

PEARSON EDEXCEL GCSE (9–1)



Third Edition

BUSINESS

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Introduction

Using this book

There are five main ways to use this book. The very best students might use all of them, but using any one of the five will help towards exam success.

Read it. The chapters are written to be read. They're not too long, and are packed with real-life examples to help make the theory more understandable. A classroom lesson plus a read through the relevant chapter will put you in control. If you can find the time, test yourself on the 'End of chapter exercises'.

Look it up. The index at the back of the book helps you find the precise topic your homework is about – or the topic you've been told is coming up in tomorrow's test. That means you only need to read what you need. Make sure to check whether there are relevant definitions given in the 'Revision essentials' boxes.

Build on it. At the end of each chapter are exam-style 'Practice questions'. Each question gives you some text about a real business, then exam-style questions. Each one is a mini-mock exam. Have a go and then ask your teacher for a copy of the author's answers (available in the Answer Guide). This will be a very useful way of preparing for the exams.

Revise it. At the end of each section of the book are multiple-choice questions that enable you to test yourself quite quickly (and without much writing). These sections of the book mirror the specification and are therefore helpful for exam preparation. Your teachers have the answers in their Answer Guide.

Key revision terms. Towards the end of the book is a very full Glossary. It covers every term set out in the Specification – and is therefore crucial to your exam revision.

Teachers will be pleased to know that an Answer Guide is available for this book: Edexcel GCSE (9-1) Business Answer Guide Third edition, ISBN 978-1398356351.

Topic 1.1 Enterprise and entrepreneurship

2 Why new business ideas come about

In early 2021 ice cream brand Northern Bloc received a £1.5 million investment to start production of vegan ice cream. Using rice milk instead of dairy, the company tapped into interest in plant-based foods with flavours such as salted peanut and chocolate. The outside investor enabled the business to accept new listings in Waitrose, the Co-op and Morrisons. This is the essence of why new business ideas come about. Consumer tastes change constantly, creating new opportunities for business success. Some are filled by existing big companies with big pockets, but surprisingly many are filled by bright new businesses with new ideas.

New business ideas come about because there are:

- ◆ changes in what consumers want
- ◆ products and services becoming obsolete
- ◆ changes in **technology**.

Business opportunities are like buses.
There's always another one coming.
Richard Branson, founder, Virgin Group

● Changes in what consumers want

We may all *want* a brand-new BMW, but most of us will not be able to afford one. For changes in consumer taste to matter, they must be backed by the ability to pay. This is known as **demand**.

There are several possible reasons why consumers turn to a new idea such as vegan ice cream:

- ◆ There may be changes in social attitudes, with people worrying more than before about issues such as animal welfare and global warming.

- ◆ There may be technical breakthroughs, allowing a product to be made to a higher quality standard than before.
- ◆ Improved standards of living may allow customers to buy more expensive goods than they could afford previously.

Price is another important factor. The price of a product or service is a key influence on the level of demand. If a company charged too low a price, customers may lose confidence and go elsewhere: a wedding dress for £99.99 might not win hearts and minds.

In the vast majority of cases though, higher prices push demand down. A price increase for Pepsi would cut demand, especially if it made it more expensive than Coca-Cola. Price increases may push products out of people's price range and encourage customers to look for cheaper substitutes.

Talking point

Can you think of any social changes happening at the moment that might lead to new business opportunities? A new product or perhaps a new service?

An industry begins with customer needs, not with a patent, a raw material or a selling skill.
Theodore Levitt, economist and business thinker

● Products and services becoming obsolete

A product or service is **obsolete** if no one wants it any longer. There is no longer great demand for chimney sweeps, as few people have an open fire. Similarly, there's hardly any demand for traditional butcher's shops as people eat less meat and, in any case, buy it in supermarkets. As people change their behaviour, some businesses stop being relevant. Among London's black cab drivers, there's real concern that sat-nav systems and Uber may make them obsolete.

Businesses therefore need to think ahead to how customer habits are changing and try to keep one step ahead. Despite the huge success of Sony's PS4 and the Xbox One, Nintendo managed to find a new way into the games market with its innovative Switch. Even after Sony had introduced the PS5, the Switch was outselling Sony two to one in mid-2021.

Figure 2.1 shows the success of the Sony PS4 until Nintendo launched its Switch in 2017. Fortunately for Sony, it believes its PS5 will outsell the PS4 in the long term. Its sales in 2020 and 2021 were held back by production shortfalls.

Talking point

What would you expect to be the sales of Switch in 2022 and 2023, based on Figure 2.1?

If changing customer tastes keep making products and services obsolete, it is critical to keep coming up with new, bright business ideas. For chocolate companies such as Ferrero, it means keeping up with changing tastes and fashions; for companies such as Dyson and Apple, the key is to keep up with changes in technology.

Obsolescence never meant the end of anything, it's just the beginning.

Marshall McLuhan, writer

● Changes in technology

Until mobile phone networks operated at the bandwidth known as 3G, smartphones could hardly function. Vodafone launched 3G in the UK in late 2004, but it was only over the following two years that it became widespread. Apple's iPhone arrived just on cue in early 2007. Without 3G technology, there would be no iPhone as we know it. New technology is a classic cause of new business ideas.



Vodafone was the first network to launch 3G

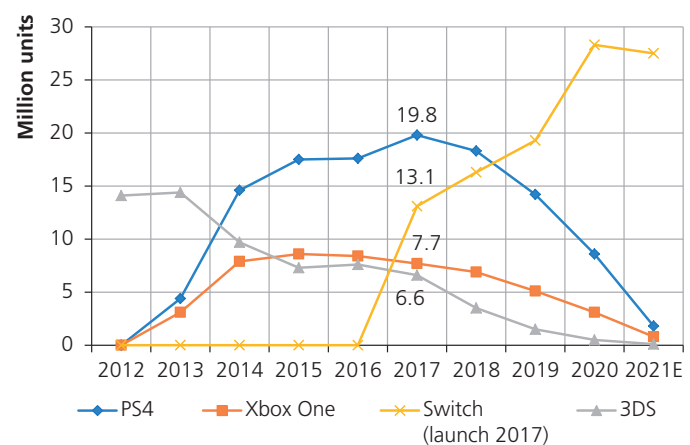


Figure 2.1 Global sales of selected games consoles (excluding 2020 launches of PS5 and Xbox XS) (Source: VG Chartz)

Table 2.1 New technologies and their potential uses

New technology	New products/uses
GPS (global positioning system)	Sat nav Pet-monitoring collar Self-driving cars
3D printing	One-off prototypes to test new product ideas Tailor-made artificial limbs Made-to-measure printed shoes
RFID (radio-frequency identification)	Keeping tabs on stock in-store Race timing (how marathon runners are monitored) Libraries (more efficient than barcode scanning)

Changes in technology have two main impacts: they create opportunities for new things, and increase the likelihood that old things will become obsolete. Combined, this means problems for slow-moving companies and exciting opportunities for smaller, newer, speedier ones. The key for new small firms is to keep fully on top of the new technology, and be willing to take risks trying out new ideas.

Once a new technology rolls over you,
if you're not part of the steamroller,
you're part of the road.

Stewart Brand, business author

● Drawing the right conclusions

Despite the pandemic in 2020, there were more than 650,000 business start-ups in the UK. Overwhelmingly, the start-ups occur because individual entrepreneurs see new opportunities due to changes in customer taste or the arrival of new technology. The individuals have the initiative and the financial backing to turn their business dream into reality. Their chances of success will depend on:

- ◆ whether their idea is as original and as relevant as they believe
- ◆ whether their competitors prove tougher and cleverer than expected
- ◆ whether their customers become customers who stay; customer loyalty is crucial.

Revision essentials

Demand: the number of units that customers want – and can afford – to buy.

Obsolete: a product or service with sales that have declined or come to an end as customers find something new.

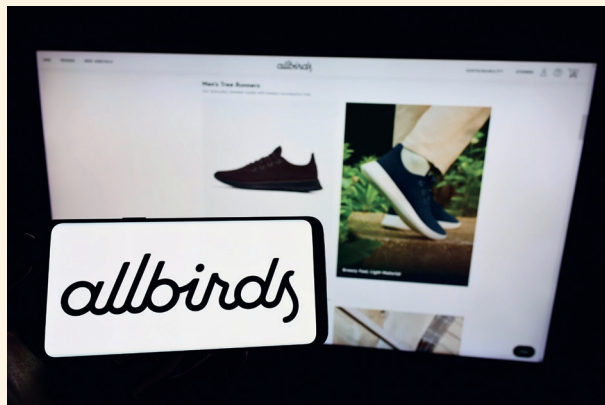
Technology: hardware and software that can help people be more productive.

End of chapter exercises

- 1 What changes might come about over the next three years in the markets for:
 - (a) chocolate
 - (b) mobile phones.
- 2 Look at Table 2.1 on page 9. Outline two possible reasons why 3D printing has not yet been successful in the UK.
- 3 Outline two factors that might cause motorbikes to become obsolete.
- 4 Using the information in Figure 2.1 on page 8, calculate Switch's 2017 share of the global market for games consoles.
- 5 Look at the quote by Marshall McLuhan on page 8. What do you think it means?
- 6 Figure 2.1 shows that sales of the Xbox One had been sliding even before the 2017 launch of Nintendo's Switch. By 2020 the Xbox was becoming obsolete. Discuss the factors that may have led to the Xbox One becoming obsolete by 2020.
- 7 In late 2020 Xbox launched its new XS console. What factors may prove the most important in determining whether the new XS is a success?

Practice questions

Allbirds' billion dollar trainers



Allbirds trainers

Worth only a few thousand dollars when it started up in 2015, Allbirds was valued at over \$2000 million by August 2020. Wearers/fans include Barack and Michelle Obama and Mila Kunis. Founded by a former professional footballer and an industrial engineer, Allbirds has two claims to fame: ethical manufacture using recyclable materials such as wool, and the claim to be the world's most comfortable shoes.

The business took off after obtaining a patent (which gives an inventor 20 years until a rival can legally copy their manufacturing technique) on its wool-based shoes and managing to raise \$200,000 of finance via the crowdfunding site Kickstarter.

A recent report says that over 80 per cent of consumers aged 26–34 consider companies' social and environmental practices to be extremely important. These people are likely to be drawn to Allbirds, as its trainers are made from materials like merino wool, recycled PET bottles, recycled cardboard and sugarcane.

'The footwear industry often overlooks natural materials in favor of cheaper, synthetic alternatives. We think it's time to change that', says the brand on its website.

The business started out as an online-only business, but now has nearly 20 shops. Its first London store opened in 2019, in Covent Garden. At the same time, Allbirds opened its first store in China.

Despite Covid-19, in 2020 things went brilliantly for the business. It opened more stores in China (the world's biggest market for trainers and where \$100 is an acceptable price for a US-made product) and enjoyed an online sales boom. It even forced Adidas to develop its own trainers made from natural materials. Such is the trend towards Allbirds trainers that an artist in Ghana has put on sale hand-painted shoes (see photo) that have a significant price premium.

Total: 20 marks

- 1 Outline how hand-painting might add value to Allbirds shoes. [2]
- 2 Explain how Allbirds' success is based on understanding changes in what consumers want. [3]
- 3 Analyse the possible effect on Allbirds' two founders of the rewards they will get from the company's success. [6]
- 4 The new business idea behind Allbirds could have come from either of these two sources:
 - ◆ Option 1: Original ideas
 - ◆ Option 2: Adapting existing products/services/ideas

Justify which **one** of these options is a better explanation of Allbirds' start-up. [9]

Topic 1.2 Spotting a business opportunity

9 Market research

● The purpose of market research

There are four main areas where market research can prove itself value for the money it costs to carry out:

- 1 To identify and understand customer needs.
- 2 To identify gaps in the market.
- 3 To reduce risk.
- 4 To inform business decisions.

To identify and understand customer needs

The importance of understanding customer needs was covered fully in Chapter 8. While small service businesses are often in touch with customers daily, bigger firms – especially manufacturers – may never deal directly with shoppers, which makes market research essential.

To identify gaps in the market

As will be shown in Chapter 10, market research has an important part to play in ‘mapping’ the market. It shows which customer requirements are covered, and which are not. When gaps are uncovered it makes sense to act quickly before competitors move in. At the time of writing, Nestlé has launched a vegan KitKat. It believes that growing sales of plant-based foods such as vegan burgers have created a gap for vegan chocolate products.

To reduce risk

There are two fundamental risks in launching a new product:

- ◆ that the market may not want the new product
- ◆ that demand may exist, but not enough for the new product to be worth all the costs of development and launching.

Quantitative research (see below) should be able to warn against either possibility.

To inform business decisions

In other words, to provide information to help managers make better decisions. Even in quite small businesses a wrong decision may cost a big sum of money. In June 2021, Hotel Chocolat made headlines for paying just £4 to buy the beauty brand Rabot 1745. The brand was already part-owned by Hotel Chocolat and produced cosmetics using chocolate-based ingredients. Although the purchase price was less than a box of chocolates, the deal also meant paying off the Rabot chairman’s £744,000 loan to the business. So the Hotel Chocolat bosses had to be sure of their decision. To test it, they opened a huge Hotel Chocolat outlet in Japan, dedicating a large section to beauty products. ‘Very encouraging’ sales gave the green light to the Rabot decision.

Advertising people who ignore research are as dangerous as generals who ignore decodes of enemy signals.

David Ogilvy, advertising executive and author of Ogilvy on Advertising

Methods of market research

Secondary research

Many people starting their first business have a clear idea of the opportunity. They may be sure that 'everyone loves biscuits'. This makes it important to check the facts. The starting point is **secondary research**: this means finding out data that already exists, that is, second-hand information. Figure 9.1 shows publicly available data showing the market breakdown between sweet biscuits, crispbreads and cereal bars. Some secondary data is available free, by careful use of the internet or by buying a 'trade' magazine such as *The Grocer*.

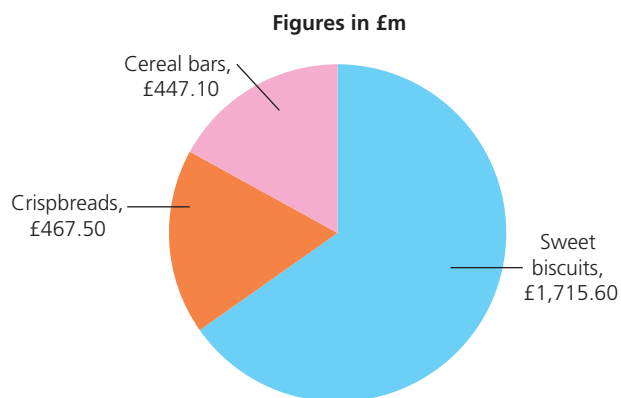


Figure 9.1 UK biscuit market breakdown (Source: *The Grocer*, 19 December 2020)

On 19 December 2020, *The Grocer* magazine provided this secondary information about the UK biscuit market:

- ◆ Sales of Oreo biscuits rose 10.6 per cent in 2020 to £54.3 million. McVitie's Chocolate Digestives also did well, implying perhaps a growing trend in chocolate biscuits.
- ◆ McVitie's was the most powerful biscuit brand, with a 2020 market share of 26.5 per cent and a much faster sales growth rate than the market as a whole. For a new business starting up in this market, it is best to avoid competition with McVitie's products.

Government reports are a useful (and free) source of secondary data. For instance, if you're thinking of opening a milkshake business, it is a great help

to find out that the number of 15- to 19-year-olds is forecast to rise from 3.9 million in 2022 to over 4.3 million by 2027.

Primary research

Having learned about the market background, it is time to consider **primary research**. This is first-hand research in which you find out the precise things you want to know from the people you need to talk to. When starting a business, the people you might want to talk to include:

- ◆ existing customers (currently buying from companies that will soon be your competitors)
- ◆ potential customers (those you might be able to persuade to buy for the first time)
- ◆ potential retailers (the shops that you hope will stock and sell your product).

The value of primary research is that it can tell you exactly what you need to know about your business. The problem, though, is that it is time-consuming and expensive to collect the data. For example, to find out whether your biscuits should be priced at £1.49 or £1.99 might require interviewing more than 100 people. That takes time.



In primary market research, customers are asked directly for their opinions

Table 9.1 The main methods of primary market research

	Explanation	Advantage	Disadvantage
Online survey	Online surveys are a cheap, useful way to get a limited amount of feedback	Can be used regularly, e.g. monthly, to check on customer satisfaction	Online surveys will overwhelmingly be answered by those with time on their hands – probably older people
Questionnaire	A business could carry out a questionnaire to assess potential demand for a product/service	A firm can identify its target customers (age, job, etc.) – this can help with promotion and also establish the likely selling price and sales level	Can be very time consuming – taking time to carry out questionnaires is expensive and may not be helpful Questions can be biased, giving misleading results
Focus group	This allows for more in-depth answers than a questionnaire, as well as more open questions	Interviews give firms an insight into customer perceptions and behaviour; this can help a firm decide on branding and advertising images	Time consuming and expensive The interviewer can sometimes affect the results, e.g. some interviewees may be too embarrassed to admit how much they really spend on chocolate
Observation	Watching where customers go and how long they spend in different parts of a shop	Can show where people are interested but still don't buy – is the layout too confusing?	Time consuming and expensive

Qualitative and quantitative research

Primary research can be collected in two forms: qualitative and quantitative.

Qualitative research is in-depth research into people's opinions and views, and is usually carried out among a relatively small group of people. It can provide insights that help a business to make decisions. For example, a group of eight people might be asked to discuss their pizza takeaway likes and dislikes. It might become clear that the most common complaint is not knowing exactly when it will arrive – in which case this can become a major part of a new firm's advertising message: 'We'll deliver on time, every time'.

Quantitative research means collecting lots of answers to specific questions. Usually these questions are 'closed', meaning that the answers are limited to ticking a box such as 'yes' or 'no', or 'will definitely buy' or 'will probably buy', and so on. This type of research provides factual information, such as that

20 per cent of people like pineapple on pizza, but 80 per cent do not. Quantitative research is usually gathered by interviewers using questionnaires, either in person or over the phone. Questionnaires can also be completed without an interviewer, for example online or by post.

Social media feedback has become an important alternative to formal market research. Some quantitative evidence is publicly available, for example that 51.2 per cent of 11,400 Center Parcs visitors to its Whinfell Forest site rated the experience as excellent. But of 8,400 visitors to the newer Woburn Forest site, only 42.4 per cent rated it excellent. That information from Tripadvisor is useful to holidaymakers, but also to the company. It should consider how to make the Woburn Forest site more enjoyable.

The trouble with research is that it tells you what people were thinking about yesterday, not tomorrow. It's like driving using a rear-view mirror.

Bernard Loomis, US toy developer

● The use of data in market research

Research takes time and money to collect. The key to success, though, is to interpret its findings. With quantitative (yes/no) research, it should be easy. There may be problems, in being sure that the figures mean what they say, however. For instance, 100 people may say they prefer a thin base to their pizza, but can you be sure that the same is true of *all* pizza lovers? You can only be sure of the findings if you are confident that the people who responded are typical of everyone. If a young Bolton businesswoman asked 100 friends to fill in a questionnaire, the results might only be meaningful for young people in Bolton, not the whole market. Needless to say, market research data has to be reliable to be worthwhile.



Questionnaires are a useful way to collect information

Qualitative research is even harder to interpret. If three or four people in a group discussion feel strongly about something, so what? For example, a

few people may say that they hate herbs on pizza. Should that be taken seriously?

Therefore, market research findings are important and interesting, but need not always be taken seriously. A confident businessperson may be right to ignore some research findings, perhaps choosing to build a business that's a bit different and may not appeal to everyone's tastes.

Talking point

Pizza Hut has gone from being the leading pizza takeaway business to trailing after Domino's. How might Pizza Hut use market research to reboot itself?

Revision essentials

Focus group: a group discussion among people selected from the target market; it draws on psychology to provide qualitative insights into consumer attitudes.

Primary research: research conducted first-hand; it is tailored to a company's specific needs, for example a quantitative sales estimate for a brand new chocolate bar.

Qualitative data: in-depth research into the opinions and views of a small group of potential or actual customers; it can provide insight into why consumers buy what they buy.

Quantitative data: factual research among a large enough sample of people to provide statistically reliable results, for example a survey of 500 people aged 15–24 years.

Secondary research: when a company uses research that has already been carried out for general purposes.

End of chapter exercises

- 1 Use the information in Figure 9.1 on page 46 to calculate what percentage sweet biscuits have of the whole UK biscuit market.
- 2 Outline one way that Center Parcs might use primary research to find out why a higher percentage of customers rate Whinfell Forest as excellent than Woburn Forest.
- 3 Explain why market research through social media may prove relatively unreliable.
- 4 Give two reasons why a young entrepreneur might use secondary rather than primary research to help decide whether or not to open a vegan takeaway.
- 5 Read the following extract and answer questions (a) and (b).

In autumn 2021, Ferrero launched a range of three Ferrero Rocher chocolate bars into the UK market. The Italian company had

spent three years developing the products and the packaging. It employed 50 people to test more than 300 recipe combinations before deciding on the final three. It used quantitative and qualitative research as part of its development programme. Focus groups drew attention to 'big night-in occasions' as an opportunity for getting chocolate lovers to 'trade-up to something special'. The three bars (milk, dark and white chocolate) all have the Rocher connection with hazelnuts. The price of £2 per 90 gm bar is significantly above standard Cadbury's Dairy Milk.

- (a) Explain how the use of quantitative research might have helped the Ferrero Rocher team develop the product recipes.
- (b) Explain why qualitative research might be best for developing the idea of 'big night-in occasions'.

Practice questions

ASOS takes on Marks & Spencer

In recent years traditional clothes retailer Marks & Spencer (M&S) has suffered declining sales; by contrast, online shop ASOS has enjoyed rapid yearly growth. Many people believed the M&S problem was its failure to attract shoppers under the age of 40.

The company announced proudly that it would use its next shareholders' meeting to research the styling and colours for its cardigans; a business newspaper pointed out that this would mean a focus group among its 70-year-old shareholders. Meanwhile, ASOS was using social media both for research and publicity. It organised groups of ASOS customers of different ages to give instant feedback on new clothes designs and encouraged shoppers to upload photos of themselves wearing new items – #AsSeenOnMe – and then monitored comments on the styles and colours.

The value of ASOS' modern approach to market research showed in its share price. In the two years to August 2021 its shares were up 65 per cent; M&S shares were down by 24 per cent.

Total: 18 marks

- 1 Define 'focus group'. (1)
- 2 Outline one possible impact on M&S of its focus groups with shareholders. (2)
- 3 Analyse the impact on ASOS of its approach to market research using social media. (6)
- 4 M&S must find out how to appeal to clothes buyers under the age of 40. Financial restrictions mean it must choose between:
 - ◆ Option 1: Qualitative research.
 - ◆ Option 2: Quantitative research.
 Justify which **one** of these options the company should choose. (9)

Practice questions

Cudoni

Do you want a second-hand bag? Just £4,000.

Or second-hand trainers for £300? Possibly not, but Cudoni hopes you'll buy because it charges a 40 per cent fee on all sales. So, that £4,000 Chanel bag means £1600 for Cudoni.

Cudoni was started by 25-year-old James Tyrer and two friends. James saw an opportunity for an online reseller of luxury goods. Before starting the business he did a lot of market research. A focus group among potential customers revealed how much they cared about the condition and presentation of the items. If they spent £4,000 on a bag, it must be hand-delivered and presented personally to the customer.

James used that idea to create a unique selling point for his online business. Today, even though many other businesses sell 'pre-loved' luxury items online, Cudoni stands out because of its exceptional customer service.

Certainly Cudoni is enjoying success. It began in 2017 with £150,000 of start-up capital from James, his friends and some outside investors. By the end of September 2018 it had £320,000

cash in its bank account. A year later there was more than £1 million, and in September 2020 the cash total reached £3 million.

James is even thinking of a new Cudoni online shop focused only on nearly-new Nike trainers, which can sell for amazing sums, especially if celebrity-owned.

Total: 20 marks

- 1 Outline one factor that may have affected the reliability of James' research findings. (2)
- 2 Explain why it is important for a business to understand its customers. (3)
- 3 Analyse how well James used market research in establishing Cudoni. (6)
- 4 Before going ahead with the new Nike business, James is considering two options for further research:
 - ◆ Option 1: A quantitative study using questionnaires.
 - ◆ Option 2: Qualitative research using both face-to-face conversations and conversations via social media.Justify which **one** of these two options James should adopt. (9)