health & Safety at Work Act** – law that helps to ensure that all risks to employees are minimised and properly controlled

**Consumer Rights Act** – law that covers how goods and services are sold

**Discrimination** – treating one person differently to others because of a specific trait such as their gender

**Red tape** – the term for extra administration needed to meet legal requirements that affects the business acting as it wants to

## Core Knowledge

Employment legislation protects the rights of employees from any actions of their employers

Consumer legislation protects the rights of consumers from any harm that might be caused by using or consuming a product or through transaction with a business

Businesses must pay the at least the minimum wage, or they are breaking the law. This can increase costs. BUT paying a rate above the minimum can lead to good publicity and more staff wanting to work for you.

All goods must be **fit for purpose**, **match the description** and be of **satisfactory quality.** If they are not, the consumer can ask for a **Refund**, **Repair** or **Replacement**.

**Impact on costs -** Meeting legal requirements increases costs – better quality materials, checking adverts are correct, extra time for staff to complete and check paperwork, training staff

**Impact on sales** – meeting or going above legal requirements can improve reputation and therefore increase sales through recommendations, repeat custom and positive reviews

**Consequences** – breaking the law can lead to fines, bad publicity or even a jail term

## Don't be a "man on the street"

- Remember you cannot get a refund if you simply change your mind – many retailers offer this but is not illegal to refuse
- Health & Safety is the responsibility of the employee as well as the employer – if safety clothing is provided you MUST wear it by law
- You do have different rights when you buy online
- If the item is faulty it is the retailer's responsibility, not the manufacturer

## Wider Business World

**Lidl –** pays more than Living Wage

**Which** – consumer association brand name. A group that raises awareness of consumer rights

## Synoptic Links

**Marketing Mix –** legislation has affected the Product, Price and Promotion elements

**Costs, Revenue & profit –** legislation increases costs for a business

**Recruitment** – employment legislation affects the way a business can advertise vacancies

**Globalisation** – a business will ned to be aware of different legislation if it trades in multiple countries

**Ethics** – some businesses will go further than the minimum legal requirements

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# Topic 1.5.4 Economic Influences

## Key Vocabulary

**Economic climate –** overall performance of an economy

**GDP** – Gross Domestic Product. A measure of the total value of goods produced in an economy

**Consumer income** – the money an individual has left after paying taxes and essential living expenses

**Unemployment** – a measure of the number of people without a job who are actively seeking one

**Corporation Tax** – charge on the profits of a business

**VAT** – Value Added Tax. A charge on good sold

**Income Tax** – a tax paid by individuals from their wages / salaries

**Inflation** – a general rise in prices over time

**Interest Rate** – the charge for borrowing money or the reward for saving money

**Exchange rates** – the value of one currency against another

**Recession** – a period of economic downturn

**Boom** – a period of economic prosperity

## Core Knowledge

The more a country produces, the more consumers can buy – this makes the economy stronger

Consumers will spend more when they have a higher income. As incomes rise more money is spend on luxury goods

Unemployment is bad for the economy. High unemployment means less people have jobs, so incomes are lower. Businesses will sell less, employ less people and invest less. The government will receive less taxes and pay more benefits.

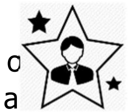
There are 3 main types of taxes:

- Those businesses pay – corporation tax
- Those the employed pay – National Insurance and Income Tax
- Those consumers pay – council tax, VAT, Duties, Road Fund Licence, etc

Increases in taxes reduce consumer spending and raise costs for businesses, but do raise finance for the government

An increase in interest rates will raise the cost of borrowing, so reduce consumer income, leading to a fall in consumer spending

## Don't be a "man on the street"



Inflation is an increase in prices, so in *real terms*, consumers will be worse o income does not rise at least as much as inflation. So inflation will lead to a consumer spending.

Exchange Rates affect the cost of importing – remember **SPICED** (**S**trong **P**ound, **I**mports **C**heaper, **E**xports **D**earer)

- Remember it is the Banks that set interest rates not the government.
- Taxes are decided by the government
- Not ALL business are affected by changes in the same way – a fall in income for example can help Poundland but not a luxury brand

## Wider Business World

**Poundland / 99p shop** – discounters who will do well in recession

**Aldi / Lidl** – increased their market share in last recession

## Synoptic Links

**Breakeven** – changes to taxes, inflation, exchange rates and interest rates can all increase the costs of a business

**Ownership** – only companies pay Corporation Tax, sole traders and partnerships pay income tax

**Sources of finance** – changes to interest rates increase the cost of borrowing, e.g. loans, overdrafts, mortgages

**Globalisation** – changes to exchange rates can make selling abroad more or less attractive

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# Topic 1.5.5 Business response to external influences

## Key Vocabulary

**Obsolete** – out of date or not used anymore. An impact of not adapting to new technology

## Core Knowledge

Responses to technology:

- Merge with other businesses
- Install similar technology – increasing costs in short term
- Change production methods or product

Responses to changes in legislation

- Employ more staff to deal with paperwork / red tape
- Cut back or scrap an area of business
- Invest in technology to meet requirements

Responses to changes in the economic climate:

- Hire staff, invest in equipment, develop new products during good economic times
- Adjust marketing mix
- Spread risk through operating in more than one country or producing a variety of goods that match different consumer needs

## Don't be a "man on the street"

- Remember that businesses have to continually adapt and chang in order to be successful
- Not all consumers or businesses will be affected in the same way by changes, so use words such as 'most' when analysing

## Wider Business World

**Sainsbury** – bought Argos in 2016 to take advantage of their 'click and collect' service

**Independent** newspaper – now only online

**Jaguar Land Rover** – spread production across world to minimise effect of exchange rates

## Synoptic Links

**Technology** – the way in which technology has changed

**Legislation** – three main areas of law affect businesses

**Economic influences** – changes to economic factors can affect consumer income, therefore affecting spending

**Globalisation** – moving production overseas can be a way to minimise impact