

STUDENT GUIDE



WJEC/EDUQAS

AS/A-LEVEL YEAR 1

Business

Business opportunities

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Content Guidance

■ Enterprise

Enterprise and small to medium-sized enterprises (SMEs)

Enterprise is what a person uses when running a business. It includes initiative and risk taking, such as that taken by Nancy's Nails when selling scented nail polish.

Small to medium-sized enterprises (SMEs) are businesses whose personnel numbers fall below certain limits. In 2016, there were 5.5 million businesses in the UK of which 99.3% were SMEs. SMEs employed 15.7 million people in 2016, amounting to 60% of all private sector employment in the UK. The amount of sales in 2016 for SMEs in the UK was £1.8 trillion or 47% of all private sector sales recorded.

The role of the entrepreneur in business opportunities

An **entrepreneur** is someone who takes a risk by starting an enterprise known commonly as a business. An entrepreneur:

- Provides **goods** and **services** that customers want or need. A **need** is something a human cannot live without such as food or clothing. A **want** is something a human desires such as designer clothes rather than cheaper clothes from Primark.
- Creates and sets up a business, which involves having a business idea and the financial capital to make this idea a reality. The idea may come from observation that a key service is lacking locally, or may be the result of a scientific or technical study that leads to a new invention or innovation.

Further development is often done through a **business plan**, which is a forecast of business operations, including a cash-flow forecast/statement of business objectives and a plan of staffing needs or marketing methods.

Knowledge check 2

Give a reason why Richard Branson is such a successful entrepreneur.

Innovation within a business will come not only from the entrepreneur but also through employees and other people linked to the business.

This may lead to the creation of new parts of the business or even new businesses. In a business such as the Dyson company, innovation is encouraged by giving design engineers the time to develop their own product ideas. These can then form part of a wave of new product development for the company, to the benefit of all staff.

Knowledge check 1

Give one reason why SMEs made up 99.3% of all UK businesses in 2016.

Good A physical product, such as a car.

Service An intangible product (i.e. you cannot touch it), such as financial advice or a bus journey.

Business plan Set of documents prepared by a firm's management to summarise its operational and financial objectives for the near future.

Innovation The process of translating an idea or invention into a good or service that creates value for which customers will pay.

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Entrepreneurial motives and characteristics

Entrepreneurial motives

Entrepreneurial motives are the reasons that drive a person or people to set up in business. These include financial motives such as making a profit or making the maximum profit available, known as **profit maximisation**.

Non-profit motives include:

- **Satisficing** — the motive is to make sufficient profits to satisfy the entrepreneur but not necessarily the greatest profit possible.
- **Ethical stance** — starting a business with the intention of helping others, e.g. producing more comfortable wheelchairs for people with disabilities.
- **Social entrepreneurship** — the motive is to create a sustainable, profit-making business that also benefits the community, e.g. a second-hand bookshop.
- **Independence and home working** — the entrepreneur wants more freedom to work when and where they please, perhaps to fit around family or other commitments.

Entrepreneurial characteristics

Entrepreneurial characteristics are personality traits and skills that an entrepreneur needs to have in order to start and run a successful business. The main characteristics are a risk-taking attitude, creativity, resilience (being able to cope with setbacks), self-confidence and determination.

Knowledge check 4

What might be a key entrepreneurial characteristic of Andy Murray, Wimbledon tennis champion 2016, which gains him sponsorship from sports clothing company Under Armour?

The importance and impact of entrepreneurs and SMEs on the UK economy

Entrepreneurs and SMEs are important to the UK economy because:

- SMEs and entrepreneurs have combined sales of £1.8 trillion which accounted for 47% of all business sales in 2016.
- They generate a large amount of direct employment — 15.7 million jobs in the UK in 2016 — and indirect employment through the goods and services such businesses purchase. SMEs accounted for 60% of all private sector jobs in 2016.
- Many SMEs offer innovative products and services and often grow significantly quicker than established larger businesses. Growth means more jobs and wealth creation for the economy and is vital to the sustainable success of a country. For example, Facebook launched in the UK in 2006 with 1 million users in its first year and had got 32 million users by 2016.

Entrepreneurial motives

The reasons that drive a person or people to set up in business.

Knowledge check 3

Why might the ethical motives of Anita Roddick, the founder of The Body Shop, have been a key factor in the success of her natural beauty product business?

Exam tip

Make sure you do not confuse entrepreneurial motives and characteristics.

Entrepreneurial characteristics

Personality traits and skills that an entrepreneur needs to have in order to start and run a successful business.

Exam tip

You will need to identify and evaluate the importance of specific characteristics from the stimulus material.

Knowledge check 5

Give one reason why SMEs may find it difficult to start up in car manufacturing.

- The largest industries in the UK are retail, manufacturing and vehicle repairs. SMEs account for 46% of these businesses. SMEs make up a large proportion of the **primary sector**, which are organisations that are at the first stage of production, such as farms and fishing. SMEs also make up a considerable proportion of the **secondary sector**, which is the second stage of the production process using primary resources and converting them into products, e.g. car manufacturers. Finally, SMEs make up a large proportion of the final stage of production which is the **tertiary sector**. The tertiary sector provides services such as retailing and restaurants.

The various stakeholders who are affected by a business

A **stakeholder** is a person, group or organisation that has an interest or concern in a business. Stakeholders include shareholders, employees, managers, suppliers, lenders and the community in which the business operates.

Internal stakeholders are groups within a business, for example, owners, workers and shareholders. **External stakeholders** are groups outside a business, for example, the community, suppliers, customers and lenders.

Figure 1 shows examples of the internal and external stakeholders for a company.

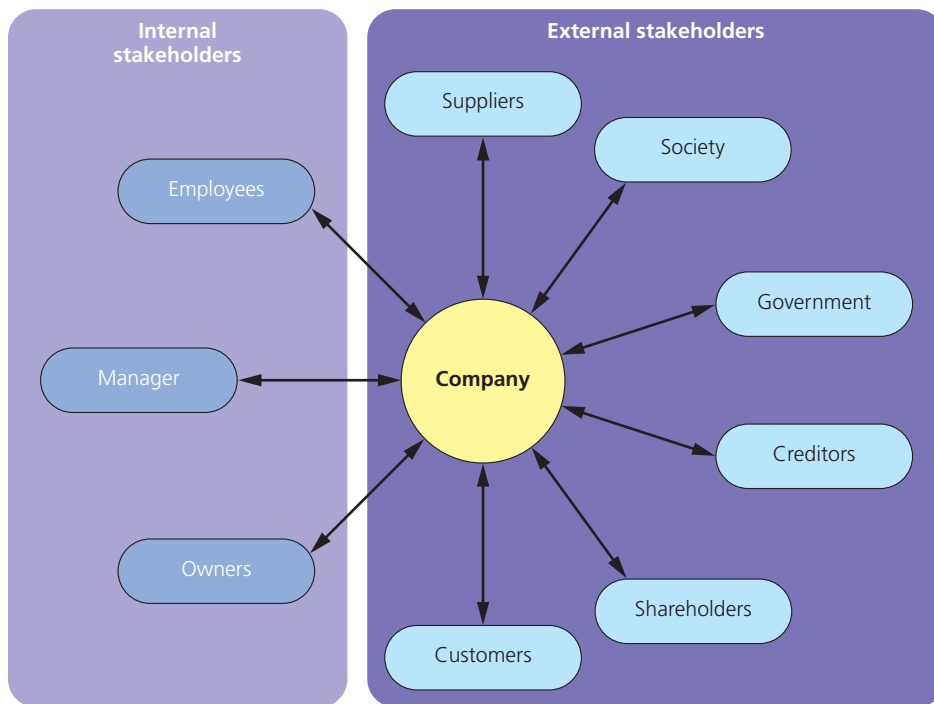


Figure 1 Internal and external stakeholders

Knowledge check 6

How might a new entrepreneur be able to reduce the financial barriers of starting a business when seeking a loan from a bank?

Stakeholder A person, group or organisation that is affected by and/or has an interest in the operations and objectives of a business.

Exam tip

Beware of assuming that enthusiasm is all it takes for an entrepreneur to succeed. The real keys are an insight into what the consumer *really* wants and a well-executed plan for delivering it in a distinctive, preferably unique, manner.

Table 1 shows the main impacts of a business for different stakeholders, listing the positive effects a business may have on each. Negative effects will be the opposite of those listed.

Table 1 How a business affects the main stakeholder groups

Stakeholder group	Business effect
Staff	Growth: new technology by product, not process, means greater production and more jobs; rising profits mean rising wages (particularly if they are shared with staff).
Managers/directors	Growth: new technology by process or product means a more efficient and productive business; rising profits (especially if bonuses are available) mean greater pay.
Shareholders	Rising profits, short term and long term, mean greater payments for investment and more valuable shares. Falling profits risk the opposite.
Suppliers	Growth means more orders and greater profits.
Customers	Quality of product and service: innovative new products and improving customer service mean a better customer experience and reliability from products.
Banks	Stable profits mean the business is able to pay back any current loans and be seen as a lower risk for any future finance required, e.g. for expansion.
Local residents	Clean, green production with few deliveries or despatches means the local community has a positive view of the business, making expansion easier.

Knowledge check 7

What might employees ask for when a business has steadily climbing profits?

Summary

After studying this topic, you should be able to:

- explain the meaning and importance of enterprise, entrepreneurs and SMEs
- identify business opportunities and how satisfying wants and needs can give opportunities to entrepreneurs
- explain the financial and non-financial motives of entrepreneurs and the characteristics and skills that can make them successful
- explain the importance of entrepreneurs and SMEs to the primary, secondary and tertiary sectors of the UK economy
- evaluate the impact of entrepreneurs and SMEs on businesses and the economy
- identify the various stakeholders who are affected by a business

1 WJEC AS

Extract 1

The milk market is worth £2 billion per year in the UK (June 2011). Milk is sold in cheap, clear plastic containers in litres at supermarkets, such as Tesco or Aldi. Typically little attention is paid to the packaging other than the name and type of milk. One litre of milk typically sells for £0.75 across most shops and has a shelf life of 2–3 days.

Cravendale is a highly successful niche brand of milk launched by UK company Arla in 2004. It uses a special type of filtering to remove more impurities from the milk than ordinary milk. Together with white plastic bottles and labels that stand out the milk has a shelf life of up to 3 weeks. Cravendale has a sophisticated marketing campaign using television adverts and social media to raise awareness of its product, spending £5 million on advertising per year. Cravendale is sold in supermarkets at a premium price of £1.15 per litre. Arla posted profits of £8.3 million in 2012.

Tesco has now launched its own brand of filtered milk at the lower price of £0.95 per litre.

Niche markets

Briefly explain two drawbacks of operating in a niche market.

(4 marks)

e 'Briefly explain' means you need to identify drawbacks and how they link to the business, justifying your answer.

Understanding: identify a drawback of operating in a niche market (A01). This is worth up to 2 marks.

Analysis: understand the impact on the business of each drawback (A03). This is worth up to 2 marks.

Student A

A niche market is part of a mass market **a**. Cravendale milk is a niche market product. **b**

One disadvantage of Cravendale operating in a niche market is with fewer potential customers compared to a mass market product costs in making the product will be higher. **c**

e **2/4 marks awarded.** **a** The student has mistakenly tried to gain a mark by providing a definition of niche market, even though no marks are available for this. **b** Although the student used the name 'Cravendale' this is simply restating what the extract text states so gains no mark. **c** The student gives an accurate drawback for a business that operates in a niche market and so scores 1 A01 mark. This is briefly developed to gain 1 A03 mark.

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Student B

One drawback of Cravendale operating in a niche market is with fewer potential customers compared to a mass market product costs in making the product will be higher. **a**

Another drawback of a niche market is that successful products, such as Cravendale, are likely to attract more competition. **b** As Tesco is now in competition with Arla the niche market will become less profitable as there will be comparatively fewer customers to sell to. **c**

e 4/4 marks awarded. **a** The student gives an accurate drawback for a business that operates in a niche market and so scores 1 A01 mark. This is briefly developed to gain 1 A03 mark. **b** The student also gives a further drawback of operating in a niche market for another 1 A01 mark. **c** This is briefly developed to gain a further A03 mark.

This is quite a straightforward question and you should be able to score at least 3 of the 4 marks allocated. For Student A to score only 2 marks (Grade D) shows a lack of preparation and understanding of the skills needed to answer such a question. Student B scores 4 marks (Grade A) simply because he or she had learned some straightforward business theory and had clearly developed their analysis of niche markets. The student has used the short stimulus material to good effect, though this is not necessary to gain full marks here.

Extract 2

The milk market has become more sophisticated in recent years, with businesses developing products for the more health conscious consumer and for those looking for a more premium taste. Arla is the market leader in organic milk-based products and has a number of well-known brands such as Cravendale, targeting dads with a £3 million marketing campaign involving the Muppets.

Market segmentation

Explain the possible advantages to Arla of using market segmentation.

(6 marks)

e The 'explain' command word means you need to show understanding of the business concept 'market segmentation' in terms of its advantages and how this relates to Arla. The question is asking for advantages of market segmentation. The highest skill required is analysis. You should refer to both extracts as they provide the context for this market segmentation question.

A01: for giving advantages of a business using market segmentation. This is worth a maximum of 2 marks.

A02: for applying an advantage of market segmentation to Arla's business. You should use application from the context correctly. This is worth up to 2 marks.