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Using your dividers

Make the most of your Revision Cards by using these **dividers** to turbocharge your revision. This is how it works:

- 1 Start with all the cards in the **front section**.
- 2 Read the front of each revision card and have a go at answering the question.
- 3 Turn over to check your answer. Now revise the back of the card.
- 4 If you got the answer right and you feel confident with that topic, move the card **back one section**.

All the cards start here. The cards in this section show you topics you still need to revise.



You've **nailed** these cards. You could still give them a quick look right before the exam for a reminder.

You've **had a look** at these cards, but make sure you revise them again at least once.

You've answered the questions on these cards correctly at least twice so you're **nearly there**!

The dynamic nature of business

Businesses operate in dynamic markets. New opportunities arise and new businesses and business ideas are created. Entrepreneurs and businesses can create new products and services to satisfy a new need.

New business ideas may come about due to:

- **changes in technology**
- **changes in what customers want**
- **existing products becoming obsolete.**

Technology

The development of new technology creates new business opportunities because it can make products and services:

- ✓ faster
- ✓ smaller (compact)
- ✓ cheaper
- ✓ easier to use.

Customer needs

Consumer wants and needs change because of changing:

- ✓ fashions
- ✓ demographics
- ✓ lifestyles
- ✓ economic factors.

These changes can create opportunities.



Which **one** of the following is most likely to lead to an opportunity to open a new local gym?

- A** Faster broadband
- B** New homes built
- C** Changing fashion
- D** A recession

Turn over for the answer.

And the answer is ...

B New homes built

Building new homes would increase the population of the local area, which could increase demand for the gym. Changing fashions and faster broadband have no link to the demand for gyms. A recession is likely to lower incomes and therefore reduce the demand for non-essentials such as gym memberships.

Obsolescence

A product or service can become obsolete when it is no longer needed, perhaps because it has been replaced by a better (faster, safer, smaller) version.

Level of uniqueness

A new business venture can be **an original idea** (unique) or **adapt existing ideas**.

Highly unique
business

Generic
business

Unoccupied
gap in the
market

Entrepreneur
thinks they can
do it better

Market big
enough for
another
competitor

Exam focus

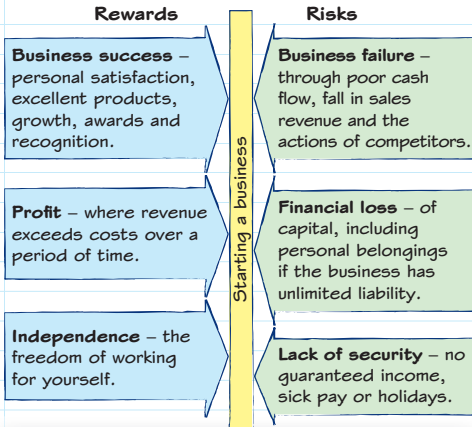


When considering the advantages of a business, remember that the more unique the business, the more likely it will have a competitive advantage over its rivals.

Risk and reward

When entrepreneurs set up a business there are many risks they take on. On the other hand, the rewards of running a business can be great.

Risk is worked out by considering the **probability of a negative outcome** occurring.



What is the main financial incentive that may lead to an entrepreneur setting up their own business?

Turn over for the answer.

And the answer is ...

Profit

An entrepreneur may start their own business for many reasons, for example, personal success, independence or social success, but the main financial incentive is that the **profit** can be significant, leading to considerable wealth.

Reducing the risk

An entrepreneur can do a number of things to help reduce the risk of setting up a business, such as:

- ✓ carrying out detailed market research
- ✓ producing a detailed business plan
- ✓ ensuring the business is competitive in its market
- ✓ raising sufficient start-up capital/managing cash flow well.

Exam focus



When analysing a business opportunity, weigh up the strengths, weaknesses, opportunities and threats to determine how risky a business or a business idea is. Factors that might make some businesses riskier than others include seasonality, a small market, having many competitors and having limited experience.

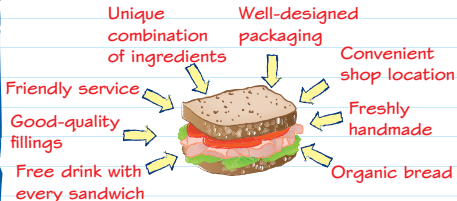
Added value

The role of business is to **produce goods and services, meet customer needs and add value.**

Adding value involves taking basic components, such as ingredients or raw materials or the skills of an individual, to produce products and services that are worth more (value added) than the basic components. A business can add value through convenience, quality, unique selling points, branding, design and/or delivery.

Combining features

Most products offer a range of value-adding features. A shop-bought sandwich might offer:



How could a courier (delivery service) add value?

- (A) New staff uniforms
- (B) Less packaging
- (C) A wider range of services
- (D) Higher prices
- (E) Fast delivery

Turn over for the answer.

And the answer is ...

- C** 5 wider range of services
- E** Fast delivery



Offering a wider range of services will help meet a wider range of needs. For example, delivery on a Saturday or a parcel checking service. Some customers will be willing to pay more for these services. Customers may also pay more for fast delivery. New uniforms, reduced packaging and higher prices are less likely to add value to the service.

Added value and price

A business can add value to its product by lowering variable costs or adding something that will make customers willing to pay a higher price.

£100	£30 Value added: what the business adds
Price	£70 Variable cost

Exam focus

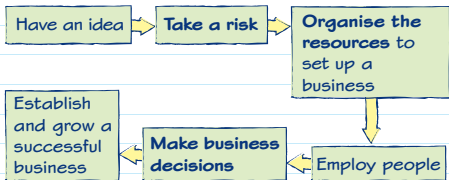


Make sure you know a variety of ways that businesses can add value to their products and services. You may need to suggest ways that a particular business could better meet customer needs or improve competitiveness through adding value.

The role of entrepreneurs

Entrepreneurs are **risk-takers** who **organise resources** and **make decisions** to build their business.

What entrepreneurs do



Which **two** of the following are the benefits of running your own business as an entrepreneur?

- ☐ A Being your own boss
- ☐ B Working long hours to make sure the business is a success
- ☐ C Using your own capital to start the business
- ☐ D Being responsible for your employees
- ☐ E The profit incentive

Turn over for the answer.

And the answer is ...

- (A) Being your own boss
- (E) The profit incentive



Running your own business can mean working very long hours and risking your own money. In the early days this might mean making sacrifices as there is no guaranteed income.

However, being an entrepreneur gives you freedom to make your own decisions and to keep the profit you make.

Options B, C and D might be considered drawbacks of being an entrepreneur.

Entrepreneurs benefit society

Entrepreneurs are great for the economy because:

- ✓ they create new products and services to meet people's needs
- ✓ they create new jobs
- ✓ they encourage consumer spending
- ✓ they pay tax to the government on their profits and earnings.

Exam focus



In your exam, you may come across case studies of individuals starting their own businesses. It is useful to consider the **skills** and **experience** of the entrepreneur when evaluating the likelihood of the enterprise being a success – for example, have they run a business before or worked in the industry?

Customer needs

All customers have different preferences and characteristics, which may relate to family, personal tastes, usage (why and how they use products) and finances (what they can afford).

Meeting customer needs

The most successful businesses are those that are able to identify, understand and meet their customers' needs. This might include:

✓ **quality**

✓ **convenience**

✓ **choice**

✓ **price.**

A business might also help to meet customer needs by providing excellent customer service.

The importance of identifying customer needs

Businesses need customers to buy their products or services in order to **generate sales**. If a business does not understand what customers need, it risks that customers will not want to buy its products and the business will **not be able to survive** without sales.



Why might a customer choose a local business that offers late opening hours over another business with lower prices?

Turn over for the answer.

And the answer is ...

Convenience

Some people may be willing to pay more for a product or a service if it is more convenient than another because they may value time and convenience over price.

Changing customer needs

Supermarkets may allocate shelf space according to changes in customer need. For example, a growing number of major food manufacturers are including gluten-free options in their product ranges, in response to increased customer need. Supermarkets are therefore dedicating more shelf space to gluten-free produce to satisfy their customers.



Exam focus



Remember that a business is unlikely to be able to meet *all* customer needs. Improving quality will often mean prices will have to rise. Offering a wider product range might make it harder to get products shipped to customers on time.

The role of market research

Market research helps a business to **understand its customers, competitors and the market** it operates in.

The purpose of market research is to:

- identify and understand **customer needs** – a business may research customer opinions on its products/services, or look at market trends
- identify **gaps in the market** – a business may want to identify or understand its competitors
- reduce **risk** – research can help a business plan for growth or survival
- inform **business decisions** – making decisions based on research data, for example on demand or market size, can help reduce risk.



Which **one** of the following might a business be able to find out by conducting market research?

- (A) The total sales revenue it will make next year
- (B) The opinions of a sample of potential customers
- (C) The opinions of all potential customers
- (D) The future plans of its competitors

Turn over for the answer.

And the answer is ...

- B** The opinions of a sample of potential customers



Market research can help a business understand demand for a product. Unless the market is very small, it is very difficult for a business to understand the needs of *all* its customers, so it will ask a **sample**. Research cannot accurately predict the future; it can only help with forecasting.

How much market research?

Market research can help ensure a business is well-informed about its market and reduce risk.

However, market research can be expensive and take a lot of time.

If the sample used to conduct the market research is not large enough or **representative** of the market, then the information gathered will be inaccurate or **biased** and lead to poor decisions.

Exam focus



You need to be able to calculate percentages.

If research is conducted with 5 000 customers and the size of the market is 250 000 customers, calculate the sample size as a **percentage** of the whole market by:

- dividing the first quantity by the second
- multiplying by 100.

$$\frac{5\,000}{250\,000} = 0.02$$

$$0.02 \times 100 = 2\%$$

The sample is 2% of the whole market.

Primary market research

Primary research (field research) is the **collecting of information that did not exist before**. This first-hand contact with customers is valuable to a business in understanding its market.



The benefits of using primary market research are that it is:

- more accurate
- specific to needs
- effective at collecting qualitative data (opinions)
- effective at providing direct customer contact.



Why might a business choose to conduct primary market research instead of secondary market research?

- | | |
|---------------------------------------|---------------------------------------|
| <input type="radio"/> A Cheaper | <input type="radio"/> B Faster |
| <input type="radio"/> C More specific | <input type="radio"/> D Less specific |

Turn over for the answer.

And the answer is ...

© More specific



Primary market research is more specific because it allows the owners of the business to ask exactly what they need to. It also allows businesses to trial new products and gain customer opinions.

Bias

One problem of market research, and particularly primary market research, is bias. Bias is influencing someone to agree or disagree with a particular idea. Market research data can be biased if customers give the answers that they think the business wants them to give, for example when a small business owner collects the opinions of family. Bias also occurs by not sampling people who are representative of the target market.

Watch out



It is important to ensure that research data is **reliable** – it should be representative of the sample of people, and surveys should be carefully designed to ensure that people can give accurate and relevant answers.

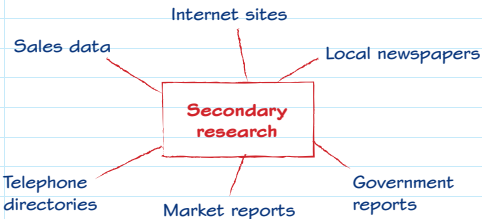
Exam focus



In your exam you may be presented with some market research. It is important that you use this information in your answers. However, you might also be asked to evaluate the validity and reliability of the research.

Secondary market research

Secondary research (desk research) is the process of gathering secondary data, which is information that already exists and has been **collected and published by another organisation**.



The benefits of using secondary market research are that it is:

- broader than primary research
- less time consuming
- effective at collecting quantitative data (statistics).



What type of data is collected most effectively by secondary research?

Turn over for the answer.

And the answer is ...

Secondary research is effective at collecting market data such as size, growth and trends, but is not very effective at collecting qualitative data – primary research is best for this.



Secondary research is useful for finding out about:

- population trends
- economic data, e.g. consumer spending
- demographic data, e.g. average incomes in an area
- market trends and tastes
- market size and market growth.

Watch out



Remember the difference!

- Qualitative data – opinions and attitudes
- Quantitative data – statistical data

Also, it is important to make sure that sources of data are reliable.

Exam focus



When you are evaluating different types of research, remember that one type is not always better than the other – it depends on what the business is trying to find out. If you are asked to explain a benefit of one type of research, remember to include something **specific** to that type of research in your answer.

Market segmentation

A market segment is a section of the market with similar characteristics and buying habits. Segmenting a market allows a business to understand its customer needs and to target its customers better. A market can be segmented by a range of customer characteristics (or **bases**).

For example:

- location
- age
- lifestyle
- income
- demographics.

Benefits of segmentation

A business can:

- 👍 meet specific customer needs
- 👍 focus on a specific group of customers
- 👍 target its marketing
- 👍 develop a unique brand image
- 👍 build close customer relationships.

Limitations of segmentation

- 👎 Targeting a range of different customers with different products and services can be costly.
- 👎 Focusing on one group of customers can cause a business to miss another opportunity.
- 👎 Customer characteristics, such as lifestyle, income and demographics, change over time.



Why might a business focus its products or services on a particular market segment?

Turn over for the answer.

And the answer is ...

The reasons include:

- It is easier to understand and meet the needs of one market segment.
- One segment is easier to target because they access the same types of media, e.g. read the same newspaper.
- The business can differentiate its products/ services to gain a competitive advantage.

Segmentation in the hotel industry

The hotel industry is segmented mainly by income. Luxury hotels are targeted at people in the highest socio-economic groups who have a high disposable income to spend on luxury.

Some hotels will target business people who will pay more for being close to transport links and for space to work, but who do not require luxury.

Other hotels target families who need a cheaper option.

Exam focus

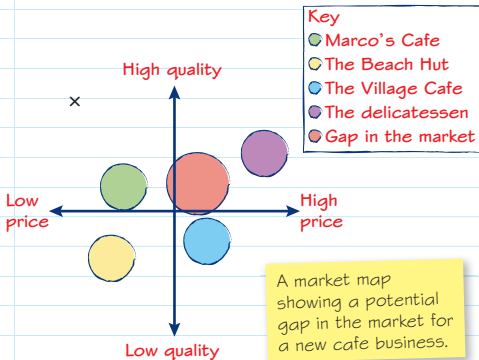


You may be asked how a particular market might be segmented, or the best market segment for a particular business to target. Think about the benefits and drawbacks of each one within the scenario you are given.

Market mapping

Market mapping helps businesses to position their products by identifying gaps in the market.

A market map is a diagram that can be used to position and compare products in a market. It is also used to identify gaps in the market, which are opportunities where customer needs are not being met. A market map will compare businesses based on two **variables**, such as price and quality.










Why are there no businesses in the space marked X above?

Turn over for the answer.

And the answer is ...

This would be a cafe offering very high quality at a very low price. This would realistically be very difficult as the raw ingredients and skilled people needed to create very high-quality food would be expensive, so if the business was low priced, it would make a loss.

Benefits and limitations of market mapping

- | | |
|---|---|
|  Helps to identify potential gaps in a market (opportunities). |  Based on perceptions, rather than on accurate data. |
|  Helps businesses to identify their closest rivals. |  Comparison is simplistic – based on only two variables. |
|  Supports market segmentation. |  Difficult to identify the most appropriate variables. |
|  Helps businesses to make decisions about positioning. | |

Exam focus



Remember that there doesn't always have to be a gap in the market for a business to be successful, as long as there is enough demand for the product and the business is able to meet customer needs better than its competitors.