

1. Dynamic Nature of Business

Dynamic - "constantly changing"

This change results in **new businesses**, and the development of **new ideas**



1. TECHNOLOGY

Results in products and services that are:

- Faster
- Smaller
- Cheaper
- Easier to produce
- Safer



2. CHANGING CONSUMER NEEDS

- Fashions
- Economy
- Lifestyle
- Demographics
- Technology



3. OBSOLESCENCE

Products and services become outdated quickly. Some products are even designed only to last a short amount of time

"PLANNED OBSOLESCENCE"



2. Risk and Reward

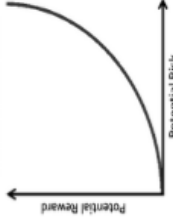
Risk- "probability of a negative outcome happening"

RISK

- Business failure
- Financial loss
- Lack of security

REWARD

- Business success
- Profit
- Independence

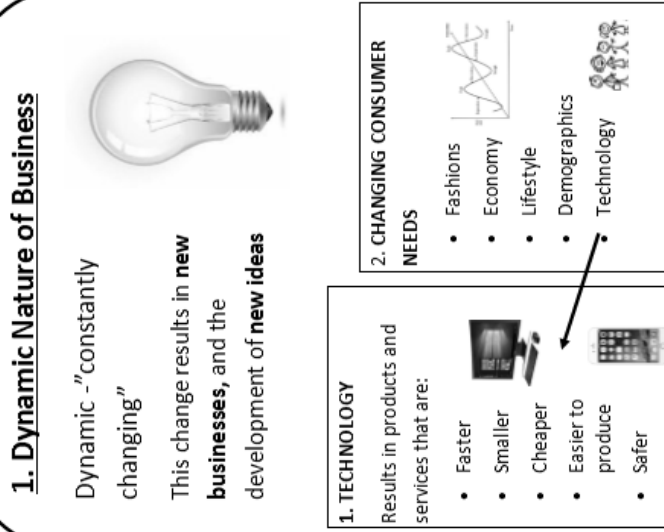
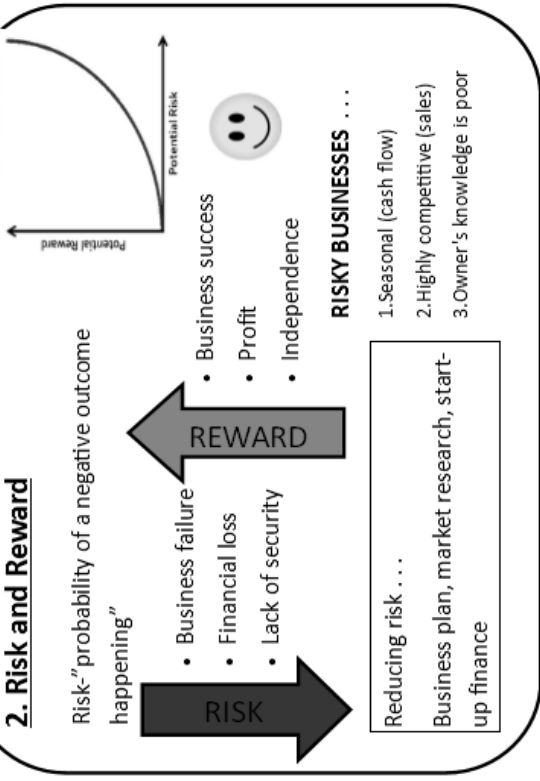


RISKY BUSINESSES . . .

1. Seasonal (cash flow)
2. Highly competitive (sales)
3. Owner's knowledge is poor

Reducing risk . . .

Business plan, market research, start-up finance



3. The Role of Business Enterprise



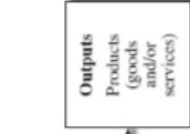
Suppliers



Business
Production and
transformation



Customers



Inputs
Resources such as:
Energy
Materials
Technology
People
Information
Finance

Outputs
Products (goods and/or services)

1.1 Enterprise and Entrepreneurship

4. Added Value

A successful business will be able to add value to their products and services. This can be done by lowering variable costs, or adding something that will make customers pay more

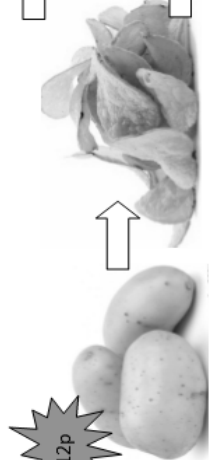
Ways to add value

1. Convenience
2. Branding
3. USP
4. Design
5. Quality
6. Customer service

| | |
|------|--|
| £100 | Price |
| £30 | Fixed cost added to what the business adds |
| £70 | Variable cost |

Calculating Value Added:
Selling price - production cost

42p



5. The Role of Entrepreneurship

Entrepreneur - "a person who owns and runs their own business. They are risk-takers who have an initial idea and the willingness and confidence to see it through"

This change results in **new businesses**, and the development of **new ideas**



CREATIVITY

The act of turning new and imaginative ideas into reality.



INVENTION

Creation of a new idea or concept



INNOVATION

Turning a new concept into commercial success of widespread use

Benefits to the economy:

Creating products and services to meet needs, creating jobs, generating economic activity through consumer spending, exporting goods abroad

1.1 Enterprise and Entrepreneurship

FOCUS Risk and Reward



Exam Focus

Reward



“The benefit (s) that an entrepreneur or investor receives when a business is successful. They include; business success, profit, independence”

1. Business success

Success can lead to a real sense of pride and achievement

2. Profit

If the business is successful the owner will take the profits as his earning. More profits, more money in the bank account!

3. Independence

Many people don't like being told what to do. Being an entrepreneur means to work for yourself and make all of your own decisions.



Risk

“The possibility that an enterprise will have lower than anticipated profits, experience a loss, or fail”



1. Business failure

Can occur because your business does not make enough sales revenue (lack of interest, poor market research, not meeting needs and wants). If your business is unable to purchase materials and continue it will fail

2. Financial loss

Businesses can be very expensive to run, and sole traders are likely to invest their personal money into the business. They could lose their savings, and if things don't go well their personal possessions.

3. Lack of security

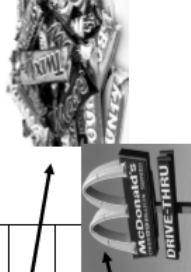
Choosing to set up on your own, often means you give up working for someone else where you would have been paid on a regular basis. This can mean you don't know when or if you will get paid (profits) from your business. This can make people feel very anxious



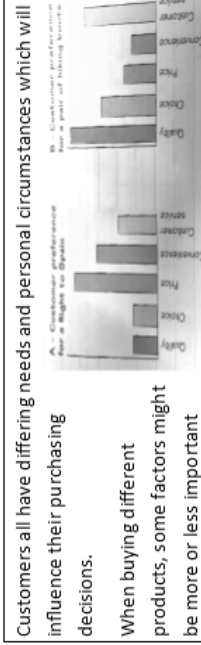
1.2 Spotting a Business Opportunity

1. Customer Needs

| | |
|---|------------------|
| 1 | Quality |
| 2 | Choice |
| 3 | Price |
| 4 | Convenience |
| 5 | Customer Service |



The ability to meet customer needs is important as it will encourage repeat purchase and attract new customers.



Customers all have differing needs and personal circumstances which will influence their purchasing decisions.

When buying different products, some factors might be more or less important

2. Market Research

The purpose of market research is to help a business understand its customers, competitors and the market, in which it operates, in order to make better business decisions

| | |
|------------------------------------|--|
| Purpose . . . | |
| • Find gaps in the market | |
| • Identify competitors | |
| • Understand trends | |
| • Reduce risk and inform decisions | |
| • Get feedback | |

| Primary Research Methods | |
|--------------------------|----------------|
| 1 | Surveys |
| 2 | Focus groups |
| 3 | Observations |
| 4 | Experiments |
| 5 | Questionnaires |
| 6 | Social media |

| Secondary Research Methods | |
|----------------------------|-----------------------|
| 1 | Internet sites |
| 2 | Local newspapers |
| 3 | Government reports |
| 4 | Market reports |
| 5 | Telephone directories |
| 6 | Sales data |

| |
|---|
| Limitations . . . |
| • Expensive |
| • Time consuming (for small businesses) |
| • Sample size—if too small, may not be reliable |

BIAS

Research can be biased if customers give the answers they think the business wants them to give. Bias easily occurs by not surveying a 'representative' sample of people

RELIABILITY

In order to make good business decisions the market research and data collected must be reliable. Coming from a representative sample, being accurate and relevant

| QUANTITATIVE | |
|---|--|
| Information about people's opinions, judgments and attitudes | |
| Data that can be expressed as numbers and statistically analysed. | |

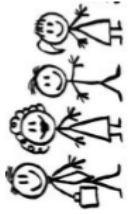


| QUALITATIVE | |
|---|--|
| Data that can be expressed as numbers and statistically analysed. | |



3. Market Segmentation

Market segment—"A group of buyers with similar characteristics"



| Methods of segmentation | |
|-------------------------|------------|
| D | Demography |
| I | Income |
| G | Gender |
| A | Age |
| L | Location |
| L | Lifestyle |

Benefits:

- Meet specific needs
- Differentiate products
- Focus on specific groups of customers
- Target marketing activity
- Develop a unique brand image
- Build relationships

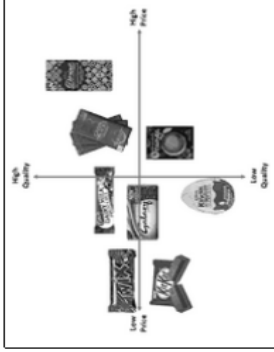
Drawbacks:

- Costly to cater for a range of customers
- Focusing on one type of customer, can mean your lose others
- Characteristics change over time

4. Market Mapping

Used to find a 'gap' in the market, and a businesses position in the market.

Compares two variables; usually price and quality



Helps identify opportunities



Help identify close rivals/competition

Helps support market segmentation

Based on opinions rather than data
Compares on only two variables



1.2

Spotting a Business Opportunity

5. Competition

Head-to-head competition, is to have similar products and compete on PRICE

A different way to compete is through DIFFERENTIATION



Differentiation:

1. Wider product range (store/branches)
2. Better customer service

Competitive Markets

Where there are a large number of businesses relative to the number of potential customers. Also true for commodity goods

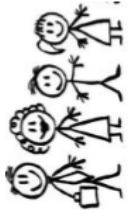
3. Stronger brand image (advertising)
4. More convenient location
5. Higher quality
6. Better design

Drawbacks:

- Low prices to attract customers
- Lower profit margins

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FOCUS

Market Research Methods



Primary Research Methods (field research)

Surveys- this is about gathering people's opinions and information about your business/ service. To survey—is to gather information about a market or market segment



Focus groups - getting people together to review a product idea. Focus groups allow people to give their detailed feedback and ask questions. Usually small groups of 5-12, it also gives the potential customer a chance to see the product, or try it



Observations - this is where you watch the customer and see what they do. For example, you could set up a supermarket display and then see how many people pick up a particular product. You could watch a certain aisle and see what product attract customers more and use this in your own marketing



Experiments - including product trials you would ask potential customers to use (or eat) your product to get their reviews. Apple did this with the iPhone X when they sent phones to journalists and social media bloggers to try to product two weeks before launch



Questionnaires - A quick way to gather a lot of information from the public. Simple forms can include open and closed questions



Social media - polls can be used on social media, as can peoples comments in relation to posts. This can be an effective method of getting a lot of feedback very quickly, due to sharing and communities on social media websites like Facebook and YouTube

Secondary Research Methods (desk research)



Internet sites - used to gain information about competitors as well as lots of other information. Quick to access and virtually free. Lots of information can be found



Local newspapers - newspapers can include names and adverts of other businesses and potential competitors.



Government reports - written about specific areas of government concerns like; health and obesity in the UK, transport reports, crime statistics



Market reports - written about purchasing habits and changes with a specific market; for example the confectionery, health and fitness or car market. Good for identifying trends



Telephone directories - excellent for identifying competitors and getting contact details. You could then use this information to find out about services and prices (competitor analysis)

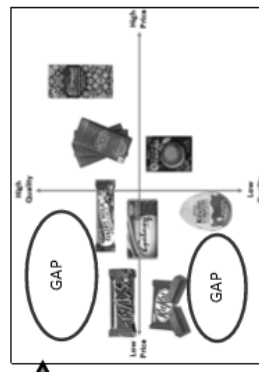


Sales data - having sales data and sale reports can allow you to find trends in purchases, which can be liked to consumer wants and needs. If something is reducing in sales, perhaps it is becoming obsolete

Market Map

Used to identify competitors in your market, and any gaps that you could fill with your business idea.

Find a gap, come up with a USP and gain customers!!



1.3 Putting a business idea into practice

2. Revenues, costs and profits

Revenue - Total Costs = Profits

Revenue

Selling price x quantity sold (SP x Q = Revenue)

Businesses can have multiple income streams—regular customers, impulse purchases, families to try and increase profits, but this is only effective if costs can be kept low



Total costs

Fixed costs + variable costs (FC + VC = TC)

Costs include all the things that businesses have to pay for in the running of the business and the creation of the product.

- Fixed costs—stay the same regardless of output
- Variable costs—increase with output

Gross profit = Revenue *minus* Cost of Goods Sold (COGS)

Net profit = Gross profit *minus* operating expenses

1. Aims and Objectives

An aim is what a business wants to achieve; whereas an **objective** is a smaller step to help achieve the aim. Objectives should be SMART (specific, measurable, achievable, realistic and time-bound)

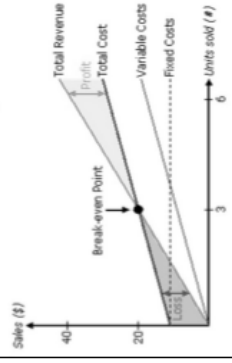
| Financial Aims | Non-financial aims |
|-----------------|----------------------------|
| 1 Survival | 1 Social objectives |
| 2 Sales targets | 2 Personal satisfaction |
| 3 Market share | 3 Challenge |
| 4 Profit | 4 Independence and control |



Different aims and objectives

Businesses are likely to have different aims and objectives based on; the industry the business operates in, the owners beliefs and priorities, and the length of time the business has been running.

Break Even Analysis



Break-even point occurs when:

Total revenue = total costs

Contribution method

$$BE = \frac{\text{fixed costs}}{\text{Contribution}}$$

(Selling price—variable costs)

Margin of safety

Actual Sales (budgeted) – Break even point in units

3. Cash and cash flow

Total inflows - total outflows = net cash flow

Importance of cash

A business that does not have enough cash will be unable to pay bills, and therefore fail, even if it is making a profit. Managing cash flow can be difficult because not all customers pay for good when they purchase them (credit sales), as they will be inclined to pay 30, 60 or 90 days later.

Effective cash flow management is necessary to avoid business failure through **INSOLVENCY**; and to:

- Maintain good relationships with suppliers—vital to ensure you keep receiving goods when you need them
- Enable to payment of overheads—electricity and other utility bills are essential and will be cut off if a business fails to pay
- Pay employees—wages, NI must all be paid every month (ON TIME)



The difference between cash and profit

Not all cash coming in is kept by the business—it is used to pay bills and other overheads. This will be the variable costs—related directly to making the product, but also contribute to some of the fixed costs (rent, salaries)

Once all of the costs have been covered—only then does a business have profit. Profit is money the business, or business owner, gets to keep.

4. Sources of business finance

At all times a business will need access to additional funds, and not just the cash from sales revenue. This can be used for day to day activities, purchases or growing the business.

Short-term sources

Used to help with a positive cash flow, for less than a year.

| | |
|---------------------|---|
| Trade credit | 30, 60, 90 days. Buy now, pay later following an invoice. There will be terms and conditions that must be maintained with the supplier for this agreement |
| Overdraft | Banks will allow you to withdraw more than is in your account, charged with interest so best used for emergencies only. |

Long-term sources

Used for large purchases, and will take over a year to payback

| | |
|------------------------|---|
| Loans | L Given by banks usually for between 3-10 years. Cash is received into the bank account very quickly once arranged. Paid bank monthly with interest |
| Retained profit | R If the business is profitable, they can reinvest this money the next year |
| Crowd funding | C Raising money telling people about your idea on the internet. Great for start-ups, but investors will want something in return; discounts/freebies |
| Savings | S Usually the owners capital put into the business at the start. |
| Venture capital | V Given to the business by investors (Dragon's Den) they will remain an owner for a short period of time, then you have to buy them out |
| Share capital | S Shares are sold, so people can be part owners in your business. Can raise large amounts, but you will lose control |

1.3 Putting a business idea into practice

| | | | | | | |
|----------------|-----|-------|-------|-------|-----|-----|
| | Jan | Feb | Mar | Apr | May | Jun |
| Sales | 200 | 150 | 175 | 250 | 125 | 350 |
| Loans | 0 | 0 | 0 | 0 | 500 | 0 |
| Total Receipts | 200 | 150 | 175 | 250 | 625 | 350 |
| Raw Materials | 150 | 200 | 310 | 200 | 230 | |
| Wages | 170 | 180 | 180 | 180 | 190 | 190 |
| Interest | 40 | 40 | 40 | 40 | 40 | 40 |
| Total Payments | 360 | 460 | 530 | 420 | 460 | 340 |
| Net Flow | 840 | (260) | (355) | (170) | 165 | 10 |
| Bank B/P | 0 | 840 | 580 | 225 | | 220 |
| Bank C/P | 840 | 580 | 225 | | 220 | 230 |

FOCUS Break even

Break even occurs when total costs = total revenue

The business will NOT be making any money, but they will have paid for everything that they need to (costs, bills, paying staff) After the break even point the business will begin to make a profit with each additional item sold

Revenue

Comes into the business from the customer. Revenue is made with every item that is sold. Total revenue is calculated by selling price x quantity (SP x Q)

Total costs

Fixed costs + variable costs (FC + VC)

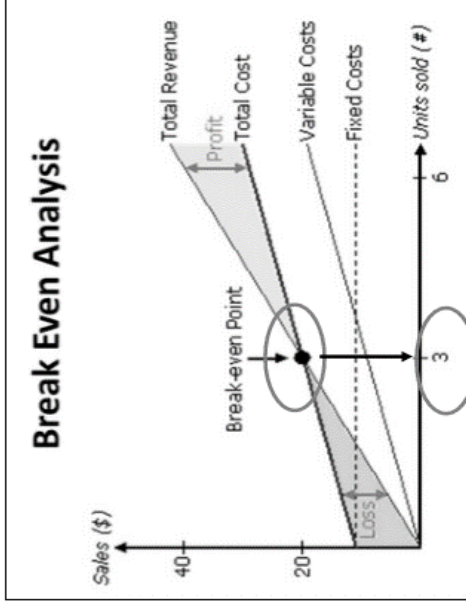
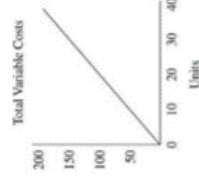
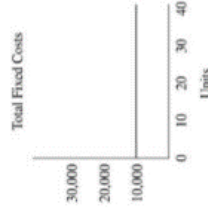
Fixed costs

Stay the same, regardless of output

E.g.. rent, salaries, advertising

Variable costs

Change in relation to output. The more you make, the more it costs, E.g. Raw materials, ingredients. Variable cost per item x quantity will give total variable costs.



Lowering the break-even point, will mean that the business is able to make a profit selling fewer items.



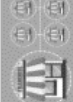

The break even point can be lower through increasing revenue (advertising, increased prices, promotions) or by reducing costs (of raw materials, utilities)

Each option has different +/-'s



Exam Focus

1. Options when starting up

| | Explanation | Advantages | Disadvantages |
|--|--|--|---|
|  Sole Trader | Working on your own, you and the business are the same thing in the eyes of the law. Usually, sole traders are smaller businesses that open locally like florists, plumbers, handymen, dog walkers. | <ul style="list-style-type: none"> Registration is quick, simple and cheap Easy to manage and operate Easy to dissolve Make all of the business decisions, own boss Keep all of the profits | <ul style="list-style-type: none"> Unlimited liability Raising capital is difficult Not a separate legal entity Lonely and no support |
|  Partnership | A business with several owners 2-20 usually. In this situation the ownership is shared between the business partners. Quite often used by vets, lawyers, and GP's • Partnership Agreement | <ul style="list-style-type: none"> Share responsibility with someone else, making it easier to take time off Shared decision making - less pressure Advice Prevents loneliness | <ul style="list-style-type: none"> Arguments and disagreements Shared profits |
|  Franchise | If you want to run your own business but worry about going it alone, then you could run a franchise instead. This reduces risks as you are running a well known brand | <ul style="list-style-type: none"> Support from the franchisor Well known brand and products Training and advice Access to suppliers | <ul style="list-style-type: none"> Must run the business in line with franchise guidelines (not as independent) Expensive to start Pay royalties and share of profit to the franchisor |
|  Limited Company (plc. ltd.) | A limited company is a business with limited liability. Only the capital invested into the business can be lost, if it fails. • Memorandum of Association • Articles of Association | <ul style="list-style-type: none"> Limited liability of owners Credibility as a business, so more access to finance Easy to register Clear succession | <ul style="list-style-type: none"> Rules and compliance; publishing financial information Complicated to close a limited company Shared ownership and shared profits |

1.4 Making the Business Effective

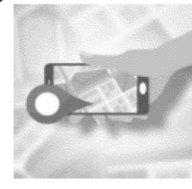
2. Business Location

Proximity - closeness to

Market -> want to be close if selling everyday items (convenience), if selling something unique or special customers will be willing to travel

Labour -> some goods will require specialist skills to make. Therefore you might locate where the population have these skills (Computing skills inside the M25)

Materials -> if you are bulk reducing, locate close to materials to reduce transport costs. If bulk-increasing locate closer to customers to reduce transport costs



| | |
|---|--------------------------|
| 1 | Proximity to market |
| 2 | Proximity to labour |
| 3 | Proximity to materials |
| 4 | Proximity of competitors |

3. Marketing Mix

The 4P's should work together to meet the needs of the target audience (see *market segmentation 1.2*). If a business owner can get the mix right it is more likely that their product will be successful.

Product

Design mix considers aesthetics, function and economic manufacture

Price

The business must decide on the right pricing strategy to reflect the image of the product they want.

Also important to set the price about the variable costs to help make a profit

Place

Location of the business is im-

portant, although many businesses are choosing to use e-commerce (m-commerce) instead of physical businesses. You need to locate where your target market would expect to find you.

Promotion

Promotion is any activity that will get your business/product noticed. Again it needs to suit the image of the product and reach your target audience. Social media has been very useful for this.



The 4Ps DESIGN MIX would be
 * As this shows a central balance between all these areas
 e.g. • Location of a business's newly opened store is vital
 • Marketing plan

| | |
|------------------------------|--|
| Cost-plus pricing | Setting a price by adding a fixed amount or percentage to cost of making product |
| Penetration pricing | Setting a very low price to gain as many sales as possible |
| Price skimming | Setting a high price before other competitors come into market |
| Predatory pricing | Setting a very low price to knock out all other competition |
| Competitor pricing | Setting a price based on competitors prices |
| Price discrimination | Setting different prices for same good, but to different markets e.g. peak and off peak mobile phone calls |
| Psychological pricing | Setting a price just below a large number to make it seem smaller e.g. £9.99 not £10 |

4. Business Plan

Contents:

- Overview of the ideas
- Aims and objectives
- Target market and market research
- Financial forecasts
- Cash flow
- Sources of finance
- Location
- Marketing mix



WHY PLAN?

Reduces the risk of failure

A business plan allows an entrepreneur to organise their idea and logically think through whether it is likely to be a success before they do it. Conducting market research will check if there are competitors and if your chosen target audience are likely to purchase your product.

Access to finance

Having a clear business plan should allow businesses to access finance easier. Whether from friends and family, banks or venture capitalists a clear business plan will make them more likely to invest, potentially with better rates of interest too.

1.4 Making the business effective

Exam Focus

Why buy into a franchise rather than 'go it alone'?

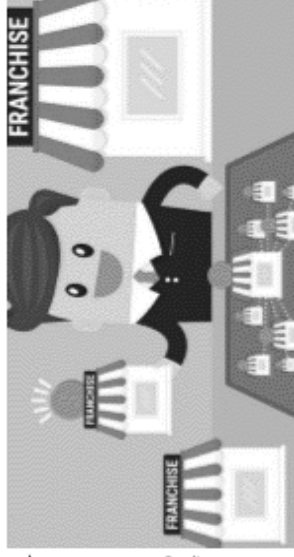
Franchising is an option for entrepreneurs who want to start their own business, but want to **reduce the risk of failure**. Franchising offers the opportunity to buy into a business model that is already successful, and probably has an established brand name in the market. The franchisee will also receive training and help from the franchisor (brand owner) which can help them, especially if they are new to running a business.

Many business owners chose to open a franchise as it is less risky, and is more likely to be successful. It also allows an entrepreneur to set up a business in a particular field of their choosing like; casual dining, cleaning or maintenance.

Why give the right to others to use your brand name?

Not only does franchising offer a good start up option for new business owners, it also has a good business argument for the owner (franchisor). By allowing other people to 'buy into' your brand and trade in the same way as you, using your name—you can quickly grow your brand name and gain a strong position in the market.

FOCUS Franchising



| | Advantages | Disadvantages |
|---|---|--|
| For the franchisee (new owner) | <ul style="list-style-type: none"> • Established brand—reduces chance of failure • Training and advice given on running the business • Access to suppliers and trademarked name • Bene fit from advertising campaigns of the brand • Keep a share of the profits | <ul style="list-style-type: none"> • % of profits will go back to the franchisor • High start up costs (£5,000—£200,000) • Less independence and flexibility as franchise follows the rules set out by the brand |
| For the franchisor (main owner of the brand) | <ul style="list-style-type: none"> • Rapid growth if successful in selling franchises • Large amounts of profits can be made • Brand recognition will be better as more branches open across the country, quickly | <ul style="list-style-type: none"> • Mistrust other people to run your brand in the way you intended • Mistakes or poor management in one branch can easily damage the brand • On going support and training to franchisees |



CAN'T PAY?
WE'LL TAKE IT AWAY!

Bob here is a **SOLE TRADER**, this means he is solely responsible for all of the finances of his business.

He has **UNLIMITED LIABILITY**. This means that if Bob is unable to pay his bills, or his creditors (people who lent him finance) then bailiffs are able to come into his home and seize his personal possessions to pay off the **DEBT**.



In the eyes of the law due to unlimited liability, Bob and the business are seen as the same thing

| | Advantages | Disadvantages |
|------------------------|---|--|
| Limited Company | <ul style="list-style-type: none"> Limited liability of owners Credibility Easy to register Clear succession | <ul style="list-style-type: none"> Rules and compliance, publishing financial information Complicated to dose a limited company Shared ownership and shared |
| Sole Trader | <ul style="list-style-type: none"> Registration is quick, simple and cheap Easy to manage and operate Easy to dissolve | <ul style="list-style-type: none"> Unlimited liability Raising capital is difficult No separate legal entity |

FOCUS Liability

LIMITED LIABILITY

LIMITED LIABILITY means that in the eyes of the law, the business is a separate legal entity. Therefore the business is responsible for its own debts.

If the business cannot pay its bills, it is known to be **INSOLVENT**. At this point the business can go into **ADMINISTRATION** where a company will come into the failing business to find assets to sell to pay creditors (people it owes money to).

A business must be a registered company to have limited liability. There are 2 forms:

Private limited company (ltd.)

Shares are sold to raise money - usually between friends and family to maintain control of the business

Public limited company (plc.)

Shares are available to the general public and other businesses to buy on the London Stock Exchange. This can really help a business raise finance for growth or new products



Exam Focus

1.5 External Influences

| Stakeholder group | They want | Conflicts with |
|---|--|--|
| Shareholders Shareholders are also the owners of a company and generally want to make the company bigger (growth) and better (more sales and profits) | <ul style="list-style-type: none"> Growth of the business Increase in sales revenues Increased profits Return on their capital investment - through dividends | <ul style="list-style-type: none"> Employees - who want better pay, which would mean higher costs and therefore less profit |
| Employees Employees want to feel safe at work and want to be looked after. They have security needs in terms of a regular income. | <ul style="list-style-type: none"> Secure employment (guaranteed income) Fair treatment Good working conditions (breaks and holidays) Good pay | <ul style="list-style-type: none"> Shareholders - who want to reduce costs to get bigger profits; this means less money is spent on employee welfare or wages |
| Customers Customers want choice, fair prices, quality and convenience. | <ul style="list-style-type: none"> Lower prices Convenience - longer opening hours 24/7, location Choice - larger stores | <ul style="list-style-type: none"> Community - may not want large stores and later opening hours due to disruption Employees - may not want to work longer hours and late at night |
| Managers Managers run the business and therefore want to be successful. Many may be promoted if they do a good job | <ul style="list-style-type: none"> Reliable hardworking staff Repeat purchase and a good reputation Job security Promotion/salary increases | <ul style="list-style-type: none"> Shareholders - managers may not get promotions / salary increases to keep costs down |
| Suppliers Businesses also have a relationship with their suppliers. Suppliers | <ul style="list-style-type: none"> Fair prices Regular orders Increased orders | <ul style="list-style-type: none"> Shareholders - who want to keep costs down to increase profits, will put pressure on suppliers to reduce their prices. |
| Community These people live near the business and therefore care about the activities that it undertakes. | <ul style="list-style-type: none"> They want to be undisturbed by the business - noise, littering, pollution They may also want benefits like discounts or first choice tickets (O2) | <ul style="list-style-type: none"> Customers - they may want late night opening and convenient access, but the local community do not (McDonalds) |
| Pressure groups Greenpeace, Save the Animals, Unicef | <ul style="list-style-type: none"> Rights to be respected (animals, children, the poor, the vulnerable) | <ul style="list-style-type: none"> Customers - some pressure groups target customers who wear "fur" Shareholders - protests and activities to damage reputation |
| Government The government have wider concerns about businesses | <ul style="list-style-type: none"> Employment, NI and tax contributions Increase of UK GDP (more businesses) Tax revenue (through corporation or income tax) | <ul style="list-style-type: none"> Shareholders - by imposing National Living Wage; increasing business costs. Increasing tax rates can reduce shareholder profits. |



2. Technology and Business

Technology has changed the way that businesses can operate. Below are some of the most important changes that you need to be aware of:



1. Payment Systems

Apple Pay, Contactless, PayPal - quicker and safer

2. Social media

Customer communication and feedback, as well as being used of market research and polls



3. Communication

The internet has brought lots of options when it comes to communicating - web conferencing, social media, Cloud services, websites, and instant messaging - free

4. E-commerce

Buying and selling online. 24/7 access with immediate payment and access to a global audience so no longer a need for big premises, which can add to overheads and costs.

Impacts of technology

| | |
|------------------|--|
| SALES | Businesses can now reach a wider audience due to technology and the internet, however they may now need to work hard to get these sales. Technology means consumers can research prices, reviews and products from more competitors really easily. |
| COSTS | New technology can be both a positive and negative impact on costs. (i) cost savings can be made using technology (social media, more efficient business activities (ii) it can also increase costs—new payments systems, websites etc. |
| MARKETING | Price—firms need to be more competitive Product—constantly changing and developing products Place—easier to sell directly to customers Promotion—social media means you can target market segments more easily |



1.5 External Influences

3. Legislation and Business



The Consumer Rights Act 2015

All goods must be of:

1. Satisfactory quality
2. Fit for purpose
3. Described accurately

Consumers have a right to refund, repair or replacement

Delivery is the responsibility of the seller.

The Consumer Protection Act 1987

Makes producers liable for faulty products and damage caused by them. Consumers have the right to claim compensation for damage, death or injury.

Claims cannot be made for:

- Loss or damage to the product itself
- Damage to business products not intended for private use
- Damage to property with a value below £275



The Working Time Regulations—maximum working week of 48 hours. Minimum 5.6 weeks paid annual leave, consecutive 11 hours rest in 24 hour period, 20 minute break on 6 hours shift, 1 day off a week



The National Minimum Wage (1998) -

minimum requires set out for pay per hour for different age groups.

Employee Protection

The Equality Act—protects against discrimination at work, under 9 areas:

- Gender
- Religious beliefs
- Marriage
- Gender reassignment
- Sexual orientation
- Disability
- Pregnancy/maternity
- Race
- Age



The Health and

Safety at Work Act—sets out rights

and responsibilities to maintain a safe place of work. Includes providing safety equipment (PPE)



1.5 External Influences

4. The Economy and Business

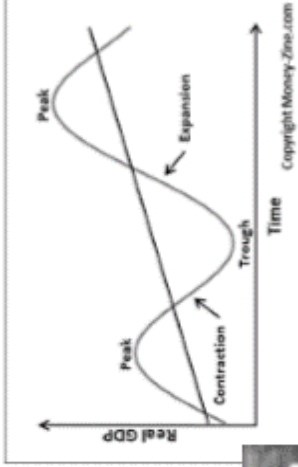
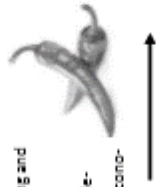
Measures of the economy:

- GDP - % rate
- Unemployment/job vacancies
- Consumer income
- Customer confidence
- Business investment



The government can manage the economy using a variety of techniques:

- **Taxation**—if people are taxed more, they feel poor and so will spend less, slowing down economic growth. The reverse will be true if taxation is decreased.
- **Interest rates** - lower interest rates means people will tend to borrow more and save less, therefore their money will go into the economy through shopping. If interest rates are really high, people will stop spending and save.
- **Exchange rates**—if the pound is in demand (people are investing in the UK economy) our £ will be worth more



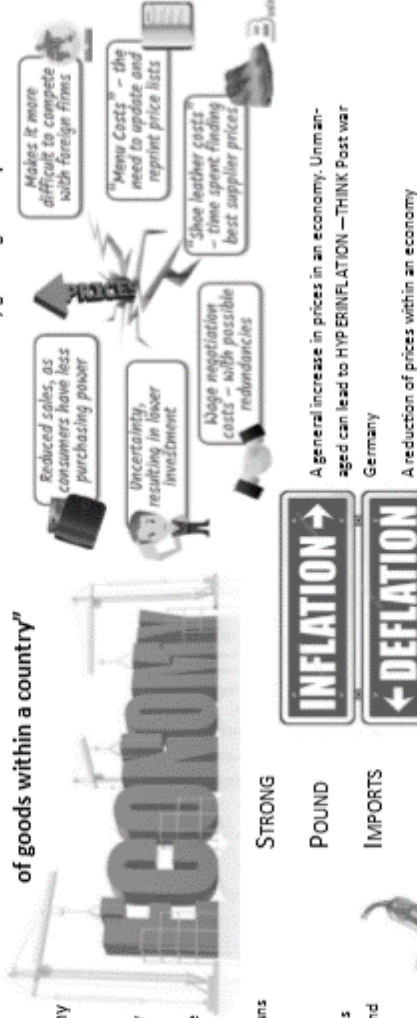
The Business Cycle

Refers to the changes in an economy over time.

Steady growth is desirable, but too much growth can lead to inflation. Inflation means everything is more expensive, soon people aren't able to afford prices and so spending reduces. When this happens businesses lay off staff, who become unemployed. They have less money, so spend less in the economy = **recession**

If interest rates are reduced, people are more likely to borrow money, which then encourages more spending in the economy. Businesses sell more, recruit more staff and the economy grows again = **expansion**

"The production and consumption of goods within a country"



- STRONG
- POUND
- IMPORTS
- CHEAPER
- EXPORTS
- DEARER

1.5 External Influences

Key Words: Glossary

1.1 Enterprise and Entrepreneurship

Added value

The difference between the selling price and the total cost to produce a product. Businesses try to add value through convenience, branding and unique selling points which allow them to make bigger profit margins.



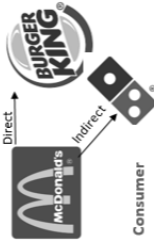
Business

A person or organisation with the purpose of producing goods and services to meet the needs of customers.

Competition

The other businesses selling similar products or services in your sector.

Competition can be **direct** (selling the same thing: Costa and Starbucks) or **indirect** (one thing is chosen over another; air travel or train).



Consumer

A person or organisation with the purpose of producing goods and services to meet the needs of customers.

Demand

The desire to own a good or service. It is affected by consumer tastes, price, incomes, advertising, and the popularity of other products.

Dynamic

Constantly changing. The fact many businesses operate in a dynamic market means that they must keep developing new ideas and business concepts to remain successful.

Profit



The amount of revenue left over once costs have been deducted

Total sales revenue — total costs

Reward

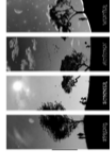
The benefit(s) that an entrepreneur or investor receives when a business is successful. They include: business success, profit, independence

Risk

The possibility that an enterprise will have lower than anticipated profits, experience a loss, or fail

Seasonal business

A business that experiences high levels of sales at certain parts of the year and low sales in others, for example garden centres and ice cream sellers



Security (lack of)

A risk of business ownership, whereby business owners no longer have a secure salary/income from paid work. If their business does not make profits then they will not receive any income

Service

Something you receive in return for money that is not a physical good. For example: a haircut, a train journey, cash washing. These are all intangible.

Supplier

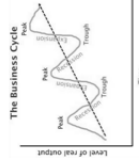
A person or business that provides something needed such as a product or service

Tangible

Something you can touch, feel and own.

Economy

The state of a country or region in terms of the production and consumption of goods and services (GDP) and the supply of money



Entrepreneur

A person or organisation with the purpose of producing goods and services to meet the needs of customers.

Entrepreneur

A person who owns and runs their own business. They are risk-takers who have an initial idea and the willingness and confidence to see it through

Financial Loss

Losing the capital that the entrepreneur invested into their business if it fails. They could also lose their personal possessions if they are 'unlimited'



Goods

Physical things that businesses make or sell. These are tangible and therefore seen, felt and can be owned by the customer.

Independence

Freedom of working for yourself rather than for someone else as an employee; a reward of being a business owner.

Intangible

Something that cannot be touched, felt or owned. Services are intangible as you do not own the service, you are a recipient of it. For example, you fly on a plane; you have purchased a ticket (tangible) but the service of being flown to another country is not yours to own, it is intangible.



Obsolescence

Going out of date of being no longer used. For example, horse and cart as a method of transport is obsolete, as are pagers for communication.



1.2 Spotting a Business Opportunity

Biased

Unbalanced or inclined to agree with a particular judgement or idea rather than presenting the evidence fairly

Competitive market

A market where there are lots of competitors and rivals all trying to attract customers and become the market leader



Customer needs

Choice, convenience, customer service, price and quality are all customer needs. If businesses are able to meet these needs they are likely to be successful.

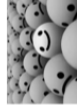
Demographics

A breakdown of the market into specific groups according to age and family situation. For example, 16-21 year olds who are single or families with young children



Differentiation

Techniques and methods used by businesses to show that their product is different from other similar products. This can help increase sales, but also allow businesses to charge higher prices.



Gap in the market

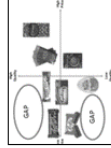
An opportunity in the market that has not yet been exploited by other firms or products. Gaps in the market can be found using market mapping

Market

A place where buyers and sellers come together. A market will consist of consumers, competitors and different distribution channels

Key Words: Glossary

Market map



Using variables to plot where different competitors or products are placed within a market. The idea is to identify gaps that can then be exploited with new brands or products. Variables are quite often price, and quality, or luxury verse economy.

Market research

The process of gathering information about the market and customers' needs and wants in order to help inform business decisions, including product design and marketing.

Market segment

A group of buyers with similar characteristics and buying habits



Primary research

New research that a business undertakes for a specific purpose. Primary research methods include: interview, questionnaire, focus groups and observations.

Qualitative data

Information about people's opinions, judgements and attitudes

Quantitative data

Data that can be expressed as numbers and statistically analysed

Questionnaire

A document containing a series of questions designed to discover information about consumers' needs and wants.



Reliability

The extent to which data collected from market research could be reproduced on different occasions.

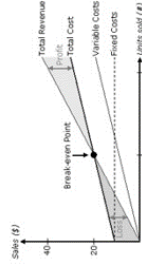
1.3 Putting a business idea into practice



Aim
The long term intentions for the business, often referred to as goals

Break-even point

Break even occurs when the businesses total revenue is equal to its total costs. At this point the business is not making any profit, but they have paid off all of their costs. (BE occurs when $TR=TC$)



Cash flow

The amount of money coming into and out of a business over a specified period of time



Contribution

Selling price per item – variable cost per item. The contribution from each product goes towards paying off the fixed costs of a business

Cost

Any amount of money that a business must pay out during its activities. There are fixed, variable and semi-variable costs

Closing balance

The amount of cash left in the business at the end of the month. Calculated by taking the opening balance and adding the net cash flow. (Opening balance + net cash flow)

Repeat purchase

Where a new buyer of a product (product trial) buys the product again. The hope being that they may become a loyal customer

Secondary research



Research and information that already exists that is then used by businesses to help make decisions (**desk research**). Secondary research methods include; interest searches, past sales data and government reports.

Unique selling point

A feature of a product that is different, and therefore can differentiate it from any other product in the market. For example, the first water-proof smart phone, the only cyclone technology vacuum

Credit

Any situation where you are given something now (stock, access to cash) and you pay it back later. If you are given credit, you have a debt with that person to pay at a later time.

Credit limit

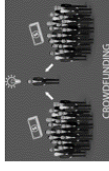
The amount you are able to borrow from a bank or supplier.

Credit period

That amount of time you have the credit for, usually 30, 60 or 90 days.

Crowd funding

Using the internet to request funding from a large number of individuals toward a business project/idea. Typically people are asked to donate a small amount of money



Expenses

Often referred to as **overheads**, anything the business needs to pay for towards to day to day running of the business. For example; rent, electricity, stationary

Income statement

An annual report that shows a business's revenue, costs and profits made over the course of the year. *Previously it was known as the profit and loss account.*

Income stream

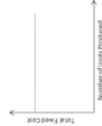
A source of income for a business. Some businesses can have many income streams; for example revenue made from sales in the shop, revenue from online and income from rent raised from unused land

Insolvent

When a business is unable to pay its debts. They may be forced into liquidation. For a sole trader, it is likely that personal assets will be seized to pay the debt

Key Words: Glossary

Fixed cost



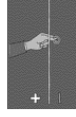
A costs that does not change, regardless of output. Common examples as rent, salaries and advertising costs.

Loan

An amount of money usually borrowed from a bank for medium term 1-7 years. Interest will be added at a fixed rate

Long-term finance

Any source of finance that can be paid back over many years, or not at all (grants)



Being able to take **more money out of your account** than you have in there. The bank will allow you to have a negative balance, however charges will apply and should only be used in the short term.

Loss

When total costs are greater than total revenue the business will make a loss. Most businesses, in their first months, and sometimes year of trading make a loss.

Margin of safety

The distance between the ACTUAL output and the BREAKEVEN level of output, on a break even chart.

Market share



The percentage of sales within a market that are held by a particular company. The bigger the market share, the more dominant the business is.

Negative balance

Any balance, usually in a cash flow forecast, with a negative amount. If your net cash flow is negative you do not have enough cash to pay all of the outgoings.

Net cash flow

The difference between the cash coming into a business and the cash going out of a business, in a given time period. Cash inflow – cash outflow



Objective



A smaller, short term, measurable target(s) to help a business/individual achieve their longer term aim (see aim). Objectives should be SMART

Opening balance

The amount of cash in a business's bank account at the start of the month

Overdraft

Being able to take **more money out of your account** than you have in there. The bank will allow you to have a negative balance, however charges will apply and should only be used in the short term.

Overheads

see expenses

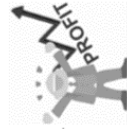
Personal satisfaction

A reward of being an entrepreneur, satisfaction can come from being successful and owning your own business. It is often referred to as a sense of achievement.

Personal savings

A source of finance, which will come from the owner and their personal bank account

Profit



When total revenues are greater than total costs a business will be making a profit. Can be seen on a break even chart, or on an income statement.

Retained profit

Money put back into the business, to fund expansion or development, from the profits made. This source of finance has no additional costs, although will reduce the amount shareholders are paid in dividends if you are a limited company.

Revenue

Money coming in from sales. Selling price x quantity sold = total revenue

Share capital

Source of finance, raised by selling shares in the business.

Short-term finance

Any source of finance that will need to be paid back within a year

Social objectives

Goals and targets for your business based on wider responsibilities. Often social objectives will relate to the community or the environment.



Survival

An aim for any new business. Survival simply means being able to continue trading. Often new businesses survive but may not make a profit in the first instance.

Trade credit

Credit given for stock items by another business, buy now and pay later. Terms are usually for 30, 60 or 90 days.

Variable cost



A cost that changes with output, the more you make to more the cost will increase. Therefore these costs are directly associated with the making of the product (raw materials), or the purchase of the good.

Venture capital

Source of finance coming from venture capitalists, who invest into new businesses and offer support. The owner then buys them out once they are successful (Dragon's Den)



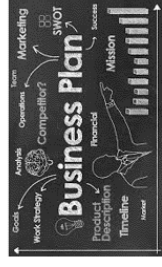
1.4 Making the business effective

Asset

Something a business owns which is of value; van, car, tools. Assets can also be the personal possessions of an entrepreneur and can be taken for sale at auction should a sole traders fail to make debt repayments.

Business plan

A formal business document, produced by an entrepreneur that sets out the idea for the business, market research, aims and objectives, and marketing plan and financial information. Having a business plan can reduce risk by thinking about each aspect of the business, before going ahead.



Competitor-based pricing

Using a pricing strategy similar to your rivals. For example fresh products are often of a similar price as there is little difference between the goods.

Cost plus pricing

Where the selling price is determined by finding out the variable costs to make it and then adding on a percentage (%)

E-commerce

Business conducted over the internet, therefore reducing or removing the need for a physical business location.

Franchise

A business format that allows others to buy into the brand and own a branch of a successful business themselves, using the franchisees well-known brand name and marketing.

Key Words: Glossary

Franchisee

The name given to the person who buys into the branded franchise and opens a new branch.



Franchisor

The name given to the owner of the original branded business, who allows others to buy into a branch.

Limited company

A registered company, therefore it is recognised by law as a separate business entity.

Limited liability

Where the financial responsibility is limited to the business itself and any investment made. Debts of the company cannot be repaid using the personal funds or assets of the owners.

Marketing mix

The name given to the four elements that need to complement each other when creating a successful selling proposition. Product, place, price, promotion. Also known as the 4 P's



Partnership

A business format with at least 2 owners who share a business. A partnership agreement should be written to detail who owns what share of the business



Penetration pricing

A pricing strategy that starts lower than the market average to attract new purchasers and product trial. Often used for new products on the market.

Place

Where the product is sold. Traditionally, this would be about the type of shop (wholesaler, retailer, direct) but can now refer to using a physical location and/or e-commerce

Price skimming

A pricing strategy where the product is sold at a very high (premium) price. Used where there is a clear USP or strong brand to support the high price.

Pricing strategy

Any strategy adopted when deciding on a price for a product or service. There are many different pricing strategies available; skimming, cost-plus, competitor based for example.

Private limited company (ltd.)

A company where shares are sold to family and friends. These shareholders will then become business owners, and will expect a share of the profits.

Product

The tangible item that you are selling. The design mix can be used to create a 'good' product where to aesthetics, functionality and cost of the product are considered.



Promotion

Any method employed to increase awareness of a product or service. This can include advertising, social media, offers and discounts as well as PR and product placement.

Proximity

Closeness to something.



Proximity to competition

How close a business is to its competition and rivals? For some businesses, being close is an advantage as shoppers look for similar products in one place, for others being away from competitors is an advantage, for example a convenience store

Proximity to labour

How close a business is to people it will need to employ. For some businesses where they require a certain skill, a business would be best placed to locate near to these skilled staff. Computer programmers in the M25 (London)



1.5 External influences on the business

Contactless payment

Technology that allows customers to pay with their card quickly and easily without using a PIN number, for payments up to £30. Can reduce queue sizes and gives customer convenience



Proximity to market

How close a business is to its customers. Depending on the product some customers will be willing to travel, for example if it is unique or expensive. For everyday items customer will want convenience.

Proximity to suppliers/material

How close a business is to its raw materials. If a **bulk reducing** business it will want to be close to suppliers to reduce costs. If it is a **bulk increasing business**, it will save money by locating close to the market.

Public Limited Company (plc.)

A public limited company sells shared on the stock market, and they are available to the general public to buy, making anyone able to buy shares in your company and become an owner.

Sole trader

A business owned and run by one person



Unlimited liability

Sole traders have unlimited liability, meaning that the debts of the business are considered to be the debts of the owner. If the business falls into debt then the bailiffs can recover their personal assets to pay the debt. The business and the owner are legally the same.

Consumer Rights Act 2015

States that all goods sold must be of (i) satisfactory quality, (ii) fit for purpose and (iii) described accurately. If not customers are entitled to one of the 3 R's; refund, repair, placement.

Consumer Protection Act 1987

States that faulty goods and the damage caused by them are the responsibility of the producer, and consumers can claim compensation for damages and injury caused by faulty products.

Community

A stakeholder group. Community members will want little disruption to their everyday lives from a business, and possibly some benefits



Deflation

The general reduction in prices within an economy

E-commerce

Business conducted over the internet. E-commerce has meant that even small businesses can operate on a global scale.

Equality Act

Prevents any form of discrimination in the workplace from employees or from management towards employees in terms of the access to job opportunities and training.

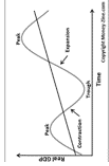
Key Words: Glossary

Employees

A stakeholder group who often seek job security, good working conditions and better wages.

Exchange rate

The value of one currency expressed in another. For example £1 can be worth \$1.40. To change GBP into another currency (multiply) to change from another currency into GBP (divide)



Expansion

When the economy starts growing again after a period of recession or decline

Inflation

Where general prices within an economy increase. It happens naturally over time, but when inflation is over 2% the economy may be growing too fast

Interest rate

The amount added to borrowings (charge) or the amount added to savings (reward). High rates will encourage people to save and spend less, whereas low rates will encourage people to spend money in the economy



Health and Safety at Work Act

This Act protects workers from dangerous situations at work. It also sets out the requirements of employers to provide training, and personal protective equipment (PPE) for all staff who need it.

Gross Domestic Product (GDP)

This is used to measure the health of the economy, expressed as a percentage. Growth at 2% is the government target. GDP actually represented the total amount of goods and services sold in the economy in a period of time (year)

Recession

When the economy slows down and people spend less in the market. At this time it is likely that consumer confidence reduces.

Social media

Computer-based technologies that facilitate the creation and sharing of information, ideas, career interests and other forms of expression via virtual communities and networks.



Shareholder

A stakeholder, who owns shares in the business and seeks a return for this investment in the form of increased value of the share and dividend payments (profit sharing)

Stakeholder

Any person or group with an interest in the business or its activities; community, government, employees etc.

Stakeholder conflict

As stakeholders all have different priorities it is likely that these will come into conflict. For example employees want higher wages but business owners want higher profits. Both cannot happen at the same time



Suppliers

A stakeholder group; suppliers want a good relationship with purchaser and a fair price for their products.



Taxation

Taxation levels are decided by the government. Both individuals and businesses will pay tax. Higher levels of taxation can also be used to reduce spending in an economy, as people feels poorer in real terms

Web conferencing

Visual sharing from a computer, laptop or tablet.



Government

A stakeholder group, they want jobs and employment as this will increase living standards and reduce the amount of money spend on welfare

Legislation

Any laws or Acts, these will have been passed in parliament and signed by the Queen.



Managers

A stakeholder group responsible for running a business on behalf of the owner(s) who want job security and promotion

Minimum Wage legislation

Law setting out the minimum amounts that employees and apprentices can be paid in the UK, according to their age

M-commerce

Business done using mobile technology – Apps and other platforms are good examples of m-commerce. (Ebay, Amazon)



Owner

A stakeholder who wants to achieve profit maximisation

PayPal

A method used to make secure online payments. Paypal will also step in over any issues between the buyer and seller using their resolution centre.

Pressure group

A group of people with similar interests. Often have a voice to protect or enhance rights for other groups.

Greenpeace for example, work as a group to protect the environment, and can sometimes come into conflict with business owners.

