Business Studies GCSE

3.1.1 The purpose and nature of businesses

Content	Students should:
Purpose of business • Reasons for starting a business • Basic functions and types of business • Business enterprise and entrepreneurship	understand the term enterprise and what is meant by an entrepreneur • outline the characteristics of an entrepreneur, such as hard working, innovative, organised and willingness to take a risk • outline the objectives of an entrepreneur, including to be their own boss, flexible working hours, to pursue an interest, earn more money, identify a gap in the market and dissatisfaction with current job

KEY TERMS

Enterprise
The ability to identify business ideas and opportunities to bring them to fruition and to take risks where appropriate.
Entrepreneur
A person who has the vision to use initiative to make business ideas happen, managing the resources and risks.
Risk
The possibility that the return on investment will be lower than expected

The purpose of business activity and enterprise

- Spotting a business activity
- Developing and idea
- Responding to customer wants and needs
- Making money

Characteristics of an entrepreneur

Risk Taker – starting a business might not work which means a loss of time and money.

Determined – keeping going when things are difficult.

Creativity – having a good idea and seeing how customer needs can be met.

Confidence – self belief that they can run a successful business.

Objectives of an entrepreneur

Be your own boss – make the decisions.

Flexible working hours

Pursue an interest

Earn more money.

Spotted a gap in the market.

Dissatisfaction with current job

Risk v Reward

Risk
- Loss of initial sum invested.
- Loss of reputation
- Loss of family security
- Loss of time and energy

V

Rewards
- Financial – keeping all the profits
- Non-financial – a sense of satisfaction
- Non-financial – being in control
- Non-financial – building something
- Non-financial – making that first sale.

Business Studies GCSE

3.1.2 Business ownership

Content	Students should:
• Sole traders • Partnerships	understand the different legal structures that businesses adopt • analyse the benefits and drawbacks of each legal structure (including issues such as management and control, sources of finance available, liability and distribution of profits)

Feature	Sole Owner	Partnership
Number of owners	1	2+
Law	No specific law	1890 Partnership Act – everything equal unless deed of partnership
Liability of owners	Unlimited	Unlimited
Incorporated	No Owner and business same legal person.	No. Owner and business same legal person.
Size	Usually small, eg local window cleaner, plumber	Usually small, eg doctors, dentists, solicitors
Tax	Income tax paid on profits	Income tax paid on profits
Advantages	• Easy to set up • Owner keeps all profits • Owner makes all decisions	• Easy to set up • Moe owners – more skills, more capital.
Disadvantages	• May not have enough capital for expansion • No continuity if owner dies. • My have a skills shortage	• Possibility of disagreements. • Profits (and losses) must be shared.

KEY TERMS

Owners
Individuals who own the business or own a share(s) in it, in return for the rights to decision making and profits, balanced with the risks involved.

Partnerships
A business that is owned and operated by a group of between 2 or more people.

Sole traders
A business that is owned and operated by one person.

Sources of finance
Ways of obtaining the funds the business needs; money may be needed to meet short or long term needs.

Liability
The extent of the owner's/owners' responsibility for the debts of the business.

UNINCORPORATED BUSINESS

Sole owners and partnerships are both examples of unincorporated businesses. This means that under law, the business does not possess a separate legal identify from its owners:

OWNERS = BUSINESS

This means that the **owners** bear full responsibility for any actions (or inactions) of the business, they may sue or be sued.

A consequence of being incorporated is that the owners have UNLIMITED LIABILITY

Unlimited Liability

The sole trader or partners are personally responsible for any debts run up by the business, this means the home or other assets owned by the entrepreneur may be at risk if the business runs into trouble.

If the business takes out a loan or buys goods and services on credit, then the sole trader himself/herself is liable to repay the debt.

Business Studies GCSE

3.1.6 Business planning

Content	Students should:
• The purpose of business planning • The main sections within a business plan • Basic financial terms • Basic financial calculations	understand the reasons why businesses create plans, including importance in setting up a new business, raising finance, setting objectives and detailing how functions of a business will be organised • understand the main sections of a business plan • analyse the benefits and drawbacks of business planning • understand the difference between variable costs, fixed costs and total costs • understand the concept of revenue, costs, profit and loss.

KEY TERMS

Business plan

A detailed statement of how the business intends to operate, either at start-up or during a given period of time. Business plans are based on forecasts and so cover only a short time.

Objective

A specific statement that defines a precise goal that can be measured and delivered within a given time.

Cost

The money spent by a business on goods and services.

Revenue

The income generated from the sale of goods/services

Profit

The difference between the money received from the sale of a good/service and the amount it cost; the amount that remains after all the costs have been paid.

Profit = total revenue – total cost

What is a business plan?

A business plan is a written document that describes a business, its objectives, its strategies, the market it is in and its financial forecasts.

The business plan has many functions, from securing external funding to measuring success within the business.

Benefits of business planning to a start-up

The main reasons why a start-up should produce a business plan are:

Provides a focus on the business idea - is it really a good one, and why?

Producing a document helps clarify thoughts and identify gaps in information

The plan provides a logical structure to thinking about the business

It encourages the entrepreneur to focus on what the business is really about and how customers and finance-providers can be convinced

It helps test the financial viability of the idea - can the business achieve the required level of profitability and not run out of cash?

The plan provides something which can be used to measure actual performance

A business plan is essential to raising finance from outside providers - particular investors and banks

Questions a start-up business plan should answer

A business plan needs to address the issues of interest to the reader and user.

Assuming that the plan is meant to be read by potential finance providers (e.g. a bank, business angel or venture capitalist) then it ought to provide **convincing and realistic** answers to questions such as:

What is the business idea or opportunity?

What is the product and how is it different or unique?

What is the target market segment and who are the potential competitors?

How large is the target market and is it growing?

Who are the customers; how much will they buy and at what price?

What will it cost to produce and sell the product?

Can the product be made and/or sold profitably?

At what stage will the business break-even and what are the likely profits?

What investment is required to launch and establish the business?

Where will the money come from and what type of finance is required?

What are the main risks facing the business and how to handle them?

Key elements of a business plan

The idea - a simple description of the proposed business

Where the idea came from and why it is a good one

Key targets for the business - sales, profit, growth (gives a sense of direction for the business), ideally for the next 3-4 years

Finance required - how much from the founder, how much to be loaned over how loan and from who

Market overview - main segments, market size (value, quantity), growth, market shares of main competitors (if known)

How the business will operate (location, premises, staff, distribution methods)

Cash flow forecast (important) + trading forecast.

Business Studies GCSE

3.5.1 Identifying and understanding customers

Content	Students should understand:
The importance of identifying and satisfying customer needs.	The importance of identifying and satisfying customer needs, in order to: • provide a product or service that customers will buy • increase sales • select the correct marketing mix • avoid costly mistakes • be competitive.
Types of segmentation.	How and why different businesses use segmentation to target customers, including: • gender • age • location • income.
Collect information about: • demand • competition • target market.	Why businesses conduct market research, such as to identify market opportunities and to get a better insight into their customers and competitors.
Methods of market research to include primary and secondary: • questionnaires • surveys • interviews • focus groups • internet research • printed press eg newspapers.	The difference between qualitative and quantitative market research. Students should identify the benefits and drawbacks for various market research techniques and select the best method for a given business.
Use of market research: information that may help decision making	To interpret and use qualitative and quantitative market research findings to help make appropriate decisions for different types of business. Students should be expected to manipulate and interpret data from tables and charts. Students should be able to identify market size and market share.

Market research
Collecting information about the customers' needs, wants and preferences that will help the business to make design, production and marketing decisions.

Primary research
Collecting information first-hand direct from the public; field research including surveys, questionnaires and testing designed specifically for the market/product.

Qualitative market research
Collecting information about potential customers' opinions and preferences about the attributes/characteristics/properties of a product; open questions allow respondents to express their own views by not limiting their responses.

Quantitative market research
Using sampling techniques such as surveys where the findings are expressed numerically; closed questions allow a limited choice of responses and are easy to turn into statistics for analysis.

Secondary research
Examining information from published sources; desk research using information that has been collected for other purposes.

Segmentation
Breaking the whole market for a product into different groups or types of consumers with similar needs/wants/characteristics; enables the marketing mix to be designed to meet their needs more precisely.

Socio-economic market segments:

A Professionals
B Management/technical
C1 Supervisory/clerical
C2 Skilled manual
D Semi-skilled manual
E Unskilled manual

A business uses existing data to check past performance and research questions to find future trends

Information on **past** performance:
- Are sales up or down on last year?
- Has our market share increased?
- Have our profits increased?
- Why did this product fail?
- Which products did best?

Information on **current** status:
* How much market share do we have?
* Who is buying our products?
* Why are they buying them?
* Are our prices competitive?
* Are customers satisfied with quality?

Information on **future** trends:
* Can we keep sales going on existing products?
* Can we launch a new product?
* Which groups should we aim it at?
* What share of the market can we expect to win?
* Are our competitors planning new products?
* Are there any new laws or technologies to consider?

When deciding which type of survey to use, quantity of response must be weighed against quality.

Types of survey

One to one surveys: usually street or telephone questionnaires or longer in-depth interviews.

Postal surveys: easy to set up but usually low response rates and low quality of data.

Group surveys: people meet to discuss a product (high quality, low quantity data).

Random survey: each person in a given area has an equal chance of selection

Quota survey: a set number of people from each market segment are interviewed.

Targeted survey: questions are put to one particular market segment.

Types of question

Closed: the interviewee chooses from a set of possible answers eg multiple choice questions or scales. Answers are easy to analyse, but provide limited data.

Open: no pre-set answers. Answers can be more valuable but are harder to analyse.

Results

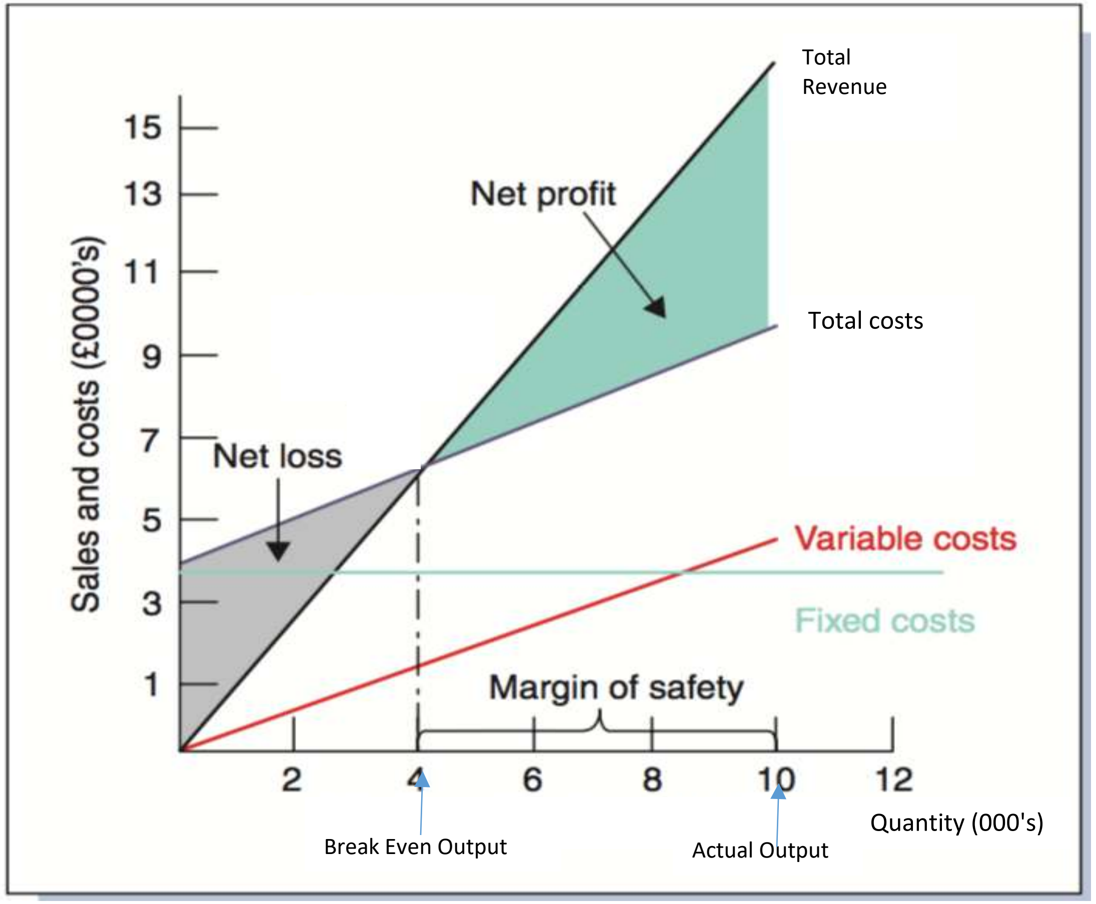
Quantitative information is easily presented as graphs or charts eg t show which groups are buying a product most.

Qualitative information gives detail and depth and data is often presented as examples or case studies eg to explain why a product appeals to a particular group.

Business Studies GCSE

3.6.3 Financial terms and calculations – Break Even

Content	Students should:
Basic financial terms • Basic financial calculations • Break-even	Understand the difference between variable costs, fixed costs and total costs Understand the concept of revenue, costs, profit and loss Understand the meaning of the term break-even output and interpret break-even charts Identify the break-even level of output and margin of safety from a break-even chart Evaluate the value of using break-even analysis to a business.



KEY TERMS

Break-even chart
A diagrammatic representation of the costs and revenue for a product; it plots total costs against total sales revenue, showing the break-even point where they cross.

Break-even output
The point at which the business' total sales equals the total costs. There is neither profit nor loss.

Cost
The money spent by a business on goods and services.

Fixed costs
The costs that stay largely the same, regardless of the business' output.

Revenue
The income generated from the sale of goods/services

Profit
The difference between the money received from the sale of a good/service and the amount it cost; the amount that remains after all the costs have been paid.
Profit = total revenue – total cost

Variable costs
The costs that change as the business' output changes.

Key Formulas

Total Revenue = price x quantity
Total Variable Costs = variable cost per unit x quantity
Total Costs = Total Fixed Costs + Total Variable Costs
Profit or Loss = Total Revenue – Total Costs

Break Even = $\dfrac{\text{Total Fixed Costs}}{\text{Price per unit – variable cost per unit}}$

TR > TC	Profit
TR = TC	Break Even
TR < TC	Loss

Business Studies GCSE

Homework 1
Produce a poster that explains what is a business.

Homework 2
Produce a diagram showing the chain of production for one of the following:
Chocolate bar
Motor car

Homework 3
Research an entrepreneur and produce a poster outlining what makes him/her an entrepreneur.

Homework 4
Complete the skills audit and produce a brief report outlining strengths and possible gaps.

Homework 5

Undertake research to identify, for your enterprise, the following:

- Existing products on the market that satisfy the same needs as yours
- The key competitors for your product.
- Whether there is demand for your product in Bridport

Write a short report outlining your findings.

Homework 6

Identify the resources needed for your enterprise.

Homework 7

Write a letter to the bank manager outlining why the bank should lend you finance to help set up your business.

Homework – September/October Year 9