GCSE Business Studies
Knowledge Organisers
Theme 1: Investigating Small Business

1.1 Enterprise and Entrepreneurship
1.2 Spotting a Business Opportunity
1.3 Putting an Idea into Practice
1.4 How to Make a Business Effective
1.5 External Influences on Business

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1.1 Enterprise

Why new business ideas come about

- Advances in technology, such as the introduction of fast and reliable broadband internet
- Changes in what consumers want, such as increased interest in gluten-free and dairy-free foods.
- Products and services becoming obsolete, such as VHS videotapes.

There are two ways in which entrepreneurs usually come up with new business ideas.

They may:

- adapt an existing product or service to keep up with changes in consumer trends
- create a completely original product or service to satisfy a new or previously unknown customer trend.

Risks

There are a number of risks associated with starting up a business. The main risks that an entrepreneur takes when they start up a business are:

- business failure
- financial loss
- lack of security.

Rewards

What motivates an entrepreneur to set up a business? They might feel rewarded by the thrill of founding a business that succeeds and produces goods that people want to buy, or they might be driven by making a profit. They may even simply like working for themselves and having the independence to make their own decisions.

Three main rewards for an entrepreneur setting up their own business:

- ❑ Independence
- ❑ Profit
- ❑ Business Success

Above in Yellow: The Dynamic Nature of Business

Middle in White: Risk and Reward

Below in Orange: The Role of Business Enterprise

The purpose of business activity

Business activities have three main purposes:

- to produce goods or services
- to meet customer needs
- to add value.

Value can be added to a product in a number of ways, including its:

- branding
- convenience
- quality and design
- **unique selling points (USPs)**.

The role of entrepreneurship

As you have already seen, some people think that entrepreneurship has an important role to play in the society and **economy** of a country. Now you will think about the role of the individual entrepreneur. An entrepreneur is not only someone who has an idea for a new business and tries to make it a success. An entrepreneur also has to:

- organise resources
- make business decisions
- take risks.

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1.2 Spotting a Business Opportunity

Identifying and understanding customer needs

There are four main customer needs that a business must consider:

- price
- quality
- choice
- **convenience**.

An entrepreneur needs to think about these needs when proposing a business idea and launching a new business. Older and more established businesses also need to consider customer needs and ensure that they are meeting them.

The purpose of market research

Market research is used to gather accurate information about three key influences on a business's success: the market, the needs of potential or existing customers and any competitors the business may have. This knowledge and understanding of the market and customers is vital if a business is going to succeed. In particular, it can help an entrepreneur to decide whether their business idea is viable before investing their money and time in a new business.

Meeting Customer Needs

A business's success is largely down to meeting its customers' needs. Meeting customer needs will ensure that customers are happy with the quality of the product or service that they purchase. This is likely to encourage repeat custom and generate customer loyalty, leading to increased sales. Satisfied and loyal customers are also more likely to recommend a product or service to others.

Using market segmentation to target customers

The specialist boutique clothes business is a good example of how segmentation can be carried out. A high-street boutique could segment its market by age – for example professional women aged 30–55, young high earners and teenagers – or it could segment by buying behaviour, for example women buying everyday items, those who like classic items and customers looking for more expensive clothing for a special occasion.

Identifying market segments

Market segments that businesses use to help them market effectively to their target customers include:

- location
- **demographics**
- behaviour
- lifestyle
- income
- age.

Figure 1.2.2 A SWOT analysis matrix.

SWOT analysis

One method of analysing a business's strengths and weaknesses is to complete a **SWOT analysis**. SWOT stands for **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats. SWOT analysis involves identifying the strengths and weaknesses of a business, as well as any opportunities it might be able to take advantage of or threats that it might face. A business can complete a SWOT analysis on itself as well as for its competitors.

Methods of Market Research

Primary Research

Questionnaires

Type of question	Description	Example
Multiple-choice question (MCQ)	Choose from a number of provided options.	Which of the following financial products do you currently have? A Current account B Mortgage C Savings account D Credit card E Home insurance
Yes/no	Give an answer that is either yes or no.	Do you currently own a home? - Yes - No
Sliding scale	Use a scale to give a product or service a score. Frequently used scales are 1–5, 1–10, or 'very bad'–'very good'.	How would you rate the service provided by your current bank? - Very unsatisfactory - Unsatisfactory - Satisfactory - Very satisfactory - Not sure

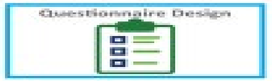
Table 1.2.3 Types of question used in questionnaires

Questionnaires

A questionnaire is a set of questions with a choice of answers. Questionnaires need to be carefully planned in order to provide useful feedback. A business using a questionnaire needs to have a clear set of objectives that the questionnaire will help them achieve, as this will help them to identify what sort of information they need to obtain from consumers.

Following this, the business has to identify the type of customer that they would like to question. This may include thinking about the customers':

- age group
- income bracket or social group
- home town or region
- gender



Observations

Observations

Observation means watching how customers behave naturally, when they do not think they are being watched. It is a very effective way of gathering primary **data**. Observations can be carried out in person or by using appropriate technology, such as CCTV cameras or webcams. For example, the manager of a shop could film a particular display and study customers' reactions to a particular product, layout or advertisement. Other examples of situations in which observation could be used include:

- understanding people's reactions to different packaging designs
- measuring how long it takes someone to make a purchase decision in a shop
- understanding how people actually use a product and whether they encounter any problems.

Focus Groups

Focus groups

A focus group is a group of people who are asked about their views, opinions, beliefs and attitudes towards a product, service, advertisement or idea. Questionnaire-based surveys are good for collecting information, but a focus group can be used to help a business understand its customers' opinions more deeply.

Usually, a focus group is a group of about 10 people led through an open discussion by a skilled interviewer. Focus group sessions usually last for about 90 minutes and the questions are decided in advance, though the discussion is allowed to flow freely.

Carrying out market research in a focus group should provide a wide range of subjects from different backgrounds and age groups

Interviews

Interviews

In-depth interviews can be conducted by telephone, face-to-face or, increasingly, online. The questions asked in an interview can be open questions, leading to long, detailed responses with a lot of explanation. These questions are designed to produce responses that will help a market researcher to identify trends and find out customers' opinions. The interviewer needs to be very skilful in order to create a positive relationship with the interviewee and make them feel that they can be honest with the interviewer.

The Use of Data in Market Research

Qualitative Data

Advantages	Disadvantages
Provides depth and detail, giving a detailed picture of why customers behave in a particular way.	A relatively small sample of people is surveyed, so the results may be biased.
Helps a business to listen to what their customers want, rather than jumping to conclusions.	Responses are very subjective, meaning that they are based on one person's opinions and beliefs.
	Results can depend on the skills of the interviewer – for example, making sure that they do not 'lead' the interviewees' answers.

Table 1.2.4 Advantages and disadvantages of qualitative research

Quantitative Data

Uses of quantitative data

Quantitative data can be used to answer a number of questions that a business might need to ask.

- Is there a market for this product or service?
- To what extent are consumers aware of our products or services?
- How many people are interested in buying our products or services?
- What type of people are our most loyal customers?
- What are our customers' buying habits?

Businesses often use quantitative data to find out about and compare different groups of their customers. A business using quantitative data in this way has to ensure that it surveys enough people in each customer group so that it can build up a clear picture of the characteristics of each group. This data can then be used to help the business to direct their marketing at each group in the most effective way for that group.

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1.3 Putting an Idea into Practice

Aims and objectives for start-ups

A start-up business is likely to have a range of aims and objectives that can be divided into the following categories:

- **financial** – such as survival, profit, sales, **market share** and financial security
- **non-financial** – such as social concerns, personal satisfaction, challenge, independence and control.

Did you know?

A financial backer will want to see a start-up business's aims and objectives before choosing to invest. It is a good idea to include these in the business plan and any presentations that will be given to potential investors.

Cash is the amount of money that a business has in its bank account. A business's cash flow is the way in which money comes into the business from customers and goes out of the business to pay suppliers. A cash flow can be either positive or negative:

- **positive cash flow** – more money coming in than going out
- **negative cash flow** – less money coming in than going out.

It is very important that an entrepreneur can make financial calculations and know what costs will be incurred from the beginning, as this will help them to plan their business's activity in a way that will lead to success.

Understanding and calculating business concepts

You will need to understand and know how to calculate:

- revenue
- fixed, variable and total costs
- profit and loss
- interest
- break-even level of output
- margin of safety.

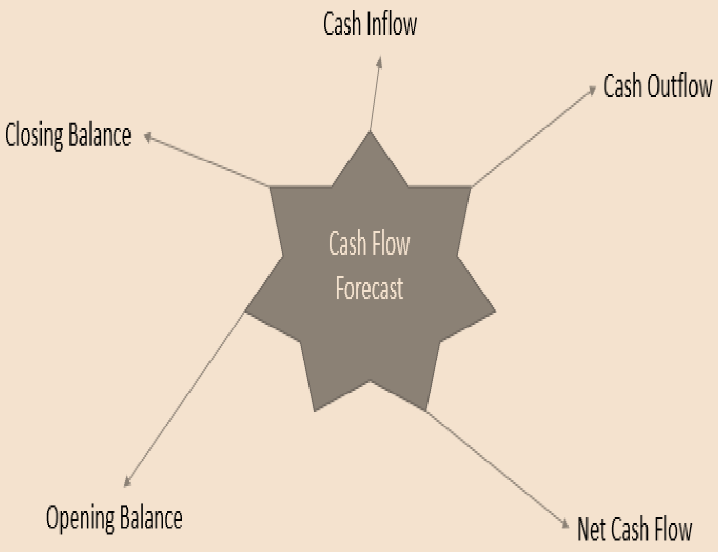
Short-term sources of finance

Short-term sources of finance are designed to help a business maintain a positive cash flow. They include arrangements such as **trade credit** and bank **overdrafts**. Short-term sources of finance can be particularly useful as costs are likely to be incurred in order to meet customers' needs, and this can happen before customers pay for the products or services that they are purchasing.

Some businesses will use short-term financial solutions as an emergency access to finance. Other businesses may use credit and overdrafts as part of their operating model if they know that customers will pay their invoices. This allows the business to pay off what it owes within the agreed credit limit.

Long-term sources of finance include:

- personal savings
- venture capital
- share capital
- loans
- retained profit
- crowdfunding.



GCSE Business Studies Knowledge Organiser Investigating Small Business 1.4 How to Make a Business Effective

The advantages and disadvantages of each type of ownership

Type of ownership	Advantages	Disadvantages
Sole trader	• The sole trader makes all of the decisions by themselves, which is quick and does not lead to disagreements. • Quick and easy to set up. • The sole trader keeps all of the profits. • Financial information is kept private.	• The sole trader has unlimited liability. • It may be difficult to raise enough money to establish or grow the business. • Puts a lot of pressure on just one person. • Can be difficult to run if the owner is ill or takes time off.
Partnership	• The business owners may have wider expertise and can share ideas and decision-making. • The risk is shared. • Can be easier to raise finance to establish or grow the business. • The business's financial information is kept private.	• Decisions made by one partner can affect all partners. • If a partner leaves, the business no longer exists. • The profits are shared. • There may be disagreements between partners.
Private limited company	• The owners have limited liability. • The term 'Ltd' after the business's name may make it appear to be a bigger or more long-established business. • Can be easier to raise finance to establish or grow the business. • The business continues to trade even if shareholders change.	• More complex to set up than a sole trader or partnership. • There may be disagreements between shareholders. • The business's financial information is published. • More requirements to report information to organisations such as HMRC and Companies House.

Marketing Mix (The Four P's)

Price

Price

Price is the amount of money that a customer will need to pay to receive the product. Prices can be set high if customers are willing and able to pay that high price. Factors influencing price will include:

- the amount of competition from other businesses
- customers' opinions about the product's value.

Promotion

Promotion

Promotion is the range of activities undertaken by a business to make customers aware of its products and to encourage customers to buy them. This can include a variety of activities, such as:

- offering discounts
- television or billboard advertising
- using social media such as Facebook and Twitter
- sponsoring people or organisations, such as sports teams or individual athletes.

Product

Product

Product is the actual good or service that the business is offering for sale. A good is a product that can be touched, such as a smartphone or a scooter. A service is a product that cannot be touched, such as a taxi ride or buying car insurance.

Place

Place

Place is where the customer can purchase the product, such as:

- online
- through a retailer
- direct from the manufacturer.

Place can also be used to refer to the route that a product takes to get from the manufacturer to the end customer.

Advantages of franchising	Disadvantages of franchising
• Lower risk than setting up independently, as the business model is already successful.	• Franchisees have to pay an initial fee as well as ongoing fees and/or a share of their profits.
• Support and training are provided by the franchisor.	• Franchisees cannot make independent decisions.
• Franchisees benefit from national marketing campaigns.	• Brand reputation can be damaged by other franchisees if they do not maintain standards.

Table 1.4.2 The advantages and disadvantages of operating a franchise

Business Location
Proximity to Key Factors

Proximity to Market

Proximity to market

This means how close a business is to its customers. The importance of proximity to market will depend on how important convenience is to the customer. For example, a customer is unlikely to travel a long way to buy fish and chips or a daily newspaper. Businesses selling these products need to be close to their market. However, a customer is more likely to travel further for more specialist products such as wedding dresses or custom-built cars. Before choosing to set up in a particular location, a business may look at the **footfall** of the location or research the **demographics** of the area to see if it matches their customers.

Proximity to Labour

Proximity to labour

A business may want to locate itself in an area where there is plenty of labour (a lot of potential workers). 'Labour' can include the number of workers in an area and the availability of workers with the right skills in that area. Certain parts of the UK are associated with highly skilled workers in certain fields or industries. For example, a technology company may choose to locate close to the M25 around London, where there are plenty of workers with technology skills. The availability of workers in a certain area may also affect the wages that a business will need to pay. For example, if a business needs to recruit a large number of unskilled workers, they may choose to locate in an area with high unemployment, as this area should contain a large number of workers willing to work for the **National Living Wage**. This would help to keep costs down.

Proximity to Materials

Proximity to materials

A business may locate itself as close as possible to the raw materials that it uses to produce its finished products. For example, there are lots of commercial orchards that grow apples and similar fruits in the south-west areas of the UK, where the climate is suitable for this kind of crop. Apple juice and cider producers also choose to locate in these areas in order to be close to these orchards, which are the source of their raw materials.

Often, businesses need to choose between locating close to their raw materials and locating close to their market. Their decision depends on whether the business's products are bulk-gaining or bulk-reducing.

Proximity to Competitors

Proximity to competitors

Some businesses choose to locate themselves away from their competitors. A business selling a **convenience good**, such as a newsagent's, is unlikely to locate close to its competitors as this would probably just split the local customers between the two businesses, reducing the number of their potential customers.

Balancing the marketing mix based on the competitive environment

The 'competitive environment' refers to the number and relative power of businesses competing in one market. A business will balance the aspects of its marketing mix based on the competitive environment – that is, in response to the actions of its competitors. Examples of how a business may respond to its competitors include:

- changing a product's price to match or **undercut** its competitors, though businesses have to be careful that this strategy does not result in a **price war**
- altering aspects of an existing product or bringing out a new product with a unique feature to achieve **product differentiation**
- undertaking promotional activities to boost brand awareness in order to encourage more **brand loyalty**
- changing the place or increasing the number of places where products are available to the customer in order to maintain or increase **market share**, such as introducing an e-commerce site.

Factor	Details about the identified factor
Business idea	A brief description of the goods and/or services that the business will provide on a day-to-day basis.
Business aims and objectives	An outline of what the business wants to achieve. These aims and objectives should be **SMART** (Specific, Measurable, Achievable, Realistic and Time-bound), as this will allow the entrepreneur to measure their later performance easily against their original objectives.
Target market	A summary of the **market research** findings and details about the business's target market. This will include potential size of the market and any identifiable trends in that market.
Forecast **revenue**, cost and profit	These forecasts are based on market research. They also include the estimated costs of setting up the business and running it on a day-to-day basis, as well as the business's predicted **profit**.
Cash flow forecast	A forecast of the amount of money that will come into and go out of the business, and the times at which money will come and go. This is very important, as even a profitable business can fail due to cash flow problems.
Sources of finance	The total amount of money that is needed in order to start up and run the business, and where this money will come from.
Location	An outline of where the business will operate from. This could include a retail outlet, a factory, offices or even the entrepreneur's home address if they are going to run the business from home.
Marketing mix	A short description of each of the business's four 'P's. This will include: • what products the business will sell • what price it will charge for each product • where the products will be made available to customers • how the business will promote itself. Each of these decisions should be backed by market research findings and reflected in the forecast revenues and costs.

Table 1.4.3 The factors that should be identified in a business plan

GCSE Business Studies Knowledge Organiser Investigating Small Business 1.5 External Influences on Business

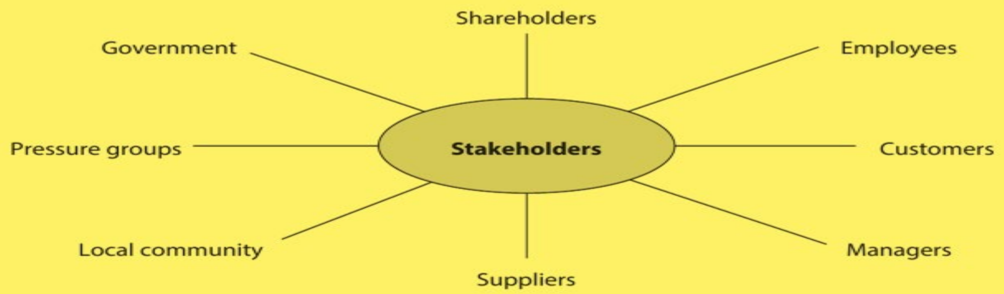


Figure 1.5.1 The eight different types of stakeholder that may influence businesses

Different types of technology used by business

The influence of technology on most businesses is very strong. This is particularly true of businesses that are able to operate worldwide thanks to the internet. There are many different technologies that businesses can use, but the most significant are:

- e-commerce
- social media
- digital communication
- payment systems.

How technology influences business activity

As you have seen, technology has a huge impact on the way in which businesses trade with each other and with customers. There are three main influences that technology has on the activities of a businesses:

- influence on sales
- influence on costs
- influence on the marketing mix.

The purpose of legislation

There are lots of reasons why legislation exists in the UK. However, when thinking about businesses, there are two key purposes of legislation:

- protecting the rights of consumers through consumer law
- protecting the rights of employees and employers through employment law.

The impact of the economic climate on businesses

The economic climate refers to the performance of the economy. When the economy is growing, the economic climate is positive. If the economy goes into recession or shrinks, the economic climate is negative.

The state of the economic climate can impact on businesses in six key ways, as shown in Figure 1.5.2. Businesses respond to these different impacts in different ways.

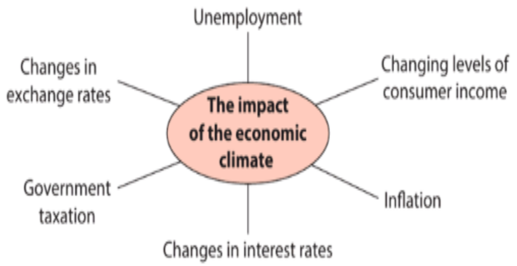


Figure 1.5.2 Aspects of the economic climate that have an impact on businesses

The impact of legislation on businesses

Each year, lots of new legislation is approved and businesses need to make sure that they follow it. Businesses need to keep up to date with changes in legislation and ensure that the way in which they operate complies with the law. This has two main implications: the cost of adapting the business to comply with the law and the consequences of meeting or not meeting the business's legal obligations.

Stakeholder	Impacts on business activity
Shareholders (owners)	• Set the aims and strategy for the business, including how it behaves. • Provide funding and investment to start up and expand a business.
Employees	• Provide good service, which usually results in higher sales and profits (or have a negative impact on a business's profits and reputation if they do not do their jobs well).
Customers	• Buy products and services. • Make recommendations for how to improve products and services. • Recommend the business to friends and on social media.
Managers	• Manage employees who do the day-to-day work of the business. • Communicate employees' needs to senior management. • Communicate the business's needs to employees.
Suppliers	• Provide the business with the materials it needs for its products or services. • Affect the amount of products or services that can be produced and sold (for example, if a supplier cannot provide raw materials on time, production may be stopped), which can have an impact on the business's sales and reputation.
Local community	• Support their local business by buying its products or services. • Object to the business if it has a negative impact on the local community or local environment.
Pressure groups	• Change the business's practices, such as its delivery times or the packaging it uses. • Improve employees' conditions, such as health and safety in the workplace or fair wages. • Influence customers' opinions of the business and their buying habits.
Government	• Changes the amount of tax that the business has to pay. • Passes new laws relating to the business and its industry. • Promotes different types of business activity by providing special funding for particular activities. For example, the availability of grants for wind farms has increased the number of businesses installing and operating wind farms.

Table 1.5.1 Examples of stakeholders' impact on business activity

Positive consequences	Negative consequences
• The business has a positive reputation. • Customers and other stakeholders, such as employees, feel that they are being treated fairly by the business. • Higher sales due to customers being attracted to buy from the business because of its good reputation. • Better candidates for jobs with the business, because people are attracted to work for the business.	• The business may be taken to court, resulting in fines or even prison sentences for members of staff, including the owners. • Negative media stories about the business, leading to a bad reputation. • A customer or employee is injured, suffers ill-health or is even killed as a result of the business's failure to meet legal obligations. • The business is closed down temporarily or permanently.

Table 1.5.6 The positive and negative consequences of meeting or not meeting legal obligations