Topic 1.1
Enterprise and Entrepreneurship
1.1 THEME 1 INVESTIGATING SMALL BUSINESS – CONCEPT MAP

How small business interacts with the wider world

Technology and business

Understanding external influences

Business responses to external influences

The economy and business

Business drivers

Legislation and business

Business

Three phases of development of a new small business

Market research

Competitive environment

Business revenue, costs and profits

Sources of business finance

Business location

Business plans

Spending a business opportunity

Putting ideas into practice

Making the business effective

Customer needs

Market segmentation

Business aims and objectives

Cash and cash flow

Options for start-up or small businesses

Marketing mix

Why and how small businesses start

Dynamic nature of business

Enterprise and entrepreneurship

Risk and reward

Role of business enterprise

Focus on these areas as a minimum

<table>
<thead>
<tr>
<th>1.11</th>
<th>Business Ideas</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.12</td>
<td>Unique selling point</td>
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<td>Market research</td>
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<td>Market Mapping</td>
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<td>Marketing Segmentation</td>
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<td>Competitive environment</td>
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<td>Cash Flow</td>
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<td>2.23</td>
<td>Trade credit</td>
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<td>Sole Trader</td>
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<td>Marketing Mix</td>
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<td>1.51</td>
<td>Business Stakeholders</td>
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<tr>
<td>1.57</td>
<td>Technology and Business</td>
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</table>

Exam Sections

Section A
In this section you will be tested on your knowledge of business. 35 marks are available and the highest mark on a question is:

“Discuss” 6 marks

Section B
In this section you will be tested on your knowledge of business applied to a case study. 30 marks are available and the highest marks on the question is:

“Analyse” 6 marks
“Justify” 9 marks

Section C
In this section you will be tested on your knowledge of business applied to a case study. 25 marks are available and the highest marks on the question is:

“Justify” 9 marks
“Evaluate” 12 marks

Answering questions
Command words are the part of the question which tell you what to do

<table>
<thead>
<tr>
<th>Command Word</th>
<th>What to do</th>
</tr>
</thead>
<tbody>
<tr>
<td>State or Give</td>
<td>These ask for a statement – you don’t need to back up with evidence.</td>
</tr>
<tr>
<td>Define</td>
<td>You need to write down what term means.</td>
</tr>
<tr>
<td>Identify</td>
<td>You need to interpret data shown on a graph or in a table to get your answer.</td>
</tr>
<tr>
<td>Calculate</td>
<td>Some questions ask for a bit of maths. Remember to show your working.</td>
</tr>
<tr>
<td>Complete</td>
<td>You need to fill in the missing parts of some information you’ve been given (e.g. complete a table).</td>
</tr>
<tr>
<td>Outline</td>
<td>You need to make two main points about a business issue and link them together.</td>
</tr>
<tr>
<td>Explain</td>
<td>You need to give reasons for things. So take a business issue, show how it impacts on other areas of business by giving reasons why.</td>
</tr>
<tr>
<td>Discuss</td>
<td>This is a longer version of an explain question where you describe the business issue or issues and then explain the impact as per the Explain command word</td>
</tr>
<tr>
<td>Analyse</td>
<td>This means ‘examine in detail’. You show describe and explain the main features of the ‘thing’ you’re analysing. The explain how the features of the ‘thing’ collectively impact on the business</td>
</tr>
<tr>
<td>Justify</td>
<td>You’ll be given some information about a business and asked to recommend whether the business should do something or chose between two options for what the business should do. Each option needs to be Analysed</td>
</tr>
<tr>
<td>Evaluate</td>
<td>You should discuss both sides of a business issue. Each side needs analysing. You should finish with a conclusion which gives an overall judgement</td>
</tr>
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</table>
Why and how small businesses start

- Dynamic nature of business
- Enterprise and Entrepreneurship
- Risk and reward
- Role of business enterprise
STARTING A BUSINESS

Businesses need to be dynamic to be successful and grow. A dynamic business sees meeting the changing needs of customers as important for its survival.

Business ideas are generated because of:
- Changes in technology
- Changes in consumers’ tastes
- Outdated goods and services

CHANGES IN TECHNOLOGY

The popularity of the internet and new technologies, has led to new businesses being set up.

Smart technology has generated new product ideas, from touch screen phones to self-driving cars.

Online marketplaces enable small businesses to set up and start selling online immediately.

Consumers are now able to access a much larger marketplace by ordering goods and services from around the world via websites and apps.

Social media allows businesses to communicate closely with consumers and offer a platform for free promotion and advertising.

CHANGES IN CONSUMERS’ TASTES

Consumers’ tastes change over time.

Businesses need to keep giving consumers what they want to keep the business current and prevent customers going to competitors.

Price comparison websites make it easier for consumers to research different businesses before making a choice to buy.

Café culture has seen a rise in coffee shops – independent and chains.

Income growth and changing attitudes has led to upmarket fast food.

Consumers are more health conscious leading to new chains of gyms, personal trainers, and fitness merchandise.

Environmental awareness has led to more organic, free range and plant based products. And reduced plastic packaging.
OUTDATED GOODS AND SERVICES

Outdated products are replaced with new business ideas that better meet the needs of consumers.
Examples:
- CDs replaced with music streaming services
- USB sticks replaced with cloud storage
- Electric cars rather than petrol as they are less damaging to the environment

HOW IS A NEW BUSINESS IDEA GENERATED

Either to fill a gap in the market or improve an existing business idea. This means a business idea will either be a new original idea of an adaptation of a good or service that is already on the market.
A new business idea will be generated by an entrepreneur.
An entrepreneur may develop an existing business idea of will improve goods and services to better meet the needs of customers

QUICK TEST

1. How do dynamic businesses respond to consumer wants?
2. Name 3 reasons why new business ideas come about.
3. A business can be an original idea. What other way can a new business idea be generated?
It is important for an entrepreneur to understand the things that can go wrong when setting up a new business; these are risks. Risks occur at every stage in business, but there are more risks associated with start-ups. Risks can be reduced if an entrepreneur addresses them during the development stage of a new business idea. Risks include: business failure, financial loss, lack of security. Business failure can be caused by:
- Entrepreneurs not knowing the market well
- Not having enough money (capital) to start a business
- Poor decision making
- Competition, or goods/services not meeting the needs of the customer
An entrepreneur can lose their own money they have put into the business and money borrowed from other sources. Many small businesses operate as sole traders and partnerships. These have unlimited liability so are the riskiest start-up options. Business owners can also lose personal possessions if the business runs up debts and they have unlimited liability. Working for yourself means you do not have the security of a regular salary or wages. If the business is not successful, an entrepreneur can be at risk of not being able to pay bills or a mortgage. Entrepreneurs need to plan for potential risks and conduct relevant market research to understand how their product will/will not meet customer need.
The rewards for starting a business can include: business success, profit and personal independence.

Some rewards are connected to money and are referred to as financial rewards, other rewards are non-financial, e.g. independence.

Measuring the business's sales, the amount of market share it holds or profit made over time, are ways that can determine business success.

Success can mean different things to entrepreneurs: number of subscribers to an online blog, a personal trainer getting clients to their preferred level of fitness.

Profit is the difference between the revenue earned by a business and the cost of the business. Any profit gained goes to the business owners.

An entrepreneur will make all the decisions for the business and can set what days they want to work. This independence is rewarding and encourages people to start their own businesses.

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1. Name 3 risks a start-up business may face.
2. How can entrepreneurs reduce the risk of business failure?
3. What non-financial rewards can a business start-up provide?
DIFFERENCE BETWEEN GOODS AND SERVICES

- A business will either provide goods or services to consumers.
- A good is a physical product that can be touched, e.g. a pair of trainers.
- Services are non-physical, e.g. a driving lesson.
- Product is a generic term used for both goods and services.

THE PURPOSE OF BUSINESS

- Providing what consumers want is at the heart of a successful start-up.
- A business owner needs to ensure their goods or services satisfy the needs of their consumers.
- If consumers’ needs are not met, consumers will shop elsewhere.
- Consumers benefit from the choices available.

ADDING VALUE

- An important purpose of business is to add value to its goods/services.
- Adding value is the difference between the cost of the raw materials/components or of producing the good/service and the price that the consumers are willing to pay for the good/service.
- Methods of add value include:
  - Branding
  - Quality
  - Design
  - Convenience
  - Unique selling point (USP)
- A successful business will likely use more than one method to add value.
- If a business can add value and keep costs low, the amount of profit will be increased.
THE ROLE OF THE ENTREPRENEUR

An entrepreneur needs four things to provide goods and services: capital, land, labour and enterprise. These are known as the four factors of production.

- Capital - man-made resources (goods used to produce other goods).
- Land – all natural resources, e.g. wheat or solar power
- Labour – human input, e.g. skills or qualifications
- Enterprise – skills and characteristics to manage the other three factors (capital, land and labour) and take risk.

It is an entrepreneur’s responsibility to organise the four factors of production to make goods and services that consumers want to buy. Organising these factors is risky and an entrepreneur must take careful consideration before making decisions.

QUICK TEST

1. What is the name of a physical product that can be touched?
2. Why do businesses exist?
3. What are the four factors of production that an entrepreneur must organise?
1.1.1 The dynamic nature of business

1 Explain one reason why new business ideas come about.  

2 Which two of the following are examples of services?  

Select two answers:  

A Train journey  
B Magazine  
C Headphones  
D Haircut  
E Mobile phone  

3 Explain one way an entrepreneur might identify a new business idea.
1.1.2 Risk and reward

4 Last Course Patisserie Ltd is a small private limited company based in Devon which produces hand-made desserts and puddings. The business was established in 1986. Its owners previously worked in the food industry but felt they could offer better value for money to customers. All of the desserts are made fresh to order which has provided Last Course Patisserie with a reputation for being flexible when meeting customer needs.

Getting the best ingredients for the desserts is a vital part of the business. Last Course Patisserie found excellent suppliers of free range eggs and dairy products close to its business location. This means all ingredients could be delivered quickly when needed.

Last Course Patisserie has recently employed a new head chef from Switzerland who has introduced a new range of products to the menu. This has proved to be very popular with customers and the business now struggles to keep up with demand. Last Course Patisserie is receiving increased orders for desserts but, due to the size of its business premises, struggles to meet this increase in demand. The owners have decided that it is the right time for Last Course Patisserie to expand and possibly relocate to new premises.

(Source adapted from: http://devondesserts.co.uk/; photo: © 2009-2018. Last Course Patisserie Ltd.)

4 Outline one risk taken by the owners when starting Last Course Patisserie.

(2)

5 Which one of the following is an example of a reward from business activity?

Select one answer.

A Financial loss
B Increased overheads
C Independence
D Lack of security

(1)
Sally is a fitness instructor at a local sports centre. She is now considering setting up her own business as a personal trainer. Sally’s research shows that people are more interested in health and fitness. Although there are a number of gyms in her local area, there are not many personal trainers.

Sally has conducted some research into who her main competitors will be. A summary of the research is shown:

<table>
<thead>
<tr>
<th>Competitor 1: 'Vitality' personal instructor</th>
<th>Price per hour session</th>
<th>Strength</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£22</td>
<td>Experienced personal trainer with good local reputation</td>
<td>Operates in only a small geographical area</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Competitor 2: 'Bootcamp' personal trainer</th>
<th>Price per hour session</th>
<th>Strength</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£220 for an 11-session block</td>
<td>Ex-soldier using military training methods</td>
<td>Limited number of Training methods used</td>
</tr>
</tbody>
</table>

Sally will charge £25 per hour. She is flexible in terms of the location of her customers and will travel within a 10-mile radius. She hopes to attract a younger market segment by using social media and online promotion. She aims to differentiate her service in a number of ways:

- Using social media to communicate directly with her customers, offering daily motivational reminders
- Filming parts of the customer’s training session and posting it online for them to evaluate their performance on their own device.

Sally is currently well paid and has saved up enough money to start up on her own. She is considering buying a franchise. There are a number of national franchise operators that she could use. However, she is concerned about the current economic climate. She has seen reports that unemployment is rising and that consumer incomes are falling.

6 State one risk that Sally faces in starting this business. (1)
1.1.3 The role of business enterprise

*Last Course Patisserie Ltd* is a small private limited company based in Devon which produces hand-made desserts and puddings. The business was established in 1986. Its owners previously worked in the food industry but felt they could offer better value for money to customers. All of the desserts are made fresh to order which has provided *Last Course Patisserie* with a reputation for being flexible when meeting customer needs.

Getting the best ingredients for the desserts is a vital part of the business. *Last Course Patisserie* found excellent suppliers of free range eggs and dairy products close to its business location. This means all ingredients could be delivered quickly when needed.

*Last Course Patisserie* has recently employed a new head chef from Switzerland who has introduced a new range of products to the menu. This has proved to be very popular with customers and the business now struggles to keep up with demand. *Last Course Patisserie* is receiving increased orders for desserts but, due to the size of its business premises, struggles to meet this increase in demand. The owners have decided that it is the right time for *Last Course Patisserie* to expand and possibly relocate to new premises.

(Source adapted from: http://devondesserts.co.uk/; photo: © 2009-2018. Last Course Patisserie Ltd.)
In order to increase the number of desserts that can be produced to meet the extra demand,

_Last Course Patisserie_ is considering two options:

Option 1: investing in new machinery  
Option 2: employing more staff.

7 Justify which _one_ of these two options _Last Course Patisserie_ should choose. (9)
8 Explain one benefit to a small business from having a unique selling point. (3)

On Your Bike is a family owned business that first opened in London in 1983. Its customers include children buying their first bikes and scooters, through to experienced enthusiasts in road cycling and mountain biking.

The business offers a wide range of bikes, many imported from abroad. These include high quality brands such as Brompton, Cannondale and Ridgeback. It also stocks a wide range of clothing and helmets including brands such as Endura and Altura.

On Your Bike has large workshop facilities in its shop where qualified mechanics maintain and repair all makes of bike. All mechanics go on regular training courses to ensure they keep their skills and knowledge up to date with the latest cycling technology. This allows On Your Bike to offer exceptional customer service and advice.

The cycling market has grown over recent years. Market research has shown that an increasing number of tourists like to rent bikes when on holiday. In response to this, On Your Bike operates one of the largest bike rental services in London. Bikes can be hired by the day or week with a choice including road and electric bikes. This is customer review from a comparison website:

Reviewed 28 February 2019

Great Service!!!
Great customer service, particularly from Miles. They have a great range of bikes for hire too!
To expand its business in response to the growth in the cycling market, *On Your Bike* is considering two options:

**Option 1:** open a second shop  
**Option 2:** start to use e-commerce on its website.

9 Justify which one of these two options *On Your Bike* should choose.
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