

**GCSE**

**Business Studies**

**Paper 1**

**Retrieval**

**Homework Booklet**



## Theme 1 homework questions

### Marketing

#### **Customer Needs**

1. What are the four customer needs that all businesses need to meet?
2. Explain each need
3. What are the consequences of meeting customer needs?
4. What are the consequences of not meeting customer needs?
5. Give an example of a business that focuses on the quality need
6. Give an example of a business that focuses on the price need
7. Give an example of a business that focuses on the convenience need
8. Give an example of a business that focuses on the choice need
- 9.

#### **Market Research**

1. What is primary market research?
2. What is secondary market research?
3. Give three examples of primary market research
4. Give three examples of secondary market research
5. State one advantage and one disadvantage of primary research.
6. State one advantage and one disadvantage of secondary research.
7. What is the difference between qualitative and quantitative research.
8. For each of the below, describe the method, state 2 advantages and 2 disadvantages:
  - Focus groups
  - Questionnaires
  - Observations
  - Government statistics
  - Product testing
  - Internal information

#### **Market Segmentation/Market Mapping**

1. What is the definition of market segmentation?
2. Name the six ways a market can be segmented.
3. What is meant by the term demographics?
4. What does a market map show?
5. Why might a business use a market map?
6. State one downside to using market maps.

#### **Competitors**

1. What are direct competitors? Give an example.
2. What are indirect competitors? Give an example.
3. What does a SWOT analysis show?
4. How does having lots of competitors impact a business?
5. When would having competitors not impact a business?

#### **Location**

1. Explain each of the following factors that influence a business' location
  - Proximity to customers
  - Proximity to labour
  - Proximity to materials
  - Proximity to competitors
  - Nature of the business activity
2. What is meant by e-commerce?
3. What is meant by m-commerce?

### **Marketing Mix**

1. What is the marketing mix?
2. What four factors make up the marketing mix?
3. What is included in product?
4. What is meant by 'price'?
5. When would a business charge a high price?
6. List the methods a business can use to promote its products
7. Where can you buy products from?
8. Why is place so important?
9. How would a firm change its marketing mix due to competitors?
10. How would a firm change its marketing mix due to changing consumer needs (trends, incomes, lifestyles)
11. How would a firm change its marketing mix due to technology (comparison websites, e-commerce, digital communication, promotion, services offered)

### **Added value:**

1. What is added value?
  2. Explain each of the following methods of adding value:
    - Convenience
    - Branding
    - Quality & Design
    - Unique Selling Point
-

## Customer Needs

The 4 customer needs	
Price	
Quality	
Choice	
Convenience	
Impact of meeting customer needs	
Impacts of not meeting customer needs	

## Market Research

Definition of market research	
The purposes of doing market research	
Primary market research (definition and methods)	
Primary market research - advantages	
Primary market research - disadvantages	
Secondary market research (definition and methods)	
Secondary market research - advantages	
Secondary market research - disadvantages	
Focus group – definition, advantages, disadvantages	
Questionnaires - definition, advantages, disadvantages	
Observation - definition, advantages, disadvantages	
Product testing definition,	

advantages, disadvantages	
Government statistics definition, advantages, disadvantages	
Market reports - definition, advantages, disadvantages	
Internal information - definition, advantages, disadvantages	
Internet - definition, advantages, disadvantages	
Quantitative data - (definition and methods)	
Quantitative data – advantages	
Quantitative data – disadvantages	
Qualitative data (definition and methods)	
Qualitative data – advantages	
Qualitative data – disadvantages	

## Market segmentation and Market Mapping

Market segmentation – definition	
Methods to segment the market	
Benefits of market segmentation	
Drawbacks of targeting one segment	
Market map – description	
Benefits of market maps	
Drawbacks of market maps	



## Competition and Location

Direct competitors	
Indirect competitors	
Impacts of being in a competitive environment	
SWOT analysis – description	
Benefits of completing a SWOT analysis	
Location - Proximity to customers	
Location - Proximity to labour	
Location - Proximity to materials	
Location - Proximity to competitors	
Location - Nature of the business	

## Marketing Mix

Marketing mix – definition	
Product	
Price	
Promotion	
Place	
Changes to mix due to competitors	
Changes to mix due to changing customer' needs	
Changes to mix due to technology	

## Added value

Added value definition	
4 ways to add value	
Convenience	
Branding	
Quality/design	
USP	



## Marketing

### Customer needs

1. What are the four customer needs?
2. State three benefits of businesses meeting customer needs
3. State three drawbacks of a business not meeting customer needs
4. Aldi meets the price need because ...  
This leads to  
Therefore
5. Apple meets the quality need because  
This leads to  
Therefore
6. Amazon meets the convenience need because  
This leads to  
Therefore
7. Car companies such as Ford meets the choice need because  
This leads to  
Therefore
8. Explain one benefit of Nando's meeting customer needs (3)
9. Explain one drawback to JD sports of not meeting customer needs (3)

### Customer needs

1. Discuss the impacts on a business of failing to meet customer needs (6)
2. Analyse the ways in which Nike can meet customer needs (6)

### Market segmentation

When Miranda Kramer had her second child, she decided she did not wish to return to her £30,000 a year managerial job at a holiday travel company 25 miles from home. Her lengthy drive to work was getting her down, her husband had a full time job and she wanted to do something that would enable her to work more flexibly, to juggle the demands of being a parent to two young children. She had a talent for making and decorating cakes, and had made several for her friends' children's birthdays. She also made her sister's wedding cake the previous year. Friends and family feedback from these cakes was very positive and she felt this may provide the idea for a business she could run flexibly from home. Miranda conducted some market research and identified two main competitors to her business idea. One was a bakery shop, "Lyndsay's", in her local town and the other was another home-based service named "Sugar and Spice Baking". Miranda made some calls to both businesses, acting as a potential wedding client, in order to find out about their products and services, details of which are shown in Table 1.

	Price	Strength	Weaknesses
"Lyndsay's" Bakery Shop	£90 for a 3 tier wedding cake	Able to store finished item deliver and set up at venue on morning of wedding	Limited range of design options that can be executed to standard needed
"Sugar and Spice Baking"	£140 for a 3 tier wedding cake	Can produce to a high standard almost any chosen design	Unable to deliver to venue. Customer needs to collect as unable to drive.

Table 1

From this research, Miranda realised that she could segment her market into children's party cakes and christening cakes, adult's special occasion cakes and wedding cakes. Miranda then completed some more market research with 10 family friends, who she had met since having children. She made two novelty cakes and also showed pictures of others that she had made previously. She asked these friends many important questions, such as what they thought of her cakes, how much they would be prepared to pay for each one and how much notice they would expect to reasonably give when placing an order and receiving the cake. From this it seemed that most would be prepared to pay £20 to £30 for a good quality novelty birthday cake which could feed around 20 at a party. Everyone expected to have an order within 2 weeks of placing it and everyone liked the cake designs of her previous work. Heartened by all of this, Miranda took a deep breath and handed in her resignation at her employer as her maternity leave came to an end and then set up Fairy Wings Bakery. She created a website and bought some equipment financed by a £2,000 loan over one year. The bank advised her that the total amount payable would be £2,248. Now, she needed to see if sales would rise as successfully as her cakes!

1. Analyse the benefit to Miranda of being able to segment her market (6)

### Competition

1. Explain one advantage to a business of operating in a competitive market (3)
2. Explain one disadvantage to a business of operating in a competitive market (3)
3. Explain one advantage to a business of not having many competitors (3)
4. Explain one disadvantage to a business of not having many competitors (3)



## Market research

1.Primary market research is good because it provides the business with a competitive advantage.

This is because

This leads to

Therefore

2.secondary market research may not be useful because it may be unreliable

This is because

This leads to

Therefore

3.quanatative data is good because the business gains lots of information.

This is because

This leads to

Therefore

4.qualtative data is good because the business can adapt the product better using this information.

This is because

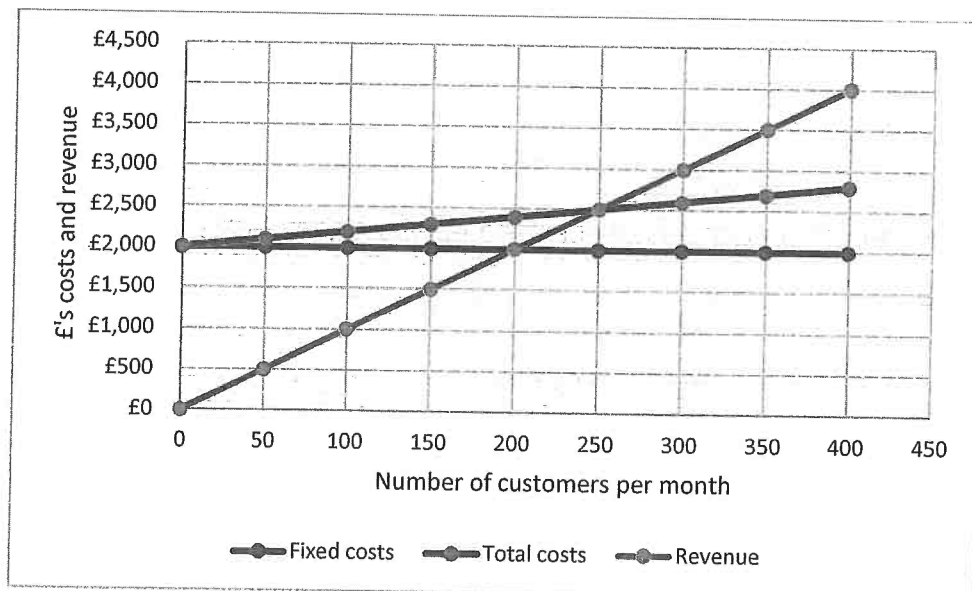
This leads to

Therefore

### Market research

Polly Potter has two children, one of whom was recently invited to a pottery party at a local café. After leaving the party, Polly kept thinking what a wonderful business opportunity it would be to open a café and offer customers the chance to create some artwork to take home, whilst enjoying a drink and a snack. As a result, Polly decided to investigate this business idea further.

Polly decided firstly to investigate the costs and revenue of setting up such a business. The costs would include two part-time workers, plus the cost of the ingredients for the drinks and snacks. She would buy these from local suppliers. Polly then split the costs into fixed and variable and also calculated her estimated selling price. She then produced a break even diagram, as shown in Figure 1.



**Figure 1:**

Polly thought it was important to conduct some market research and decided to interview a group of close friends and family about her business idea. Her husband also suggested that she should give out questionnaires at local nurseries and primary schools. Polly thinks these results might not be very reliable, as she believes that very few would be completed and returned. She thinks a better use of her time would be to research and review websites of other cafés in the local area.

1. Polly is considering conducting two different methods of market research:

**Option 1:** Primary research using interviews and questionnaires

**Option 2:** Secondary research using the internet

Justify which **one** of these options Polly should choose **(9)**

### Market segmentation/mapping

1. Explain one way a business can segment the market (3)
2. Explain one benefit to a business of using market segmentation (3)
3. Explain one drawback to a business of using market segmentation (3)



## Competition

### **Case Study: De Beaux Cheveux**

Jason has always wanted to run his own hair salon. After leaving school, he went to the local college where he has gained several qualifications in hair styling and beauty treatments. Following college, he was lucky enough to be employed as a junior hairdresser at a local hair and beauty salon, where he was able to gain experience and develop his hairdressing and customer service skills. Jason is certain, however, that now, three years on, he could successfully run his own business, which would potentially make him far more money than he receives in his current position.

There has recently become a vacant shop premises available, not far from the salon where he currently works and his home. Jason believes that if he was to set up in opposition to his current employer, many of his loyal customers would switch to his business, as they like his cheerful approach and creative styles.

He has decided to investigate different business options and is wondering about applying for a franchise. During his training, he worked in a city centre branch of De Beaux Cheveux, an international hair and beauty salon that sells franchises to enthusiastic entrepreneurs who want to run their own hair and beauty business. The information provided by De Beaux Cheveux states that a franchisee would need at least £30,000 to buy and set up a franchise under the franchise's name in existing premises. In return, De Beaux Cheveux would provide a strong brand name that it claims, for any new business, could boost sales by at least 25%.

De Beaux Cheveux would, as the franchiser, provide training, advertising, a range of its own branded products, as well as a branded website and software support. Any equipment required could be bought or leased through De Beaux Cheveux. Jason would therefore be responsible for recruitment and appointment of staff and the day to day operation of the business. As well as the initial cost of buying the business, Jason would also have to pay De Beau Cheveux for using the brand. There would be an annual charge of £5,000 and a service charge calculated as 5% of revenue. In his initial plans, Jason is estimating that his first year takings would be about £250,000.

Jason is unsure whether he would be better ignoring the franchise idea and setting up on his own. To find the initial payment he would need to have a bank loan, as well as use all his savings. He knows however, that there is evidence that franchises are more likely to succeed in the very competitive and low profit hairdressing market.

#### **Exam-style questions:**

1. Analyse the impact on Jason's new business of choosing to locate near a competitor (6)
2. Outline one indirect competitor to Jason (2)

## Location

1. A business must consider proximity to raw materials when choosing its location  
because  
this leads to  
therefore
2. A business must consider proximity to labour when choosing its location  
because  
this leads to  
therefore
3. A business must consider proximity to competition when choosing its location  
because  
this leads to  
therefore
4. A business must consider proximity to market when choosing its location  
because  
this leads to  
therefore

## Location

### **Case Study: Crackling Rosie Pig Co Ltd**

Thomas Queally came up with the idea for his business whilst waiting for a friend in a London pub. He wanted a snack and was not impressed by the packet of pork scratchings he had purchased. Having seen nuts and crisps elevated to a higher level, with premium brands such as Tyrell's and Burt's, he was sure there was an opportunity to do something similar with pork scratchings. He had been unhappy with working in London and had been looking for business ideas and the chance to get back to his countryside roots where he grew up.

Thomas did some research and planning, and started putting together a business plan. He created a number of flavours in his own kitchen to develop a range of different pork scratching flavours. His market research suggested that a sensible launch price to his business customers would be £1.15 per packet.

When the opportunity arose at work to take redundancy, he jumped at the chance to take a redundancy pay out and decided to launch his new snack business. His business plan set out some key objectives for the first three years, shown in Table 1.

**Table 1:**

<b>Year 1</b>	Survival. Establishing the brand regionally (within a 75 mile radius) in independent bars, pubs and cafés
<b>Year 2</b>	Encourage wholesalers to stock the product to increase awareness and sales further
<b>Year 3</b>	To be stocked in one supermarket chain to raise the profile of the brand

He found a potential location for his manufacturing site and warehouse in the Midlands close to the M5 and M6 motorways, making road transportation very easy. However, his best friend from university suggested that Thomas should consider another site in Felixstowe, located in the east of the country by the coast, as it was much cheaper and also located near a port. Details of both sites are contained in Table 2.

**Table 2:**

	<b>Fixed costs in year 1 including rent</b>	<b>Variable cost per packet including transport</b>	<b>Distance to nearest port</b>	<b>Average distance to main customers</b>
<b>The Midlands</b>	£79,500	£0.28	215 miles	98 miles
<b>Felixstowe</b>	£66,500	£0.32	20 miles	246 miles

Thomas is currently reviewing his supplier choice. A large-scale pig farmer and family friend, is located in the Midlands and would be able to provide the pig skin needed for all of Thomas's scratchings. Thomas has however, made a list of several flavouring suppliers and currently feels that the most suitable supplier would be one based in Holland, near to a port. He also has selected a packaging supplier based in the Midlands.

### **Exam-style questions:**

**1.** Analyse the most important factor of location Thomas needs to consider when choosing the location of his business **(6)**

**2.** Thomas has identified 2 possible locations for Crackling Rosie Pig Co Ltd:

**Option 1:** The Midlands

**Option 2:** Felixstowe

Justify which **one** of these two options Thomas should choose **(9)**





### Marketing mix

1. Discuss the likely impact of a change in customer needs on the marketing mix (6)
2. Outline one method of promotion for a small business (2)
3. Outline one method of promotion for a larger business (2)

## Marketing mix

### Case Study: Cleaning up the Market Ltd

"Cleaning up the Market Ltd" was set up five years ago in response to the ever-increasing demand for home cleaning services. From the start, the company decided its unique selling point would be to focus on providing a quality cleaning service, rather than charging very low prices. A named cleaner would be allocated to every customer and the cleaning materials used would also be environmentally friendly. This completely different approach to providing a cleaning service proved very successful and clearly fulfilled a gap in the market. This enabled Cleaning up the Market to quickly gain and retain customers in its local area. As a result, the business now employs over thirty part-time employees. The company has always been keen to use technology in its business and due to this, customers are able to use Cleaning up the Market's website to request specific times for a cleaning visit. This has proven very popular with the firm's customers, who can then also pay for the service using the website. The use of digital communication has also allowed the company to communicate with customers, via text message, the arrival and departure time of the cleaner from the premises, as well as any delays the cleaner may have experienced getting to the property.

Recently, Suzie has noticed a slowdown in its growth of customers. At least two other similar cleaning companies have set up locally in the last year. In addition, many well established cleaning firms now provide many of the new digital communication features that Cleaning up the Market introduced when it was first set up. What is clear to Suzie is that the marketing mix, which has been so successful to date, will need some attention if the business is going to survive in this much more competitive environment that now exists.

### Exam-style questions:

1. Outline **one** benefit to Cleaning up the Market Ltd of using digital communication **(2)**
2. Suzie believes that she will need to change the company's marketing mix in order to compete effectively with rival cleaning companies. She is considering two possible options:

**Option 1:** Reducing prices

**Option 2:** Increasing the amount spent on promotion

Justify which **one** of these options she should choose **(9)**

# TOPIC 1.2 SPOTTING A BUSINESS OPPORTUNITY

tutor2u

START

1 State the four main customer needs.

2 Define the term market segmentation.

3 State three segments that would be useful for The Old Bank to identify when trying to target its specific customers.

4 Explain why identifying and understanding customers is important to the survival of a business like The Old Bank.

14 Competition will always be a threat to any business. Explain how Jenny and Paul could increase the loyalty of their existing customers to prevent this dip in numbers from happening again in the future.

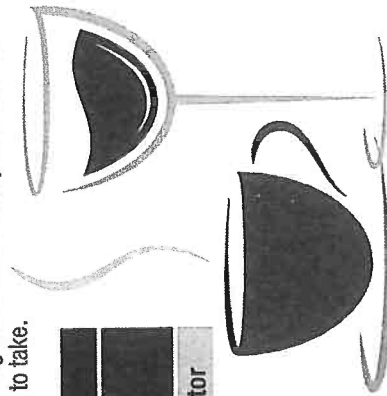
## BUSINESS PROFILE

### A taste of luxury!

When Jenny and Paul decided to open their exclusive upmarket wine bar & coffee shop, The Old Bank, their was nothing else like it in the local area. Customers regularly packed out the luxury surroundings and paid premium prices for a high quality experience.

However, the recent opening of a new competitor has resulted in a significant dip in The Old Bank's sales which has been caused by fewer customers coming through their doors. Jenny and Paul are keen to stop this decline and are considering the best option to take.

Age group	Data Drop	
	Before competitor	After competitor
18 – 24	200	125
25 – 35	100	75
36 – 45	70	65
45+	50	25



6 Explain how the use of market mapping could help Jenny and Paul respond to the competition.

12 Jenny is keen to look in more detail at her competitor. Explain the different features of the competitor that Jenny should focus on.

7 Jenny feels primary research is the key to understanding their customer needs. Identify two methods of primary market research that would be suitable for Jenny to use.

11 Paul has looked at the figures for customer numbers in more detail and identified that the younger age groups have seen one of the biggest declines. Explain the options open to him to attract this target group back to The Old Bank.

10 Using the data drop provided calculate the overall percentage decrease in the number of weekly customers visiting The Old Bank.

9 Explain the value to Jenny and Paul of using social media to collect further research data.

8 Explain the difference between qualitative data and quantitative data.





## Finance

### **Costs, Revenues and Profit**

1. What is sales revenue? How is it calculated?
2. What are fixed costs? Give examples.
3. What are variable costs? Give examples.
4. How are total variable costs calculated?
5. How are total costs calculated?
6. How is profit calculated?

### **Break-even analysis**

1. What is meant by 'break even'?
2. What is the break even point?
3. What is the formula for break even?
4. What is the margin of safety? How is it calculated?
5. On a break even chart,
  - What does the vertical axis show?
  - What does the horizontal axis show?
  - What does the fixed cost line look like? Why?
  - What does the total cost line look like?
  - What does the sales revenue line look like?
  - Where is the break-even point?
  - Where is profit?
  - Where is loss?
  - How do you show actual sales?
  - How do you show sales revenue and costs at actual sales?
  - Where is the margin of safety?

### **Cash Flow**

1. What is cash flow?
2. What are inflows?
3. What are outflows?
4. How is opening balance found?
5. How is net cash flow calculated?
6. How is closing balance calculated?
7. What is the difference between cash flow and profit?

### **Sources of Finance**

1. Name as many short term sources of finance as you can.
2. Name as many long term sources of finance as you can.
3. For each source of finance give a definition, 2 advantages and 2 disadvantages:
  - Retained profit
  - Owner's savings
  - Overdraft
  - Trade credit
  - Loan

- Venture capital
- Share capital
- Crowdfunding

## Costs, Revenue, Profit

Fixed costs (definition and examples)	
Variable costs (definition and examples)	
Total costs definition	
Total costs formula	
Revenue definition	
Revenue formula	
Profit definition	
Profit formula	
4 steps for calculating profit	
Gross profit definition	
Gross profit formula	
Net profit definition	
Net profit formula	
Income statement description	
Gross profit margin definition	
Gross profit margin formula	

Net profit margin definition	
Net profit margin formula	
ARR definition	
ARR formula	



## Break-Even Analysis

Break-even definition	
Break- even point definition	
Break-even point formula	
Margin of safety definition	
Break-even chart	
Impact of increased cost	
Impact of reduced cost	
Impact of increased price	
Impact of reduced price	

## Cash Flow

Cash flow definition	
The importance of cash flow (consequences of poor cash flow)	
Cash flow forecast definition	
Inflows definition and examples	
Outflows definition and examples	
Net cash flow calculation	
Opening balance definition and calculation	
Closing balance definition and calculation	
Benefits of producing a cash flow forecast	
Ways to improve cash flow	

## Sources of Finance

Internal finance – definition and examples	
External finance – definition and examples	
Short-term finance – definition and examples	
Long-term finance – definition and examples	
Retained profit – definition, benefits, drawbacks	
Owners' savings– definition, benefits, drawbacks	
Overdraft – definition, benefits, drawbacks	
Trade credit – definition, benefits, drawbacks	
Bank loan – definition, benefits, drawbacks	
Venture capital – definition, benefits, drawbacks	

Share issue – definition, benefits, drawbacks	
Crowdfunding – definition, benefits, drawbacks	

## Financial Calculations

Gross profit definition	
Gross profit formula	
Cost of sales definition	
Net profit definition	
Net profit formula	
Expenses definition and examples	
Gross profit margin definition	
Gross profit margin formula	
Net profit margin definition	
Net profit margin formula	
Average rate of return (ARR) definition	
ARR formula	
Interest definition	
Formula for calculating interest	
Formula for calculating interest rate	
Calculating percentage change	
Calculating percentage of	

Calculating the value of a percentage	
Calculating an average	
Scatter graphs – correlations	

Costs revenues and profit

1. Explain one way a business can lower costs (3)
  
  
  
  
  
  
  
  
  
  
2. Explain one way a business can increase revenue (3)
  
  
  
  
  
  
  
  
  
  
3. Explain one way a business can improve profit (3)
  
  
  
  
  
  
  
  
  
  
4. Explain one impact to a business of increasing their profit (3)
  
  
  
  
  
  
  
  
  
  
5. Explain one disadvantage to a business of finding a cheaper supplier (3)





### Break even & margin of safety

1. What is the difference between break even and break even point?
2. Define the term 'margin of safety'
3. Explain one way a business can reduce its break even point (3)
4. Explain one benefit to a business of reducing its break even point (3)
5. Discuss the methods a business could use to increase its margin of safety (6)



## Cashflow

1. Explain one way a business can improve its cashflow position (3)

Destocking (SA)

This is because

This leads to

Therefore

2. Explain one way a business can improve its cashflow position (3)

Extending trade credit from supplier (SA)

This is because

This leads to

Therefore

3. Explain one way a business can improve its cashflow position (3)

Shorten credit to customers (SA)

This is because

This leads to

Therefore

4. Explain one way a business can improve its cashflow position (3)

Buy in bulk (SA)

This is because

This leads to



Therefore

5. Explain one way a business can improve its cashflow position (3)

Leasing equipment (SA)

This is because

This leads to

Therefore

6. Explain one way a business can improve its cashflow position (3)

Find a cheaper supplier (SA)

This is because

This leads to

Therefore



## Workplace Beverages Ltd (Cash and cash-flow)

### Specification Topic: Cash and cash-flow

#### Case Study: Workplace Beverages Ltd

Henry Black set up Workplace Beverages six years ago. The business installs and services tea and coffee making machines in offices and factories across the south-east. Customers can also choose to have drink sachets ordered and delivered in regular monthly deliveries. Over the last three years, the business has earned a profit of an average of £60,000 a year.

Over the past couple of years, increased competition has started to put the business under increased financial pressure. In addition, uncertainty over Brexit has caused some small businesses to be more cautious about spending. Some of Henry's existing and potential customers are reluctant to invest in new machines and are cutting back on purchases of tea and coffee sachets, preferring to allow their employees to purchase their own tea and coffee to save on costs.

To keep some customers, Henry has been forced to extend their trade credit terms from 28 to 48 days. In addition, Henry's tea and coffee sachet supplier, one of only two major suppliers of sachets that can be used with his machines, has recently advised that it will be reducing trade credit to Workplace Beverages from 28 to 21 days.

At least there was some good news – a friend of Henry remains convinced that the long-term prospects for the business look good and recently agreed to invest £36,000 in return for a 20% share in the business.

Henry has put together a cash-flow forecast, shown in Table 1, for the next 6 months, ahead of a meeting with his bank manager to discuss an extension to his £60,000 overdraft limit.

**Table 1 : Cash-flow forecast**

	January – March £'000	April – June £'000
<b>Inflows</b>		
Payments from customers	60	75
Share capital funds	36	0
<b>Total inflows</b>	<b>96</b>	<b>75</b>
<b>Outflows</b>		
Rent	2	2
Labour costs	18	23
Supplies	70	50
Marketing and administration	15	15
<b>Total outflows</b>	<b>105</b>	<b>90</b>
<b>Net cash-flow</b>		<b>(15)</b>
Opening balance	(45)	
<b>Closing balance</b>	<b>(54)</b>	<b>(69)</b>

#### Exam-style questions:

1. Complete the table with the **two** missing values, in the shaded boxes, in the cash-flow forecast **(2)**
2. Outline **one** reason why the net cash-flow in the table cannot be described as profit **(2)**
3. Outline **one** benefit to Henry of producing a cash-flow forecast **(2)**
4. Evaluate whether Henry's friend is wise to invest in Workplace Beverages Ltd. You should use the information provided as well as your own knowledge of business **(12)**





### Sources of finance

1. Explain one benefit to a business using retained profit as a source of finance (3)
2. Explain one drawback to a business of using retained profit as a source of finance (3)
3. Explain one drawback to a business of using an overdraft as a source of finance (3)
4. Explain one benefit to a business of using share capital as a source of finance (3)
5. Explain one benefit to a business of using venture capital as a source of finance (3)
6. Explain one drawback to a business of using a bank loan as a source of finance (3)
7. Explain one benefit to a business using crowd funding as a source of finance (3)



# TOPIC 1.3 PUTTING A BUSINESS IDEA INTO PRACTICE

tutor2u

## START

1 Define the following terms:

- a) Aim
- b) Objective

2 In relation to a business setting objectives state what is meant by the acronym SMART.

3 Explain, with examples, the difference between financial and non-financial aims & objectives.

4 Using the data drop provided, calculate the total revenue assuming Chris completes jobs for 750 customers.

14 Chris is optimistic about year two for 'Green Fingers'. He has now established a strong customer base from homeowners and has been approached by 3 local primary schools to maintain their school fields and gardens. Chris is keen to pursue this but will need an additional £15,000 of capital. Explain which source of finance would be the best for his expansion.

13 Chris has worked hard to build strong relationships with his suppliers over the last 12 months however he is still having to use his arranged overdraft facility in order to pay cash for his materials. Outline the benefits to Chris of using trade credit as an alternative means of short term finance.

12 Explain the importance of cash flow to Chris.

11 Chris is concerned about the seasonal nature of his business. Since the end of October he has watched his closing balance continue to decrease and is worried he may experience negative cash flow. Outline two options for Chris to help him deal with this problem.

10 Chris calculated his closing balance for November to be £3,500. Using the data drop provided calculate:

- a) The net cash flow for December
- b) The closing balance for December

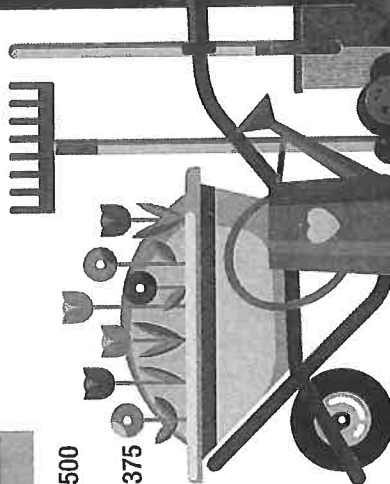
9 Chris thinks that the variable cost per job is going to increase by a further £1.50. Explain the impact of this on break-even. You may use calculations to support your answer.

## BUSINESS PROFILE

### Green Fingers

Green Fingers is a small gardening business set up and run by Chris Green. Chris borrowed £10,000 from the bank to purchase his van and equipment and is paying this back in fixed instalments over the next 5 years. Chris has had a successful first year and despite some issues with seasonal demand, he is looking to expand his services as he moves into his second year of operation.

Data Drop			
Average price per customer	£20	Cash inflows - December	£500
Fixed Costs	£4500	Cash outflows - December	£375
Variable cost per job	£5		



6 Costs can be classified as fixed or variable. Explain, using a suitable example for Green Fingers, what is meant by the terms:

- a) Fixed costs
- b) Variable costs

7 Using the data drop provided:

- a) Calculate the break-even level of output for Green Fingers.
- b) Calculate the margin of safety based on Chris completing 750 jobs.

8 Using either the data drop provided, or your answers to questions 4 and 5, calculate the profit made by Chris based on the 750 customer jobs completed.



## Starting a business

### **New business ideas:**

1. Explain the following reasons why new business ideas come about:
  - Changes in technology
  - Changes in tastes
  - Technology becoming obsolete
2. What are the 2 methods businesses can use to come up with new ideas

### **Risk and reward**

1. Explain the following risks of setting up a business:
  - Business failure
  - Financial loss
  - Lack of security
2. What are the possible rewards of setting up a business?

### **Role of entrepreneurship:**

Explain the following roles of entrepreneurship:

1. Organising resources
2. Making business decisions
3. Taking risks

### **Aims and objectives:**

1. What are aims?
2. What are objectives?
3. What is meant by a financial objective? Give examples
4. What is meant by a non-financial objective? Give examples

### **Ownerships**

1. State 2 characteristics of a sole trader
2. State 2 advantages of a sole trader
3. State 2 disadvantages of a sole trader
4. State 2 characteristics of a partnership
5. State 2 advantages of a partnership
6. State 2 disadvantages of a partnership
7. State 2 characteristics of a private limited company (LTD)
8. State 2 advantages of an LTD
9. State 2 disadvantages of an LTD
10. What is meant by unlimited liability?
11. What is meant by limited liability?

### **Business plans**

1. What is a business plan?
2. Identify all the elements that are in a business plan
3. What are the benefits of doing a business plan?



## Ownerships

Sole trader definition	
Sole trader benefits	
Sole trader drawbacks	
Partnership definition	
Partnership benefits	
Partnership drawbacks	
Private limited company definition	
Private limited company benefits	
Private limited company drawbacks	
Unlimited liability	
Limited liability	
Franchise	

Franchisee	
Franchisor	
Benefits to franchisee	
Drawbacks to franchisee	
Benefits to franchisor	
Drawbacks to franchisor	



## Aims and Objectives

Aims	
Objectives	
SMART objectives	
Financial aims (definition and examples)	
Non- financial aims (definition and examples)	

## Enterprise and Entrepreneurship

Why do new business ideas come about?	
How do new business ideas come about?	
Risks of setting up a business	
Rewards of setting up a business	
What is a product?	
What is a service?	
The roles of an entrepreneur	

## Business Plans

Business plan – description	
Aspects included in a business plan	
Benefits of writing a business plan	



New business ideas

1. Explain one reason why a business idea would come about (3)

Changes in technology (SA)

2. Explain one reason why a business idea would come about (3)

Changes in tastes (SA)

3. Explain one reason why a business idea would come about (3)

Technology become obsolete (SA)

### Risk and Reward

1. Explain one reward to a sole trade starting their own business (3)

Business success (SA)

2. Explain one reward to a sole trade starting their own business (3)

Profit (SA)

3. Explain one reward to a sole trade starting their own business (3)

Independence (SA)

4. Explain one risk to a sole trade starting their own business (3)

Business failure (SA)

5. Explain one risk to a sole trade starting their own business (3)

Financial loss (SA)

6. Explain one risk to a sole trade starting their own business (3)

Lack of security (SA)

### Role of entrepreneurship

1. Explain one role of an entrepreneur (3)

To organise resources (SA)

2. Explain one role of an entrepreneur (3)

To make business decision (SA)

3. Explain one role of an entrepreneur (3)

To take risks (SA)

### Aims and objectives

1. What is the difference between an aim and an objective?
2. Explain one financial aim for a business (3)
3. Explain one financial aim for a business (3)
4. Discuss two non-financial aims for a business (6)



### Ownerships

1. Explain one disadvantage to become a sole trader (3)
2. Explain one reason why someone may start up a franchise as a franchisee (3)
3. Explain one drawback to a partnership (3)
4. Explain one benefit to a public limited company (3)
5. Explain one drawback to a private limited company (3)
6. Discuss the impact to a franchisor of a franchisee opening a store (6)

### Business plans

1. Identify all the elements to a business plan and explain why each is important to include
2. Discuss the impact to a business of creating a business plan (6)

## **Graham's Guitars (Enterprise and entrepreneurship)**

### **Specification topic: Enterprise and entrepreneurship (2)**

#### **Case Study: Item A – Graham's Guitars!**

Graham has played guitar ever since he was at school. At an early age, Graham formed a rock band with his friends and played several gigs at venues in his local area, which were sell outs. Graham's passion for music led him to study music at college and then to become a guitar teacher. As a teacher, Graham travels to his customers' houses and charges £15 for a 30 minute lesson.

Graham possesses strong communication skills and, as a result, has built up excellent relationships with all his customers. Due to the quality of his teaching and his hard work and determination to make his business succeed, Graham has found that he is often turning customers away, particularly customers who were looking for after school lessons.

At present, Graham works five hours each weekday evening and at the weekend. He does, however, have to allow 60 minutes out of this time for travelling each day, where he is not paid. His running costs are minimal and the business is very profitable, as his costs only amount to transport which equals £190 per week.

Recently, Graham has found that he is turning more and more customers away and as a result, he is thinking about expanding his music teaching business, so that he can offer a wider variety of lessons to customers. He believes if he opened a shop he would be able to increase his revenue significantly. Graham's vision is for the shop to be fitted with three private rooms for music lessons, but it would also stock guitars, plus other musical instruments and music for customers to buy. He believes that with good organisation, he could make a very good profit out of the business.

Graham is however, worried about the risks involved in running the business, as he is, at present, a sole trader. In order to set up the shop, he believes he will need a bank loan of £50,000 to buy instruments and to get the business started. He has £10,000 savings which he could also invest. Graham has already been approached by one of his college friends, Jim, who is also just starting out as a music teacher and is looking for work. Jim has been playing in bands since leaving college and is able to play both guitar and drums. Graham would also need to find another person, who he could employ, to teach keyboard and vocals.

#### **Exam-style questions:**

1. Outline one role of Graham as a successful entrepreneur (2)
2. Calculate the weekly revenue of Graham's current guitars business. You are advised to show your workings (2)
3. Evaluate whether Graham's expansion into a shop is likely to be a success. You should use the information provided as well as your knowledge of business (12)



## Sasha "The Artist" (Business plans)

### Specification topic: Business plans

#### Case Study: Sasha "The Artist"

Sasha Stephenson is an up and coming artist in her local home town of Brighton. Sasha currently runs a mobile market stall as a sole trader, selling her own original paintings of different scenes in and around the Brighton area. She decided to open this stall when she was 21 years old, immediately after successfully finishing an Art degree at university.

Sasha's market stall is located right on the seafront and is hugely popular with both the local residents and tourists. Recently the business received some free publicity, after her art work appeared in three local tourist magazines. Sasha currently sells two different sizes of paintings, one priced at £15 and the other priced at £25. During October, when she opened her stall for eight days in total, just at the weekends, she calculated that she sold on average 10 paintings of each size a day.

After a very successful first year, Sasha is now planning to move into her own shop and create an art gallery of her work. This will allow her to paint a wider variety of pictures and sell them at the same time. The location she has found is right on the sea front, but the rent is expensive at £36,000 per year. To create further awareness of her business, she is also planning to develop a website. This will cost the business £2,400 to set up. Sasha hopes that these moves will help to overcome the seasonal nature of her business. Sasha's parents have advised her to draw up a business plan to help her in her planning of her new store and website. Sasha is currently unsure about this advice.

#### Exam-style questions:

1. Calculate the total revenue Sasha's business made in October (2)
2. Analyse the impact on Sasha's business of appearing in the local tourist magazines (6)
3. Evaluate whether Sasha should draw up a business plan for her new business venture. You should use the information provided as well as your knowledge of business (12)



## Simply Music (The options for start-up and small businesses)

### Specification Topic: The options for start-up and small businesses (1)

#### Case Study: Simply Music

Susan has always had a passion for music – classical, jazz, popular or folk, she loves it all. However, because she lives in a small town miles away from the nearest city, she has found there is never any live music to listen to. Last year, she decided to hire the local town hall and organise her own charity concert featuring local bands, one of whom had appeared as a warm-up group at Glastonbury the year before.

There had been a lot to organise, tickets, programmes, security, catering and the acts themselves. In the end, the concert was a tremendous success and Susan has now decided she would like to organise a monthly concert, featuring different styles of music each time. Susan realises that she will need to set herself up as a business and that she will need to choose the most suitable type of business ownership for her concert idea.

In order to get the concert programme up and running, Susan will need some start-up funds. There will be marketing expenses, some administration requirements, including a computer and printer, and she will also need to pay deposits to the town hall in order to guarantee the venue for her concert dates. She has already spoken to the bank manager about a possible loan, which would get her started and allow her to buy some additional sound and lighting equipment for the town hall concerts.

Susan would also like to involve some of her friends and other local residents in the business, who are keen to support the business idea and improve the amount of entertainment in the town. However, many of these people are concerned as to the level of risk they would be taking if they invested in the business. One of Susan's friends, who has some experience of running her own business, has suggested that she would be willing to join her as a business partner. Susan is unsure about this choice and is wondering whether she would be better off on her own and setting up as a sole trader or alternatively as a private limited company.

#### Exam-style questions:

1. Outline **one** disadvantage to Susan of setting up as a sole trader **(2)**

2. The bank is willing to lend the new business £5,000 which it would want repaid at the end of the year. The repayments would be £450 per month. Calculate the total interest that the business would pay as a percentage of the amount borrowed. You are advised to show your workings **(2)**

3. Evaluate whether Susan would be best to accept her friend's offer and set up her business as a partnership. You should use your knowledge of business as well as the information provided **(12)**





## Borig Village Stores (Business aims and objectives)

### Specification topic: Business aims and objectives

#### Case Study: Borig Village Stores

Ceri lives in the beautiful North Wales village of Borig and is a full-time mum. Her children have recently started at the village school and Ceri is now wondering what to do with the time that she now has free. Before having children, Ceri worked in a bank, but with the growth of internet banking and bank closures, the nearest bank to Borig is now over 25 miles away. She also feels her work skills may have become out of date.

Every morning after dropping her children to school she walks to the village shop to get bread, milk and a newspaper. This gives her a chance to catch up on village life. Mr and Mrs Jones, who have run the shop for over 40 years, have recently announced their retirement. So far, however, there has been little interest in anyone taking over the business. Nowadays, most people in the village have cars and commute to work, collecting shopping from the supermarkets in the towns where they work.

After giving it some thought, Ceri has decided that she might be able to take over the village shop. Whilst a small profit would be nice, Ceri feels that providing a service for those in the village, who either do not have cars or who prefer to shop locally and support local businesses, would be much more fulfilling and challenging. From being a customer at the shop, she knows that prices are expensive and there is only a limited range of items, but she believes that with the support of the residents, she could make the village shop a success.

Mr and Mrs Jones have said that they would be willing to rent the shop when they retire, which would mean that Ceri would only need start-up funds to buy the stock for the store. At the back of the shop, there is also a small room which her children could use to do their homework after school, whilst the shop was still open. Buying the stock would use all Ceri's savings and she has decided therefore, that she would need a bank loan of £5,000 to help her buy a small van for deliveries.

Ceri is already planning how she could improve the shop. She could increase the range of goods and services that it provides, offer a delivery service and maybe even employ some additional staff from the village as the business grows. With the commuters who live in the village and work in the towns, she could even open in the evening and at weekends for the growing number of tourists visiting the area.

Ceri has heard that there is a possibility of a new supermarket opening in the nearest town, which is five miles away. The new supermarket will be part of a chain of supermarkets owned by shareholders. There are regular buses from the village to this town, but Ceri is still convinced that this will not be a threat to the survival of the village store and that, for the sake of the village, Borig village store should definitely not be closed.

#### Exam-style questions:

1. Outline **one** non-financial objective that Ceri might have when running the village shop **(2)**
2. Analyse the reason why the aims and objectives of Ceri's business and the new supermarket opening in the nearby town may differ **(6)**
3. Evaluate whether Ceri's business idea is likely succeed. You should use the information provided as well as your knowledge of business **(12)**



# TOPIC 1.1 ENTERPRISE & ENTREPRENEURSHIP

## START

1 Define the term entrepreneur.

2 State three skills or qualities Daisy would need to be successful as an entrepreneur.

3 Explain two reasons why an individual, like Daisy, would want to set up their own business.

4 Explain two of the main risks associated with a new business start-up like Splash & Play.

14 Daisy is ambitious and plans to grow her business further. Explain the factors that may impact on the success of her future developments to Splash & Play.



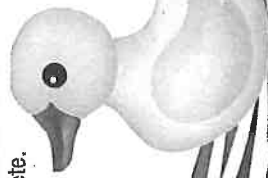
### BUSINESS PROFILE

## Splash & Play Time to take the plunge!

At the young age of 18, entrepreneur Daisy Green spotted a gap in the market for a water based play centre, Splash & Play, designed for babies and toddlers aged 0-5 years.

Starting from an idea she had during her part-time job as a lifeguard, Daisy was keen to build a business that offered something different to a traditional soft play centre as she felt the market for these was becoming saturated and that some may become obsolete.

The first 6 months have been a huge success and Daisy is planning to build on her existing USP further in order to add more value to her product.



Average customer numbers	Data Drop					
	Jan	Feb	Mar	Apr	May	Jun
	500	550	650	650	700	750

13 If Daisy's plans go ahead she forecasts a 20% growth in average customer numbers between June and December. Using the data drop provided calculate the forecasted average customer number for December.

12 Daisy is keen to respond to want her customers want. Explain two ways in which Daisy could gather feedback from her customers.

11 Using the data drop provided, calculate the percentage change in average customer numbers between January and June.

10 Daisy has noticed that the numbers of customers through the doors fluctuates across the week, explain the possible risks associated with this.

9 State and explain what the letters USP stands for.

7 a) Define the term added value.

b) Explain the two ways in which a business, like Splash & Play, can add value to its product.

6 Explain how price can influence the demand for a product or service.

5 Explain the differences between goods and services.

8 a) Explain what is meant by the term obsolete.

b) State two reasons why products or services become obsolete.



# TOPIC 1.4 MAKING THE BUSINESS EFFECTIVE

## START

1 State the meaning of the term USP.

2 Explain the importance to Jane of creating a business plan.

3 Define the term 'marketing mix'.

4 Using the data drop provided calculate the expected revenue for Jane in year 1.

14 Jane may consider opening her own shop if the business is successful and will look to buy premises. Explain the factors that would influence the location of Jane's business.

13 Jane considers that she is charging a premium price for her product. Explain what is meant by the term premium pricing and how it is possible for Jane to do this.

12 Calculate the increase in profit in year two based on your answer to question 11 - assume all other cost/pricing remains the same.

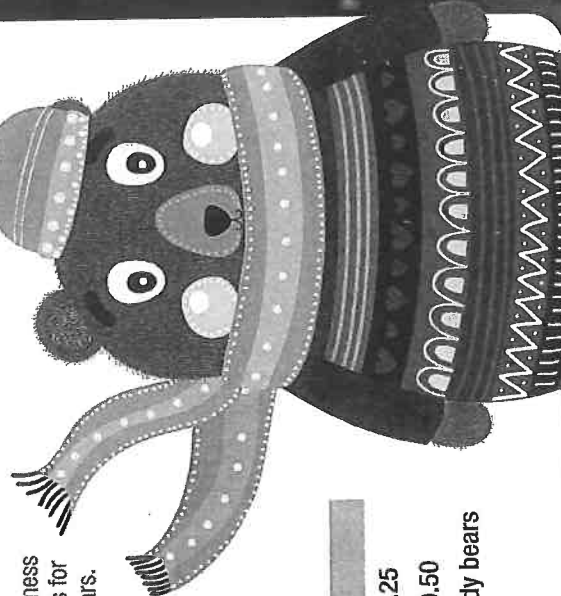
11 If Jane's forecasts are correct she expects that demand will increase by 15% in year 2. Using the data drop provided calculate the expected demand in her second year.



### BUSINESS PROFILE

## Memory Bears

Jane Cross decided to set up her new business venture having produced small teddy bears for friends and family as a hobby for many years. Jane's USP was that the handmade teddy bears were created out of memorable clothing to mark a specific event e.g. leaving school or the loss of a loved one. Jane planned to work from home and therefore would have very few overheads to set up and run her business.



Data Drop	
Cost per teddy	£5.25
Selling Price per teddy	£10.50
Forecast demand - Year 1	300 teddy bears

6 Explain the meaning of the letters 'Ltd'.

7 Jane has had discussions with a small business advisor at her local bank and he has suggested that she should consider setting up as private limited company. Identify the advantage of this to Jane.

8 Jane is confused about the idea of unlimited liability. Outline the possible implications of this for Jane.

9 Jane thinks her fixed costs will be £1,500. Using your answer to question 4 and the data drop provided calculate the profit/loss in Jane's first year.

10 Jane has decided that she will run her business as a sole trader. Explain the advantages and disadvantages to Jane of this decision.



## External environment

### **Stakeholders**

1. Give the definition of a stakeholder.
2. For each stakeholder, state their objectives:
  - Shareholders/owners
  - Employees
  - Customers
  - Managers
  - Suppliers
  - Local community
  - Pressure groups
  - Government
3. For each stakeholder, state why they are important to the business/the impact they have on businesses:
  - Shareholders/owners
  - Employees
  - Customers
  - Managers
  - Suppliers
  - Local community
  - Pressure groups
  - Government
4. Explain two reasons why there might be conflict between different stakeholders

### **Technology**

1. What is meant by e-commerce?
2. Give one advantage of using e-commerce.
3. Explain one disadvantage of using e-commerce.
4. How can social media be used by businesses
5. What is digital communication?
6. How does digital communication impact the business?
7. What payment systems can be used by businesses?
8. What are the benefits of payment systems?
9. What are the drawbacks of payment systems?
10. Explain how the following have been influenced by technology in business:
  - Sales
  - Costs
  - Marketing mix

### **Legislation**

1. What is legislation?
2. Explain the principles of consumer law.
3. What laws do businesses have to meet when recruiting employees?
4. What is the national minimum wage?

5. What is discrimination?
6. Explain health and safety laws that businesses have to meet
7. Explain the following impacts of legislation on businesses:
  - Costs
  - Possible consequences of meeting the laws
  - Possible consequences of not meeting the laws

### **The Economy**

1. What are the four stages of the economic cycle?
2. Explain what how a business will be affected in a boom/when incomes are high?
3. Explain how a business will be affected in a recession/when incomes are low?
1. What is meant by unemployment?
2. How is it measured?
3. How are businesses affected when unemployment is low?

### **Inflation**

1. Define inflation.
2. How is it measured?
3. How will high inflation affect a business?
4. How will negative inflation affect a business?

### **Exchange Rates**

1. What do exchange rates show?
2. How do you convert pounds into foreign currency?
3. How do you convert foreign currency into pounds?
4. Explain the effects of a strong pound on businesses.
5. Explain the effects of a weak pound on businesses.

### **Interest Rates**

1. Define interest rates.
2. Explain the effects of higher interest rates on a business.
3. Explain the effects of a lower interest rate on a business.
4. Give two examples of the type of business that will be more affected by changes in interest rates than others.

### **Tax**

1. What is Income Tax?
2. What National Insurance?
3. What is Value Added Tax?
4. What is Corporation Tax?
5. What is Council Tax?
6. What are business rates?
7. What are excise duties?
8. Name any other taxes you know of.
9. How does the level of tax affect businesses?



## Stakeholders

Stakeholder definition	
Employees – objectives	
Employees – how do they impact the business?	
Employees – how are they impacted by the business?	
Customers – objectives	
Customers – how do they impact the business?	
Customers – how are they impacted by the business?	
Owners/shareholders– objectives	
Owners/shareholders– how do they impact the business?	
Owners/shareholders– how are they impacted by the business?	
Local community - objectives	
Local community - how do they impact the business?	

Local community - how are they impacted by the business?	
Suppliers - objectives	
Suppliers - how do they impact the business?	
Suppliers - how are they impacted by the business?	
Government- objectives	
Government- how do they impact the business?	
Government- how are they impacted by the business?	
Managers - objectives	
Managers - how do they impact the business?	
Managers - how are they impacted by the business?	
Pressure groups - objectives	
Pressure groups - how do they impact the business?	
Pressure groups - how are they impacted by the business?	

<p>Examples of conflict between shareholders and reasons for this conflict</p>	
--------------------------------------------------------------------------------	--

## Technology

E-commerce – description of use by business	
E-commerce – benefits	
E-commerce – drawbacks	
Social media – description of use by business	
Social media – benefits	
Social media – drawbacks	
Digital communication – description of use	
Digital communication – benefits	
Digital communication – drawbacks	
Payment systems – description	

Payment systems – benefits	
Payment systems – drawbacks	
Impact of technology on sales	
Impact of technology on costs	
Impact of technology on product	
Impact of technology on price	
Impact of technology on place	
Impact of technology on promotion	

## Legislation

Consumer law	
Employment law – recruitment	
Employment law – pay	
Employment law – discrimination	
Employment law – health and safety	
Impact of legislation on costs	
Impacts of meeting laws	
Impacts of not meeting laws	

## Unemployment and Incomes

Unemployment – definition	
Incomes – definition	
Impact of high unemployment/low incomes	
Impact of low unemployment/high incomes	

## Inflation

Inflation – definition	
Inflation – measurement	
Impacts of high inflation	
Impacts of low inflation or falling inflation	



## Interest Rates

Interest rates – definition	
Impact of high interest rates	
Impact of low interest rates	
Businesses that are more impacted by increased interest rates	

## Government Taxation

Tax – definition	
Income tax	
Impacts of high income tax	
National insurance	
Impacts of high national insurance	
Value added tax (VAT)	
Impact of high VAT	
Corporation tax	
Impacts of high corporation tax	
Council tax	
Impacts of high council tax	
Business rates	
Impacts of high business rates	
Excise duties	

Impacts of high excise duties	
Environmental taxes	
Impacts of high environmental taxes	

## Exchange Rates

Exchange rates – description	
Higher exchange rate	
Lower exchange rate	
Calculating the value of pounds in a foreign currency	
Calculating the value of a foreign currency in pounds	
Impacts of higher exchange rates	
Impacts of lower exchange rates	

### Stakeholders

1. Explain one possible conflict between two stakeholders (3)

Customers and owners (SA)

2. Explain one possible conflict between two stakeholders (3)

Suppliers and owners (3)

3. Explain a possible objective of a pressure group (3)

4. Explain a possible objective of the local community (3)

## Technology

1. Explain one benefit to a business of using e-commerce (3)
  
  
  
  
  
  
  
  
  
  
2. Explain one drawback to a business of using e-commerce (3)
  
  
  
  
  
  
  
  
  
  
3. Explain one benefit to a business of using social media (3)
  
  
  
  
  
  
  
  
  
  
4. Explain one drawback to a business of using social media (3)
  
  
  
  
  
  
  
  
  
  
5. Discuss the impacts to a business of using different payment system (6)

## Legislation

1. Explain one principle of consumer law (3)
2. Explain one principle of employment law (3)
3. Explain one drawback to a business of not complying with consumer law (3)
4. Explain one benefit to a business of complying with employment law (3)

### The economy

1. Explain one disadvantage to a business when the economy is in a recession (3)
  
  
  
  
  
  
  
  
  
  
2. Explain one benefit to a business when the economy is in a boom (3)
  
  
  
  
  
  
  
  
  
  
3. Explain one benefit to a business when consumers have high disposable income (3)
  
  
  
  
  
  
  
  
  
  
4. Analyse the impact on a budget supermarket such as Aldi of the economy being in a recession (6)



## Inflation

1. What is meant by inflation?
2. Explain one drawback to consumers of high inflation (3)
3. Explain one drawback to businesses of high inflation (3)
4. Explain one benefit to a business of low inflation (3)

### Exchange rates

1. Explain one impact to a UK business that sells abroad of an appreciation in the exchange rate of the pound (3)
  
  
  
  
  
  
  
  
  
  
2. Explain one impact to a UK business that sells abroad of a depreciation in the exchange rate of the pound (3)
  
  
  
  
  
  
  
  
  
  
3. Explain one impact to a UK business that buys abroad of an appreciation in the exchange rate of the pound (3)
  
  
  
  
  
  
  
  
  
  
4. Explain one impact to a UK business that buys abroad of a depreciation in the exchange rate of the pound (3)

### Interest rates

1. Explain one benefit to a business of low interest rates (3)
  
  
  
  
  
  
  
  
  
  
2. Explain one drawback to a business of high interest rates (3)
  
  
  
  
  
  
  
  
  
  
3. Explain one benefit to a business of high interest rates (3)
  
  
  
  
  
  
  
  
  
  
4. Explain one drawback to a business of low interest (3)

## Tax

1. Explain one benefit to a business of the government reducing income tax (3)
  
2. Explain one benefit to a business of the government reducing corporation tax (3)
  
3. Explain one drawback to a business of the government increasing income tax (3)
  
4. Explain one drawback to a business of the government increasing corporation tax (3)
  
5. Explain the benefit to a business of having to pay higher council tax (3)

## Quality Hotels Ltd (The economy and business/external influences)

### Specification topic: The economy and business/external influences

#### Case Study: Quality Hotels Ltd

Quality Hotels Ltd is a small business which owns five luxury hotels in the south-west of England. Spending on a holiday is one of the most expensive items of household expenditure that families make. In recent years, UK holidays have been an area of growth, with increasing public concern about the cost and safety of foreign travel.

The state of the UK economy has a considerable effect on how much money is available for individuals to spend on their holidays. Over the last ten years, the UK has benefited from low and stable interest rates which have helped Quality Hotel's bookings reach record levels. One of the main growth areas has been from holidays taken by retired people, during school term time when the resort areas are less crowded and the prices can be a little lower.

Although employment continues to grow in the UK and consumer income and consumer demand remains high, most customers still tend to pay using their credit card. Quality Hotels also offers special deals where customers can pay in instalments after making the initial deposit to secure their booking. With the possibility of inflation in the economy, Quality Hotels is now hoping that the business continues to experience the increasing sales and profits of recent years.

Quality Hotels is now considering buying a leisure complex in the south-west, which includes a hotel and a number of self-catering units, as well as some leisure facilities. The complex would be refurbished to provide many luxury features, so it could be targeted at the higher income end of the market. Prices would be higher than the company's existing hotels and, to support the luxury feel of the complex, the business does not plan to offer any special payment arrangements for its customers.

Some of the existing hotel managers are concerned however, that with the UK leaving the European Union and the possibility of rising prices, falling demand and increases in unemployment that this might not be the best time for such an expensive decision to be made. There is also concern that with changes to employee legislation and the need for the company to improve the use of digital technology in the business that costs in the existing hotels would already be rising, making less profit available for the new enterprise.

#### Exam-style questions:

1. Outline **one** way that an increase in interest rates could affect Quality Hotels Ltd **(2)**
2. Updating the existing hotels to take advantage of digital technology would currently cost £20,000. If this purchase was to be delayed by one year and prices were set to increase by 5% next year, calculate the price of updating this technology in a year's time **(2)**
3. Evaluate whether Quality Hotels Ltd's should go ahead with the leisure complex development in the current economic conditions. You should use the information provided as well as your knowledge of business **(12)**



## Marketing for Business (Technology and business)

### Specification topic: Technology and business

#### Case Study: Marketing for Business

Marketing for Business (M4B) was set up two years ago, by Maranda and Byren as a business partnership. To start with, M4B mainly produced marketing material for small and medium sized businesses in the local area. Although this was successful to a certain extent, most of M4B's work now comes from businesses that are selling goods and services in other countries, as these businesses do not have the appropriate language skills to produce their own marketing materials. M4B also receives work from businesses in other countries that want advertisements and publicity materials translated into English.

The growth of the internet has meant that the partners can now transfer work electronically to their customers. It also means that they can use a number of home based employees with specialist language skills who can translate the text. This then leaves Maranda and Byren time to design the marketing materials for its customers.

Most enquiries now come via M4B's website, which provides a clear description of the firm's marketing services in the most commonly used languages.

With the increased number of customers in other countries, payments have become more complicated for M4B. Although M4B can send invoices by email, the business is still relying on payments being made through a local bank or by sending a cheque in the post. This is often inconvenient for customers or takes a long time for the payment to arrive with the partners, which affects the firm's cash-flow.

Maranda and Byren are currently investigating the possibility of introducing an e-payment system, which would allow direct payments into M4B's bank account. Maranda is concerned however, that there are risks with using such a system and the change may not also suit all customers. Byren is keen to progress the idea, as he believes the system could be used to also pay the many employees who provide the translation services. These employees are based all around the UK and occasionally in different countries. As a result, Byren believes they would prefer a system of e-payments for the work that they do for M4B.

#### Exam-style questions:

1. Outline **one** way that e-commerce could benefit M4B (2)
2. Analyse the benefit to M4B of using digital communication (6)
3. M4B is now considering two payment options to use in its business:

**Option 1:** Continue with the current system of payments by cheque and paying in money at banks

**Option 2:** Introducing electronic payments

Justify which **one** of these options M4B should choose (9)





## Tables and Chairs Sunday (Business stakeholders and legislation)

### Specification topic: Business stakeholders and legislation

#### Case Study: Tables and Chairs Sunday

There was never anything to do in Norton on Sundays. Most families seem to either stop at home or maybe visit one of the local supermarkets to spend their money. Even the town centre shops were closed. The local charity shops would have piles of unwanted possessions left outside their doors and there would be an occasional person washing their car, but most people were stuck at home watching television or playing computer games.

Last year, Irena and Colin had spent their holidays in a seaside resort. They had noticed that there were many shops open on Sunday. They had been chatting to Bill, an owner of a second hand furniture shop which only opened on Sunday. He told Irena and Colin how successful his business was and that he always had lots of customers either buying or browsing the furniture every week. Bill explained that it was possible to find furniture to sell very cheaply, by offering to collect unwanted furniture directly from people's homes, which was often of good quality. Bill's business had recently moved to larger premises in a large community hall and now employed three part-time shop assistants on Sundays. Bill used a local storage unit to keep any unsold furniture during the week.

Irena and Colin wondered whether they could open a similar shop in Norton or whether there would be local opposition. They were aware of a large, local hall which would be available on Sundays to use. They could also advertise for part-time staff, to ensure they could successfully manage the high number of customers they would expect to use the shop.

One problem that Bill had warned Irena and Colin about was making sure, if they did go ahead and set up a business, they were up to date with business legislation. His furniture shop had previously suffered from bad publicity and some fines selling poor quality goods and employing cheap labour. Irena is determined that their business should do everything correctly, but Colin thinks that they could not afford to pay high wages to employees and that nobody would mind about quality as the goods were already second hand.

#### Exam-style questions:

1. The local community would be one stakeholder if the shop was to open. Identify two other stakeholder groups in the business (2)
2. Analyse the impact on the local community of opening a second hand furniture shop in Norton (6)
3. Irena and Colin are considering two different approaches to business legislation if they open the business:

**Option 1:** Ensure that they follow all consumer and employment laws correctly

**Option 2:** Take the most profitable decision about the goods they sell and the people they employ, even if it means that they might not fully meet the requirements of consumer and employment legislation

Justify which **one** of these options the new business should choose (9)



# TOPIC 1.5 UNDERSTANDING THE EXTERNAL INFLUENCES ON BUSINESS

tutor2u

START

1 Define the term 'stakeholders'.

2 State the 8 different groups of business stakeholders.

3 Explain how the objectives of both shareholders and employees can be met as Tea 4 2 Ltd report that profits continue to rise steadily.

4 Define the term e-commerce.

14 Government forecasts suggest that in the UK consumer incomes will continue to fall in 'real terms'. Explain the impact this may have on a business like Tea 4 2 Ltd.

13 When looking at possible new locations Tea 4 2 Ltd identified a possible site in an area of high unemployment. Explain two benefits of this to the business.

12 Tea 4 2 Ltd exports their goods within Europe. Explain how the UK leaving the EU could impact on their ability to trade.

11 Define the term taxation.

10 Explain one way in which Tea 4 2 Ltd may respond to a weak pound.

9 Define the term exchange rates.



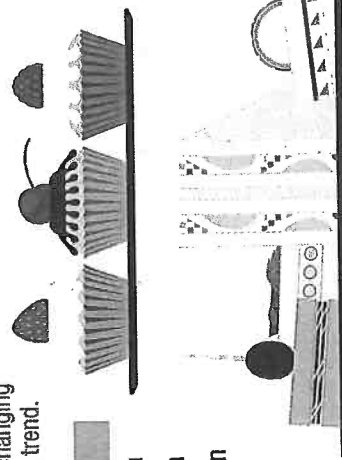
## BUSINESS PROFILE

### Tea 4 2 Ltd

A UK based food manufacturer of the delightfully British 'afternoon tea' concept produce a ready made, pre-packed fresh sandwich & cake selection that is sold Europe wide. Tea 4 2 Ltd have been exporting now for 3 years and sales continue to grow, accounting for 42% of their total sales. Profits have risen steadily year on year however Tea 4 2 Ltd have noticed recent changes in demand from European markets and are considering that the changing economic climate may have a part to play in this trend.

#### Data Drop

Sales value 2014	£2.9 million
Sales value 2015	£3.5 million
Sales value 2016	£3.75 million



6 Using the data drop provided, calculate the percentage increase in sales from 2015 – 2016.

7 Tea 4 2 Ltd are considering opening a second production plant outside of the UK to deal with overseas demand. Outline the factors they should consider before making this decision.

8 If Tea 4 2 Ltd decide to expand they will need to borrow a long term source of finance in the form of a mortgage. Explain the impact that an increase in interest rates could have on the business.

