Topic 1.4
Making the business effective
Focus on these areas as a minimum

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>
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<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>
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<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>
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<tr>
<td>Outline</td>
<td>You need to make two main points about a business issue and link them together.</td>
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<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>
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<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>
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<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>
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<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>
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LIABILITY

Liability is the legal responsibility that a business owner has to pay his/her business’s debts. There are two types of liability: LIMITED liability and UNLIMITED liability. Different start-ups have different liability.

LIMITED liability – there is a legal difference between the business owner and the business meaning that the owners have limited liability. If the business incurs debts, they belong to the business. Owners will only lose the money they have invested in the business. A private limited company (Ltd) has limited liability.

UNLIMITED liability – there is no legal difference between the owner and the business – the business owner is the business. The owner is legally responsible for the actions of the business and the business’s debts – this is unlimited liability. Sole traders and partnerships have unlimited liability.

SOLE TRADER

The business is owned by one owner who has full control, although people can be employed as workers. The owner has UNLIMITED liability. Examples would be a tutor, photographer, website designer

Advantages – easy to set up and no fees, owner keeps profits, owner is own boss, financial information about business does not need to be made public.

Disadvantages – personal belongings are at risk (UNLIMITED liability), difficult to raise money, earnings are lost if owner is sick or takes a holiday.

PARTNERSHIP

A partnership is a business owned by two or more partners. They share control and decision making. UNLIMITED liability for all partners unless they set up a limited Liability Partnership (LLP) where partners will only be liable for what they invest. Examples are doctors, dentists, vets, solicitors.

Advantages – More capital can be raised by partners, partners can bring a range of skills, financial information does not need to be made public, problems and decisions can be shared.

Disadvantages – UNLIMITED liability (unless LLP in place), partners have disagreements, profits shared, if partner dies or bankrupt, partnership will have to close.
PRIVATE LIMITED COMPANY

Created by people who know each other. The owners are called shareholders and there must be at least one shareholder. Owners must register the business as a company (incorporation) with Companies House and have ‘Ltd’ after the company name. The shareholders each have LIMITED liability. Examples of private companies: Moonpig.com, Cath Kidston, Eddie Stobart.

Advantages – LIMITED liability, shares can be sold to friends and family to raise money. Managers can be employed to run the business.

Disadvantages – legal requirement to file the company’s accounts and this information is public. More administration involved in getting started as a private limited company. Shares cannot be sold to the public.

FRANCHISING

A franchise is an arrangement between an established business (the franchisor) that allows businesses or individuals (franchisee/s) the right to sell goods and services using its name, trademark and businesses processes. A franchisee buys into an established business (franchise) but operates it as an independent business, e.g. Costa, Subway.

Advantages – the brand and customer base is already established. A high chance the business will be successful. Support and training is provided by the franchisor, e.g. marketing and staff training.

Disadvantages – start-up fees can be expensive. Franchisor has to be paid a percentage of the REVENUE. Little control and flexibility – products already created and decisions made. Complicated application process.
LABOUR

A business needs to be near suitably skilled staff who are willing to work for the wages offered by the business.

MATERIALS

It is important for a business that uses raw materials that are bulky or heavy to be located close to the source of those raw materials. This will lower the production costs for the business, as shipping the materials is minimised.

COMPETITORS

Customers want a choice, so a new business may decide to locate near competitors because that is where the customers are, allowing the business to be another option should the customer decide to shop around.

IMPACT OF THE INTERNET

The internet has made it easier for some businesses to get started without the need for physical premises. Businesses can sell goods easily through sites such as Etsy and eBay. Businesses can offer services through agency sites such as PeoplePerHour and Rated People. The internet has led to growth in outsourcing, which has led to manufacturing companies moving their production to cheap overseas locations. The market place (where buyers and sellers meet) can be online so a business does not need to be located close to its customers.
1.4.2 BUSINESS LOCATION

CHOOSING A BUSINESS LOCATION

This is the place where a business operates. For some businesses location is very important, e.g. hairdressers need to be in a convenient location for customers. Some small businesses do not need a physical location and can set up and run online.
The right location for a business will depend on:
- The nature of the business
- The market
- Labour
- Materials
- competitors

NATURE OF THE BUSINESS

Some start operating from home or solely online.
Primary sector (providing raw materials) businesses need to be close to the raw materials.
Secondary sector (manufacture, processing, assembly) need to be near transport links so supplies can be brought in and finished products sent out easily. They also need to be near skilled labour. As they grow they may locate a factory close to where the product is sold.
Tertiary sector (service based) need to be close to or accessed easily by the customers. A hotel needs to be near transport links and tourist attractions, for example.

MARKET

Customers need to have easy access to goods and services in order to buy them. Locating close to other businesses can be important, e.g. coffee shops are often located in high streets so that shoppers can access them easily while shopping.
**ELEMENTS OF THE MARKETING MIX**

The marketing mix is a combination of four factors a business must consider to meet customer needs, known as the 4Ps: price, product, promotion and place. The 4ps compliment and impact on each other. A business must get their balance right (their mix), e.g. high quality materials used to make a product will lead to a high selling price. The marketing mix is different for each business and will change over time.

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**PRICE**

The price a business charges for a product must allow for a profit to be made. If a product is a high price, the quality is usually high. A low price may be used by a new business to attract customers.

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**PRODUCT**

The product must meet customer needs. A business must consider its product range, brand and unique selling points.

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**PROMOTION**

Promotion creates awareness, boosts sales, builds a brand and communicates the features of a product. Promotion can be in the form of advertising, e.g. online, local newspapers, radio (for small businesses), or by using public relations and special offers.

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**PLACE**

Place is about how the product reaches the customer – where and when they want it. A business can sell directly through the internet or from a business premises. Another selling option is through retailers or wholesalers.

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1.4.3 THE MARKETING MIX

BALANCING THE MARKETING MIX

The competitive environment of a business determines which element of the marketing mix is most important. Price is important for a business located on a busy high street, but less important for an online web developer that focuses on making a creative and functional product for their client. A business may opt for a low price to persuade customers to try their product, this may create a price war as other businesses reduce their prices. Small business can’t reduce prices too much because they have higher costs to begin with. Modifying each element in the marketing mix establishes a differentiated product enabling a business to be competitive.

CHANGING CUSTOMER NEEDS AND THE MARKETING MIX

A business has to conduct research to stay up-to-date with the needs of customers and make adjustments to the marketing mix. When a new product is introduced the marketing mix will be different to when the product is established and the brand has grown.

TECHNOLOGY AND THE MARKETING MIX

Changes in technology affect the marketing mix

PRICE – customers have more access to information, this makes them more knowledgeable about prices through comparison websites, so some businesses may have to change their prices to remain competitive. A business may be able to lower prices due to cost savings made from technology in the production processes.

PRODUCT – social media and online customer reviews allow businesses to conduct market research and get first-hand comments from customers to identify how to meet their needs.

PROMOTION – digital communication, available through websites, email and social media platforms gives businesses new promotion opportunities. A web banner can be placed on multiple sites for the fraction of the cost of a fixed positioned billboard or banner.

PLACE – a small business can build a large customer base through selling online- they can target customers anywhere in the world and don’t need to have a physical business premises.
WHAT IS A BUSINESS PLAN?

A business plan is a document prepared by entrepreneurs which summarises the future objectives of the proposed business and shows how they will be achieved. Entrepreneurs use a business plan to help raise money from banks and venture capitalists.

THE CONTENTS OF A BUSINESS PLAN

BUSINESS IDEA – a description of the purpose of the business and will it will be a success.
AIMS AND OBJECTIVES – the long-term goals of the business and the medium to short-term steps to get there.
TARGET MARKET – the group of people that the business will sell to.
Through market research a customer profile can be created.
FORECAST REVENUE, COST AND PROFIT – predictions for how much the business will make from selling its goods or services, its costs and potential profit.
CASH-FLOW FORECAST – monthly inflows and outflows of the business. An entrepreneur can see when cash flow may be negative and think about borrowing money to cover these times.
SOURCES OF FINANCE – the amount of money required to start the business and where it will come from. Including money invested by the entrepreneur, how much will need to be borrowed and when.
LOCATION – the business’s location and specific information about the area. Also what the business will need to set up in this location.
MARKETING MIX – each element of the marketing mix will need to be explained.

WHY IS A PLAN IMPORTANT?

Banks and other investors will need to see a plan to judge if the business has a good chance of succeeding. Potential investors will look at the financial information to ensure that the business can pay back investments with interest. Writing a plan forces an entrepreneur to think about every aspect of the business – highlighting areas that need more consideration.
The plan can be referred to and ensure there is direction for the business. Costly mistakes can be avoided if the business is well planned. The legal responsibilities of a business can be researched and planned for using the business plan. The risk of failure is reduced if the business has a plan and clear aims and objectives. Plans are important but not all entrepreneurs write one, preferring to go with their gut instinct.
1. Which new business options have UNLIMITED liability?
2. Name three disadvantages of being a sole trader.
3. What is franchising?
4. Name the factors that a business needs to consider when deciding business location.
5. Why might locating a business near competitors be a good idea?
6. How has the internet made it easier for new businesses when making location decisions?
7. Which elements of the marketing mix involves communicating the features of a product?
8. How will operating in a competitive environment impact a business’s marketing mix?
9. How has technology made an impact on the price element of the marketing mix?
10. Name the essential elements of a business plan.
11. Why do banks and other lenders want to see a business plan?
12. How does a business plan help to reduce the risk of a business failing?

1. Explain the difference between an ‘aim’ and an ‘objective’.
2. Explain why a business should set aims and objectives.
3. Explain the difference between ‘financial’ and ‘non-financial’ aims and objectives, giving an example for each type.
4. Explain what is meant by the term cash flow forecast.
5. Explain why cash is so important to a business.
6. What is the difference between cash and profit?
7. Suggest three ways in which a business can improve its cash flow
The questions below are from the previous topic and designed as retrieval practice. See how many you can answer. Check your answers by looking back into the previous revision booklet.

<table>
<thead>
<tr>
<th>Question</th>
<th>Marks</th>
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<tbody>
<tr>
<td>Give an example of a product becoming outdated</td>
<td>1 Mark</td>
</tr>
<tr>
<td>Explain how the rise in web technology and the use of smartphones benefitted businesses.</td>
<td>3 Marks</td>
</tr>
<tr>
<td>What does ‘dynamic business’ mean?</td>
<td>1 Mark</td>
</tr>
<tr>
<td>Explain how a business can adapt an existing business idea.</td>
<td>3 Marks</td>
</tr>
<tr>
<td>Explain what the potential rewards are for setting up a business.</td>
<td>3 Marks</td>
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<tr>
<td>Why are sole traders and partnerships the riskiest start-up options?</td>
<td>2 Marks</td>
</tr>
<tr>
<td>What factors can an entrepreneur use to measure their business success?</td>
<td>3 Marks</td>
</tr>
<tr>
<td>How can an entrepreneur avoid risks when starting up a new business?</td>
<td>2 Marks</td>
</tr>
<tr>
<td>Explain with examples, the different between a good and a service.</td>
<td>2 Marks</td>
</tr>
<tr>
<td>What does the term ‘unique selling point’ mean?</td>
<td>1 Mark</td>
</tr>
<tr>
<td>Explain why is it important for a business to add value to its goods and services?</td>
<td>3 Marks</td>
</tr>
<tr>
<td>Explain how design can help a business to add value.</td>
<td>3 Marks</td>
</tr>
</tbody>
</table>
1.4.1 The options for start-up and small businesses

1 Explain one benefit to an entrepreneur of buying a franchise to start a business. (3)

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.)
2 Analyse the impact on Last Course Patisserie of operating as a private limited company. (6)

3 Explain one disadvantage of starting a small business as a partnership. (3)
4 Which one of the following is a characteristic of a sole trader?

Select one answer.

A They require a business qualification
B They have unlimited liability
C They can sell shares to raise finance
D They do not employ staff

5 Discuss what a small business owner should consider when deciding upon the location for their business.
1.4.3 The marketing mix

6 Which two of the following are elements of the marketing mix? Select two answers.

A Payment  
B Planning  
C Price  
D Product  
E Profit

*Aphrodite* is a clothes shop that was formed in 1994 by two brothers, Andrew and Duncan McKenzie. They opened the shop because they had a lifelong enthusiasm for new fashion.

Andrew and Duncan visit Paris, Milan and London each year to buy their stock. They aim to buy well-known brands, such as Stone Island and Hugo Boss, and to also stock clothes from new designers. This range of stock helps provide them with an advantage over their competition.

Customer service has always been an important part of *Aphrodite*’s success. A polite and friendly attitude greets all customers on arrival at the shop. In 2007 the business launched its website, which sells its range of clothing using e-commerce. The owners looked to maintain existing high standards of service for customers using their website.

A new opportunity was created when the shop premises next to *Aphrodite* became available to buy. Andrew and Duncan are considering buying the shop in order to convert the two shops into one large premises. They have calculated that this will cost them £250,000 but are undecided on the best way to finance this.

(Source: adapted from https://www.aphrodite1994.com/about-us and interview with owner 9/10/2017; photo: © bphoto/Shutterstock)

7 Outline one reason why *Aphrodite*’s range of stock could give it an advantage over its competitors.

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8 Evaluate the impact of e-commerce on Aphrodite’s marketing mix. You should use the information provided as well as your knowledge of business.

(12)
8 Evaluate the impact of e-commerce on Aphrodite’s marketing mix. You should use the information provided as well as your knowledge of business. (12)
9 Explain one way the marketing mix of a small business may change due to changing consumer needs.

(3)

1.4.4 Business plans

10 Explain one reason why it is important to include financial information in a business plan.

(3)
Stand up paddleboarding is a sport which is similar to surfing but the riders use a paddle whilst standing on the board. Joe Thwaites opened Loco in 2012 as he spotted a gap in the market manufacturing stand up paddleboards (SUPs). Joe felt that he could compete using innovative designs and by changing the shape of the SUPs he made. He spent a few weeks in Fuerteventura, Spain, working with professional SUP riders where he developed designs for three Loco boards.

Since then Loco has surrounded itself with creative talent. This includes world class SUP shapers, graphic designers and team riders, who compete in competitions using its boards. Within months of its new SUPs becoming available, one of the team went on to win the British National Championship and represent Team GB in the World Championships.

Loco now sells an extensive range of SUPs, surf and kite boards throughout the UK and Europe and is ready to further extend its brand. Joe feels that the use of digital marketing using social media is vital in this growth. This combination of creative marketing and Joe's active role in the business, by offering advice to customers, has provided him with a firm belief that Loco can compete against larger manufacturers.

(Source: adapted from https://locosurfing.com/ and interview with owner 8/06/2018)

11 Outline one way that a business plan could have helped Joe Thwaites when starting Loco.

12 Explain one reason why an entrepreneur would produce a business plan.
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(2)

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(3)