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THE ESSENTIAL KNOWLEDGE HANDBOOK

for **STUDENTS** of Edexcel GCSE 9-1 Business

Theme 1: Investigating Small Business

by **Claire Baker**


In-depth, easy to follow explanations
Covering the essential theory required by the Theme 1 Specification
Including exam-style questions on every sub-topic

Maximising Students' Grades

FOREWORD

APT's Essential Knowledge Handbook has been produced for students of Edexcel GCSE 9-1 Business. It contains the essential theory required by the **Theme 1 specification** (published in July 2016 for first teaching from September 2017) on **Investigating Small Business**. It is ideal for independent learning, as well as to develop, clarify, consolidate and test students' knowledge and understanding of topics covered in class.

The author, **Claire Baker**, is an experienced teacher, examiner, author and the owner and Managing Director of **APT Initiatives Ltd** - a leading, quality provider of resources for Business and Economics. Having previously worked in industry, Claire has taught Business from ages 11 to 19 and has been an Examiner, Principal Examiner and Reviser for Business and Business related courses for a leading awarding body.

The book is divided into 5 main sections and 20 sub-sections, which match the topics and sub-topics of the Theme 1 Specification. At the beginning of each sub-section there is a summary of **what students need to learn**. These summaries, and the **explanations** that follow, take into account Edexcel's specification, content guidance, scheme of work and sample assessment material (published at the time of writing) - to ensure all examinable subject content is covered. Explanations are sufficiently detailed to enable students to grasp the essential theory required with minimum teacher assistance. **Key terms** are signposted throughout using the logo , and a **detailed index** is provided at the end of the Handbook - to enable students to quickly access the information they require.

'Essential Knowledge Checklists' are also provided at the end of each sub-section (sub-topic). These comprise a range of exam-style questions which students can work through and answer - using the in-depth explanations provided, or which teachers can set as homework, or as more formal tests in class. These essential knowledge questions largely use the command words *'define'*, *'give'*, *'calculate'*, *'explain'* and *'discuss'*. Based on Edexcel's sample assessment material (published at the time of writing), *'define'* or *'give'* questions are generally worth **1 mark**, *'calculate'* questions are worth **2 marks**, *'explain'* questions are worth **3 marks**, and *'discuss'* questions are worth **6 marks**. *'Define'* questions require students to define a term from the specification content. *'Give'* questions require students to give an answer testing recall of knowledge from the specification content. *'Calculate'* questions require students to use mathematical skills to reach an answer, based on given data (calculators may be used and working should be given). *'Explain'* questions require students to give a statement of fact with two further expansion points (which may expand upon each other or upon the same fact). *'Discuss'* questions require students to write an extended answer, requiring expansion and exploration of a business concept or issue. In these 6-mark questions, just 2 or 3 relevant, well-developed points should be sufficient to secure the maximum mark.

A range of activities to test and develop students' knowledge and understanding of the business studies theory and concepts covered in this Essential Knowledge Handbook is provided in other resources available from APT Initiatives Ltd. These include **7 Topic and End of Theme Test Papers** and **100 Multiple Choice Questions** (Interactive and / or Printable) for Theme 1 (and for Theme 2). **APT Initiatives Ltd** can be contacted directly with any orders, queries or feedback via the website: www.apr-initiatives.com, via email: support@apr-initiatives.com, or by phone: 01952 540877.

CONTENTS

Page No

Topic 1.1 Enterprise and entrepreneurship 1

1.1.1	The dynamic nature of business	2
1.1.2	Risk and reward	5
1.1.3	The role of business enterprise	9

Topic 1 of 5 (p.1-12 of 135) + full Index included below. **The Complete Essential Knowledge Handbooks for Theme 1 and for Theme 2 can be purchased** in packs of 10 or more at a discounted price from www.apr-initiatives.com or individually from www.amazon.co.uk/books

Topic 1.2 Spotting a business opportunity 13

1.2.1	Customer needs	14
1.2.2	Market research	17
1.2.3	Market segmentation	27
1.2.4	The competitive environment	31

Topic 1.3 Putting a business idea into practice 35

1.3.1	Business aims and objectives	36
1.3.2	Business revenues, costs and profits	41
1.3.3	Cash and cash-flow	50
1.3.4	Sources of business finance	56

Topic 1.4 Making the business effective 63

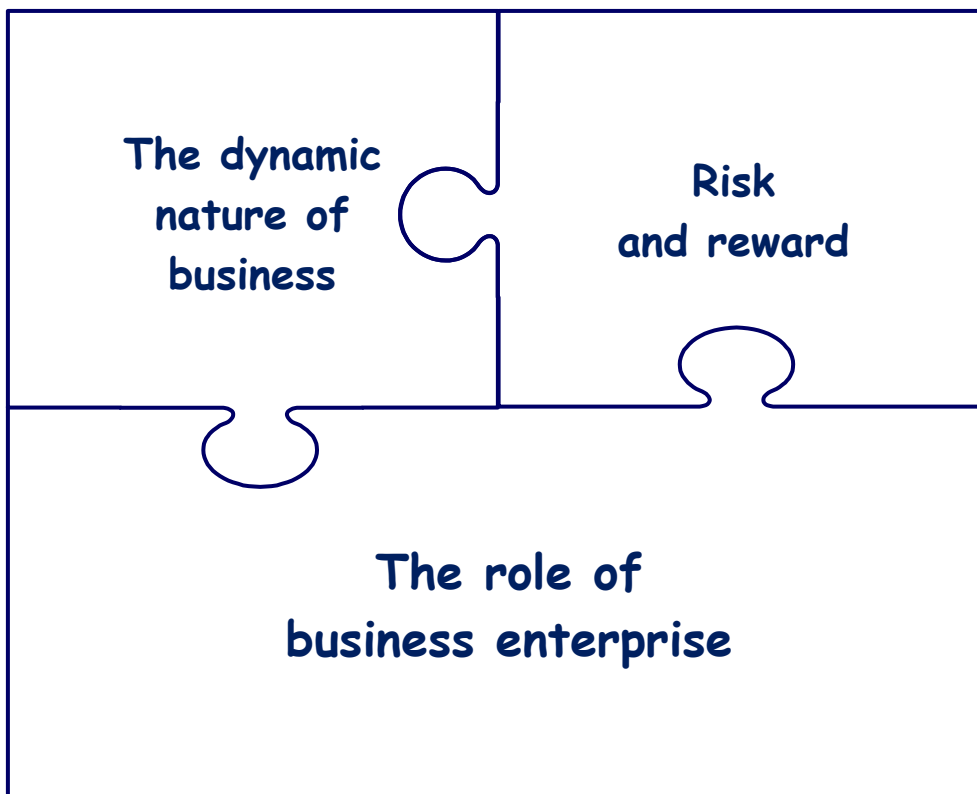
1.4.1	The options for start-up and small businesses	64
1.4.2	Business location	83
1.4.3	The marketing mix	89
1.4.4	Business plans	99

Topic 1.5 Understanding external influences on business 101

1.5.1	Business stakeholders	102
1.5.2	Technology and business	113
1.5.3	Legislation and business	119
1.5.4	The economy and business	125
1.5.5	External influences - possible responses	131

Topic 1.1

Enterprise and Entrepreneurship



The Dynamic Nature of Business (1.1.1)

What you need to learn

Why new business ideas come about:	How new business ideas come about:
<ul style="list-style-type: none">➤ changes in technology➤ changes in what consumers want➤ products and services becoming obsolete.	<ul style="list-style-type: none">➤ original ideas➤ adapting existing products / services / ideas.

Introduction

Businesses take resource inputs, such as materials, and through various processes transform these into more valuable outputs, that is, products and / or services which are consumed in order to satisfy people's needs and wants. You will learn more about this process and exactly what businesses do as you progress through this Theme.

What you are required to know, understand and appreciate at the very beginning of this course in *GCSE Business*, is that what businesses produce (in terms of products) or provide (in terms of services) will change over time. This is in response to changes in a range of factors, including changes in technology and what consumers want. You are also required to learn about *how* new business ideas come about, in other words, ways in which ideas for new businesses are generated or identified.

Why new business ideas come about

Changes in technology

KT **Technology** is the combination of skills, knowledge, tools, equipment, machines and computers used to undertake tasks.

Changes in technology enable completely **new products and services** to be designed and developed that were not able to be produced (or provided) using previous technologies - for example:

- self-cleaning cars using nano-paint technology.
- self-driving cars using autopilot technology.

The growth of the **Internet** (and world wide web) has created opportunities for **new businesses**, such as those specialising in producing and supplying the following:

- network routing technology products.
- web browsers.
- hardware and software for Internet-based systems.

It has also led to a host of **new services** including:

- online banking services.
- online stores such as Amazon.
- businesses specialising in website design and maintenance.

Today, there are thousands of websites where people can purchase almost any item they require, including: books, music, office supplies, computers and other electronic goods, clothing, furniture, groceries, holidays and insurance.

Changes in technology also enable:

- products and services to be produced (or provided) at **lower cost** - through more efficient (automated) production processes.
- existing products or services to be **improved** upon, in terms of better **performance** for example. For instance, for a washing machine, this might mean being quicker, more economical and / or environmentally friendly, or that it requires less maintenance and / or lasts longer.

Changes in what consumers want

KT **Consumers** are individuals or groups of individuals that use products or services.

Changes in what consumers want can encourage the identification and development of **new business ideas**. For example, more and more consumers are seeking to eat a healthier diet and to partake in fitness and / or relaxation activities, in order to enjoy a **longer life**, and a life **without suffering illnesses** - for example - relating to obesity and stress. This has resulted in:

- businesses developing and supplying foods that support a healthier diet (eg low fat, low sugar, organic).
- a growing number of businesses providing gym facilities, fitness classes, personal training, spa and relaxation facilities / treatments, as well as meditation including 'mindfulness' programmes.

Consumers are also increasingly concerned about the impact of a business's activities on the **environment**. This has led to the development of:

- environmentally friendly **products**, such as electric-powered cars.
- new, more environmentally friendly processes to **produce** products.
- new, recyclable materials to **package** products.

Products and services becoming obsolete

New business ideas will be developed as **existing products and services become obsolete**. **KT** **Obsolete** means no longer used or produced. This can stem from **advances in technology** and / or **changes in consumer needs**, attitudes, tastes and preferences. For example:

- DVDs may eventually become obsolete as a result of the rise in **Internet** and **satellite technology**. This has enabled films to be **downloaded**, and has led to a rapid increase in the number of **satellite channels**.

How new business ideas come about

Original ideas

Completely new ie **original ideas** for a business may be generated through brainstorming. **KT** **Brainstorming** involves a group of people being encouraged to put forward their ideas (without constraint) in relation to a specific question posed / problem to be solved.

In terms of ideas for new businesses, once a range of ideas have been identified, any ideas not considered to be practical (eg due to difficulty securing resources, legal or ethical reasons) should be eliminated, and a shortlist selected for further consideration.

Adapting existing products / services / ideas

New business ideas may arise from reviewing and evaluating **existing products and services**. This may result in:

- adapting successful business products / services for new uses and / or new markets.
- improving upon the faults or shortcomings of existing products / services.
- combining two or more existing ideas in a unique way.
- identifying a gap in the market - an area not currently being fulfilled.

Essential Knowledge Checklist

Questions you should now be able to answer on the dynamic nature of business:

1. Define the following terms: a) technology b) consumers c) obsolete.
2. Explain **one** reason why new business ideas come about.
3. Explain **one** way in which new business ideas come about / are identified.

Risk and Reward (1.1.2)

What you need to learn

The impact of risk and reward on business activity:

- **risk:** business failure, financial loss, lack of security
- **reward:** business success, profit, independence.

Introduction - What is meant by risk and reward?

KT **Risk** is the possibility of an event or condition occurring that will have a negative or harmful impact (eg cause damage, injury or loss) on something perceived to be of value. In the context of starting up a business, risk mainly concerns the fact that money, time and effort are invested into an idea for which there is no guarantee of success.

KT **Reward**, in the context of starting a business, is the return - financial or other - on the money, time and effort invested in starting the business.

Risks associated with starting a business

Business failure

KT **Business failure**, defined as the actual closure (termination) of a business, arises from failure of the business to fulfil its responsibilities to, and / or meet the expectations or objectives of, one or more of its stakeholders. **Business stakeholders** will be examined later in this Theme (Topic 1.5.1). They include owners, employees, customers, managers, lenders, suppliers, local community, pressure groups and the government.

Actual **closure** (termination) of the business may be:

- **voluntary** - for example - arising from inadequate financial return for the owners, or failure to meet other objectives of the owners.
- **involuntary** - for example - being brought about by the business's **creditors** - as a result of failure to meet debts as they fall due.

KT **Creditors** are individuals or other businesses to whom the business owes money. This includes:

- **suppliers** of goods and services the business has received but not yet paid for.
- **lenders**, that is, individuals or other business organisations (eg banks) that have lent the business money.

Some of the main reasons why start-up businesses fail include inadequate **market research**, poor management of **cash**, inadequate staffing, poor stock control, and poor **planning**. (You will learn more about the items in bold as you progress through this Theme, and more about staffing and stock control in your study of Theme 2.)

Lack of security

There is a great deal of uncertainty and **lack of security** - in terms of guaranteed income and **profit** (defined later below) - associated with starting a new business. This is because, even if the business idea has been tried and tested in the marketplace, there are numerous factors outside the control of a business that are difficult to predict, which can negatively affect a business's performance, and could ultimately result in **business failure**. For example:

- The arrival of a new **competitor** could result in a business **losing sales**.
- Unforeseen changes in the **economic climate**, such as changes in **interest rates** or **taxation** (discussed later in this Theme), could **reduce** the amount of **income** people have to spend on goods and services, and thus reduce their willingness and ability to purchase a business's product or service (and / or **increase the costs** of producing or providing the business's product or service).

These things can, ultimately, make it difficult to generate the level of **sales** required to make a satisfactory level of **profit**. In the worst case scenario, they can make it difficult for the business to generate the **cash** required to pay business debts (eg for rent, electricity, materials from suppliers) as they fall due. In which case, the business could be forced (by its creditors) to close down and sell off any assets in order to settle these debts.

Financial loss (and emotional suffering)

Business failure could, ultimately, lead to **financial loss** and emotional suffering, not only for the people who set up and run a business (the **entrepreneurs**), but also for the business's **employees** and **suppliers**.

In terms of **financial loss**, a significant amount of money may be required to purchase the resources (eg the initial premises, equipment, machinery, materials, etc) to start a business, a large proportion of which may be paid for using the **owner's personal funds**. If the business fails, the business **owner(s)** will have to bear the financial costs of failure and pay off any debts incurred. They may also suffer emotionally (eg from low self-esteem) as a result of failure to establish their idea in the marketplace.

The financial loss of failure - to the **owners** of a business - can be **minimised**, by setting up a business with **limited liability** status. This is examined later in this Theme - under 'types of business ownership' for start-ups' (Topic 1.4.1)

Even if the business does not fail, setting up and running a business requires a great deal of hard work which can **put a strain on social and family life and relationships**, and can cause **emotional stress**. Without the support of a partner / family to begin with, then this could create conflict later, and could ultimately be a factor leading to **business failure**.

Rewards associated with starting a business

Profit and other (financial) measures of business success

The main **reward** associated with starting a business is the **financial reward** that this can bring in the form of **profit**. It is also a **key business aim and objective** (covered later in this Theme) and measure of **business success**.

KT **Profit** is the amount which is left from **revenue** (which, in simple terms, is money generated from sales) after all **costs** have been deducted from this revenue. It is the reward for the risk, time and effort involved in starting and running a business.

Besides profit, **business success** can also be measured in terms of:

- the level of **sales** achieved.
- **market share**.

Market share is a key **financial aim and objective of a business** (which is defined and discussed later in this Theme). However, without the prospect of **profit**, a person is not likely to start a business, and unless they achieve a satisfactory level of profit (in relation to the time, effort and risks and challenges involved), then they will, in the long run, leave the market. **Profit** is, therefore, essential as a motivating force in business, and **financial reward** - in the form of profit, is frequently cited as **the main reason** why people decide to set up and run their own business.

Independence (and sense of achievement)

There are also **non-financial rewards** associated with starting and running a business. For example:

- Being your own boss / being able to work **independently** without any interference can provide a great deal of freedom and flexibility that working for someone else might not provide.
- A tremendous **sense of achievement** may also be gained from establishing and building your own business over time, that working for someone else might not provide.

Essential Knowledge Checklist

*Questions you should now be able to answer on **risk and reward**:*

1. Define the term 'risk' in the context of starting a business.
2. Explain **one** risk associated with starting a business.
3. Discuss the risks that should be considered when deciding whether or not to start a business.
4. Define the term 'reward' in the context of starting a business.
5. Explain **one financial** reward associated with starting a business.
6. Explain **one non-financial** reward associated with starting a business.
7. Discuss the rewards that could be gained from starting and running your own business.

You should also be able to:

- Define the term profit.
- Give the formula for calculating profit.
- Explain **one** reason why making a profit is so important to a business owner.

These things are, however, covered in more detail in Topic 1.3 - in the two chapters on 'Business aims and objectives' and 'Business revenues, costs and profits'.

The Role of Business Enterprise (1.1.3)

What you need to learn

The role of business enterprise and the purpose of business activity:

- to produce goods and services
- to meet customer (and consumer) needs (and wants)
- to add value: convenience, branding, quality, design, unique selling points (USPs).

The role of entrepreneurship:

- an entrepreneur: organises resources, makes business decisions, takes risks.

Introduction

KT Business involves producing and selling goods and / or services for a profit. Businesses take resource inputs (eg materials) and through various processes transform these into more valuable outputs (goods and / or services) that are consumed in order to satisfy people's needs and wants.

KT Enterprise concerns invention, creation and innovation. If a person has 'enterprise', or is described as 'enterprising', they are likely to be inventive, creative and / or innovative.

KT An enterprise is a project or undertaking that involves difficulty or risk, and so requires effort or courage.

The role of business enterprise and purpose of business activity

To produce goods and services

The role of business enterprise and the purpose of business activity is to produce goods and / or provide services.

KT Goods (or **products**) are tangible ie physical objects that can be seen and touched - for example - boxes of cereal, shampoo, clothes, bicycles, computer games, mobile phones and pens.

KT Services are things other people do for you - for example - cutting your hair, prescribing treatment when you are ill, getting you from one location to another location (eg by taxi, bus, coach, train, ferry, plane), making you a meal, and providing you with access to the Internet.

To meet customer (and consumer) needs (and wants)

Businesses **produce goods** and **services** in order to meet customer and consumer **needs** and **wants**. The terms '**needs**' and '**wants**' are often used interchangeably. Strictly speaking: **KT Needs** are essential things for survival, such as food, water, warmth, shelter and clothes; **KT Wants** are not essential for survival but help to make life more comfortable or enjoyable - for example - reclining sofa chairs, computer games, dining out, and holidays.

The terms '**customers**' and '**consumers**' are also often used interchangeably. However, a **customer** of a business may not necessarily also be the **consumer** of the business's product or service. Remember (from the first sub-section of this book), **consumers** are individuals or groups of individuals that *use* a business's product or service. In contrast, **KT customers** are individuals or groups of individuals that *purchase* a business's product or service. In the case of children's clothes, for example, the parents are the customers and the children are the consumers.

Once a person commits to buying a product they become a **customer** of a business and they have certain needs, which they expect the business to satisfy. These are not the same as human needs described above, which are essential to survive. **Customer needs** largely concern product attributes / quality, as well as other aspects relating to the sale, such as price, credit terms, delivery times, and after sales service. (Customer needs are explored later - in Topic 1.2.1).

To add value

The main role of a business is to **generate wealth** for those who own and control the business. Businesses do this by taking **inputs** (resources such as raw materials) and through various **processes** transform these into more **valuable outputs** (finished goods and services). For example:

- The ingredients needed to produce a chocolate bar (eg cocoa, sugar, milk), may cost 20p, but the selling price may be £1.
- The materials required to produce a pair of shoes, ie the treated leather and other materials such as cotton thread, glue, rubber, etc may only cost £5, but the price at which the shoes are sold may be £28.
- The materials required to produce a table, ie the wood, glue, bolts, etc may only cost £85, but the price at which the table is sold may be £300.

In all cases, the original ingredients / materials and components have gone through various **processes** (eg cutting, colouring, glueing, stitching in the case of a shoe) which require the application of **additional resources**, and this **increases their worth**. This increase in worth is known as the **value added**.

KT **Value added** or **added value**, in financial terms, is the difference between the selling price of a product or service and the cost of bought-in materials or components used to produce or provide it. In the case of the table example above, this would be £215 (£300 - £85).

It should be appreciated that not all of this **value added** is **profit** kept by the business / owners; some may be paid to **employees** as wages, some to **suppliers** of materials, gas and electricity, some to the bank as **interest** on any **loans**, and some to the **government** as **tax**, for example.

For **consumers**, the value added is the benefit gained from not having to make the above things for themselves. It is the time saved or freed to do other more enjoyable things. The **more** important the product or service is to the consumer, and the **less** equipped and / or willing they are to make it or do it for themselves, the **higher the price** that can be charged to produce or provide it.

It is by **adding value** that businesses meet their **primary aim** of making a **profit**. (This is the importance or benefit of adding value). The route to more **profit** is by increasing product **value** and thereby increasing **revenue**, either by selling greater volumes and / or charging a higher **price**, as the product is seen as more desirable. The more effective businesses are at **adding value**, the more **profit** they make.

Businesses can **add value** in a variety of ways - for example - by:

- making it **convenient** (or more convenient) for customers to purchase a product or use a service - for instance, by locating closer to customers and / or extending opening hours. As a result, customers may be willing to pay a higher price for a product or service that they can access without having to travel so far and / or which they can access outside normal working hours.
- **KT branding**, ie giving a distinctive name, term, symbol, image, design or packaging to a product (or group of products), which enables it to be easily recognised and differentiates it from other products. Customers may be willing to pay a higher price for a product that appears superior in some way to others in the marketplace.
- investing in more effective or extensive **advertising**. Advertising can make a product more appealing. As a result, customers may be willing to pay a higher price.
- offering a better **quality** product or service. If a business improves its product or the service it provides, so that it meets customers' needs more than the business's competitors, customers may be willing to pay a higher price.
- improving the **design** of a product. Improved design may make a product more effective in carrying out its function and / or more visually appealing, and for this customers may be willing to pay a higher price.

- having a **unique selling point (USP)**. **KT** A **USP** is something that sets a business's product or service apart from that of competitors; it is a characteristic that leads customers to choose a business's product or service over its competitors. This could include many of the above methods ie providing superior product quality, additional features, superior customer service, greater convenience in terms of location or opening times, or more attractive design or packaging. Customers may be willing to pay more for a distinctive product / service, particularly if the USP meets their needs better than competitors.

The role of entrepreneurship - What does an entrepreneur do?

Organising, decision making, risk taking

KT **Entrepreneurship** essentially concerns the creation and development of new businesses. It involves idea generation, **organisation**, **decision making** and **risk taking**.

KT An **entrepreneur** is a person who has an **idea** for a business, develops the idea, and **organises** the necessary **resources** ie people (workers), equipment and buildings to provide the goods and / or services relevant to their idea.

Entrepreneurs play an important **role within the economy**. By setting up new businesses and introducing new products and services to the market place, they provide greater **choice** to **consumers**, as well as **create jobs** and, in so doing, they **generate wealth**. Entrepreneurs, therefore, help an economy to prosper and grow.

As the previous section highlighted, setting up new businesses involves **risk**. Consequently, entrepreneurs are frequently described as **risk takers**. They **make decisions** about business **resources** and any decision they take involves some degree of **risk**. For example, deciding to employ one more worker will increase costs and will reduce profit, unless the additional sales generated from employing the additional worker more than covers the cost.

Essential Knowledge Checklist

Questions you should now be able to answer on the role of business enterprise:

1. Define the following terms: a) business enterprise b) goods c) services d) needs e) wants f) customer g) value added h) branding i) unique selling point (USP) j) entrepreneurship k) entrepreneur.
2. Explain **one** role of business enterprise / purpose of business activity.
3. Explain **one** reason why it is important for a business to add value.
4. Calculate the value added in a given situation.
5. Explain **one** method a business could use to add value to its product or service.
6. Explain **one** role of entrepreneurship / role of an entrepreneur.

INDEX

<p>added value - calculation of 11</p> <p>adding value as a purpose of business activity 10-12 methods of 11-12</p> <p>advertising as a method of adding value 11 definition of 90</p> <p>aims 36</p> <p>Articles of Association 70</p> <p>behavioural segmentation 28</p> <p>bias (in sampling / market research) 26</p> <p>boom 125</p> <p>brainstorming 4</p> <p>branding definition of 11 as a method of adding value 11</p> <p>break even / break even level of output definition of 45 calculation of 45-46 impact of changes in revenue & costs on 47-49</p> <p>break even chart / diagram definition of 46 example of 47 impact of changes in revenue & costs on 47-49</p> <p>business (definition of) 9</p> <p>business aims and objectives definitions of 36-37 financial 37-39 non-financial 39 and why they differ between businesses 39</p> <p>business enterprise definition of 9 role of 9-12</p> <p>business failure (closure) definition of 5 as a risk of starting a new business 5-6 importance of cash in the prevention of 50</p> <p>business finance 56-62</p> <p>business location - factors influencing 83-88</p> <p>business ownership as a reason why aims and objectives differ 40 types of (for start-ups) 65-76</p> <p>business plans definition, role & importance / purpose of 99-100</p> <p>business rates definition of 42, 129 as an example of a fixed cost 42 impact of changes in (on businesses) 129</p> <p>business stakeholders definition of 102 different types and objectives of 102-7 the impact of business activity on 107-8 and how they impact on business activity 100-11 possible conflicts between 111-12</p> <p>business success (as a reward) 7</p> <p>business survival 16</p> <p>capital gains tax 128</p> <p>cash the importance of 50 difference between cash and profit 50-51</p>	<p>cash-flow forecasts definition, components and example of 52 calculation of 52-54 interpretation of 54 reasons for production of 55</p> <p>cash inflows 52</p> <p>cash outflows 52</p> <p>Certificate of Incorporation 68</p> <p>challenge -as a non-financial aim / objective 39</p> <p>changes in technology (see technology) as a reason why new ideas come about 2-3</p> <p>changes in what consumers want as a reason why new ideas come about 3</p> <p>choice - as a customer need (expectation) 15</p> <p>closing cash (bank) balance definition and calculation of 52-54</p> <p>Companies House 67</p> <p>competition, competitors, competitive environment definitions of 31 strengths & weaknesses of (competitors) 31-33 impact of (on businesses) 33-34</p> <p>consumer(s) 3</p> <p>consumer income definition of 126 impact of changes in 127 business responses to a fall in 132</p> <p>consumer law principles of 119-120 impact of 122-123</p> <p>consumer needs 10</p> <p>consumer rights 119-20</p> <p>consumer wants 10</p> <p>contactless payment systems definition of 114 and impact on a business's sales, costs 115-17</p> <p>contribution per unit 45</p> <p>control - as a non-financial aim and objective 39</p> <p>convenience as a method of adding value 11 as a customer need (expectation) 15</p> <p>corporation tax definition of 128 impact of changes in (on businesses) 129</p> <p>costs types of (fixed, variable, total) 42-43 impact of technology on 115-17</p> <p>credit 51</p> <p>creditors 5</p> <p>crowd funding definition of 61 advantages and disadvantages of 61-62</p> <p>customer(s) definition of 10, 105 importance of identifying & understanding 15-16 objectives of 105 the effect of business activity on 107-8 and how they impact on business activity 109-10</p> <p>customer needs (expectations) 10, 14-16</p> <p>customer service as a strength or weakness of competitors 33</p>
---	--

<p>Deed of Partnership 66 delayering 132 demand 14 demographics / demographic segmentation 27 design - as a method of adding value 11 digital communication definition of 97, 114 and impact on the marketing mix 97-98, 117-18 ways in which a business might use 114 and its impact on sales and costs 115-16 direct marketing definition of 90 impact of digital communication on 97 direct taxes definition and examples of 128 impact of changes in (on businesses) 129 directors 103-104 discretionary income 126 discrimination definition of 120, legislation 120, 122-123 disposable income 126 distribution channels 89 dividends 103 downsizing 32 duties - as a form of government taxation 129 dynamic nature of business 2-4 e-commerce definition of 85-86, 113 as an influence on business location 85-88 advantages and disadvantages of 86-88 and its impact on the marketing mix 96-97, 117 and its impact on sales and costs 115 economic climate definition of 125 impact of changes in (on businesses) 125-30 business responses to changes in 132-35 economy 125 Electronic Funds Transfer (EFT) 114 electronic payment systems definition of 114 and impact on a business's costs 116-17 email questionnaires 20 employees definition and objectives of 104-5 the effect of business activity on 107-8 and how they impact on business activity 109 possible conflict with other stakeholders 111-12 employment law principles of 120-21, cost of 122 consequences of meeting and not meeting 123 enterprise 9 entrepreneurs and entrepreneurship definition and role of 12 exchange rates definition of 130 impact of changes in (on businesses) 130 business responses to changes in 134-35 external influences definition of 131 business responses to changes in 131-35 external stakeholders 102 face to face surveys 19</p>	<p>financial aims and objectives 37-39 financial loss - as a risk of starting a business 6 financial security - as a financial aim / objective 39 fixed costs definition and examples of 42 impact of changes in (on break even charts) 48 fixed premises (versus e-commerce) 86-88 focus groups 20-21 Form 10 & Form 12 (incorporation documents) 70 franchise operation / franchising definition, costs, support, conditions 77-79 advantages and disadvantages of 79-81 franchisee 77 franchisor 77 gap in the market 30 goods (definition and examples of) 9 government (the) definition and objectives of 107 the effect of business activity on 108 and how it impacts on business activity 110 government reports and statistics 22 government taxation definition of 128 impact of changes in 128-29 possible business responses to changes in 134 Gross Domestic Product (GDP) definition of, and impact of changes in 125-26 health and safety legislation principles of 121 cost of 122-23 consequences of meeting and not meeting 123 household income 127 how new business ideas come about 4 income tax definition of 128 impact of changes in (on businesses) 129 Incorporation document 68 independence as a non-financial reward 7 as a non-financial aim and objective 39 indirect costs - definition and examples of 50 indirect taxes definition and examples of 129 impact of changes in (on businesses) 129 inflation definition of 127 and its impact on businesses 127 possible business responses to 133 insolvency - definition and prevention of 50 insurance - as an example of a fixed cost 42 interest as an example of a fixed cost 42 definition and calculation of 44-45 interest rate definition of 127 impact of changes in (on businesses) 127-28 possible business responses to a rise in 133 internal stakeholders 102 Internet and new business opportunities 2-3 as a method secondary research 22 lack of security - as a risk of starting a business 6</p>
--	---

<p>Legislation purpose / principles of 119-121 impact of (on businesses) 122-124 business responses to changes in 132</p> <p>lenders (as a business stakeholder) definition and objectives of 106 the effect of business activity on 108</p> <p>lifestyle - in terms of market segmentation 28</p> <p>limited liability - definition and implications of 64</p> <p>limited liability partnership definition and key characteristics of 68-69 advantages and disadvantages of 74-75</p> <p>limited partnership definition and key characteristics of 67-68 advantages and disadvantages of 74</p> <p>loans definition, advantages and disadvantages of 60</p> <p>local community definition and objectives of 106 the effect of business activity on 108 and how they impact on business activity 110</p> <p>location in terms of market segmentation 27 as a strength or weakness of competitors 32 factors influencing 83-88</p> <p>long-term methods (sources) of finance definition of 57 examples of 58-62</p> <p>loss (definition and calculation of) 43-44, 47</p> <p>managers definition and objectives of 103-4 the effect of business activity on 107 and how they impact on business activity 109 possible conflict with other stakeholders 112</p> <p>margin of safety 46-47</p> <p>market 17</p> <p>market map and mapping definitions of 28 to identify the competition 28-29 to identify a gap in the market 30</p> <p>market reports 22</p> <p>market research definition, purpose (and benefits) of 17-18 methods of 19-23 use of data in 24 role of social media in collecting 25 importance and reliability of 25-26</p> <p>market segment(s) and market segmentation definition of 27 identifying / methods of 27-28</p> <p>market share as a measure of business success 7 as a financial aim and objective - definition and calculation of 38</p> <p>marketing mix definition of 89 importance of each element 90-92 how each element works together 93-94 and the competitive environment 94-95 impact of changing consumer needs on 95 impact of technology on 95-98, 117-18</p> <p>Memorandum of Association 70</p>	<p>mortgage payments (as a fixed cost) 42</p> <p>National Insurance (NI) 65</p> <p>needs 10</p> <p>net cash flow - definition and calculation of 52-54</p> <p>non-financial aims and objectives 39</p> <p>objectives 36-37</p> <p>observation - as a method of primary research 21</p> <p>obsolete - definition of 4</p> <p>opening cash (bank) balance definition and calculation of 52-54</p> <p>ordinary partnerships definition of 67 advantages and disadvantages of 73-74</p> <p>overdraft definition, advantages and disadvantages of 57</p> <p>overheads - definition and examples of 50</p> <p>partnerships definition and key characteristics of 66-69 advantages and disadvantages of 72-75</p> <p>pay definition of 121 legislation relating to 121,122</p> <p>payment systems 114, 115-17</p> <p>personal satisfaction as a non-financial aim and objective 39</p> <p>personal savings 58</p> <p>personal selling definition of 90 impact of digital communication on 97</p> <p>place as an element of the marketing mix 89, 93 importance of 92 influence of competition on 95 impact of technology on 96</p> <p>postal questionnaires 20</p> <p>pressure groups definition and objectives of 106-7 and how they impact on business activity 111</p> <p>price definition of 14 as a customer need (expectation) 14 as a strength or weakness of competitors 31 as an element of the marketing mix 89, 93 importance of 91 influence of competition on 95 impact of changing consumer needs on 95 impact of technology on 96,98</p> <p>price comparison websites 98</p> <p>primary research definition of 17 methods of 19-21 advantages and disadvantages of 23</p> <p>private limited company definition and key characteristics of 69-71 advantages and disadvantages of 75-76</p> <p>product(s) definition of 9 as an element of the marketing mix 89, 93 importance of 92 influence of competition on 94 impact of changing consumer needs on 95 impact of technology on 95,98</p>
---	--

<p>product differentiation - definition, methods of 94</p> <p>product range as a strength or weakness of competitors 32-33</p> <p>profit as a reward from starting a business 7 as a financial aim and objective 37-38 calculation of 43-44 area of (on a break even diagram) 47</p> <p>promotion definition of 89 as an element of the marketing mix 89-90, 93 importance of 91 influence of competition on 94 impact of technology on 96-97</p> <p>psychographic segmentation 28</p> <p>public relations 90</p> <p>purpose of business activity 9-12</p> <p>qualitative data - definition and examples of 24</p> <p>quality definition of 14-15 as a method of adding value 11 as a customer need (expectation) 14-15 as a strength or weakness of competitors 32 legislation relating to 119</p> <p>quantitative data - definition and examples of 24</p> <p>questionnaires 19,20</p> <p>recession 126</p> <p>recruitment definition of and legislation relating to 121</p> <p>reliability of market research data 25-26</p> <p>rent (as an example of a fixed cost) 42</p> <p>representative sample 25</p> <p>research - definition of 17</p> <p>retained profit definition, advantages and disadvantages of 61</p> <p>revenue - definition and calculation of 41</p> <p>reward(s) definition of 5 associated with starting a business 7</p> <p>risk(s) definition of 5 associated with starting a business 5-6 role of market research in reducing 18 owner's attitude towards 40 and the purpose of business planning 100</p> <p>role of business enterprise / entrepreneurship 9-12</p> <p>sales as a financial aim and objective 38 impact of technology on 115</p> <p>sales promotion 90</p> <p>sample 25-26</p> <p>secondary research definition of 17 methods of 22 advantages and disadvantages of 23</p> <p>secondary sector 83</p> <p>selling price per unit impact of changes on break even charts 47-48</p> <p>semi-variable costs 42-43</p> <p>service(s) (definition and examples of) 9</p> <p>share capital definition, advantages / disadvantages of 59</p>	<p>shareholders definition and objectives of 102-3 the effect of business activity on 107-8 and how they impact on business activity 109 possible conflict with other stakeholders 111-12</p> <p>short-term methods (sources) of finance definition and examples of 57-58</p> <p>social media definition of 25, 113 and role in collecting market research data 25 ways in which a business might use 113 and its impact on a business's sales, costs and marketing mix 115-18</p> <p>social objectives 39</p> <p>sole trader definition and key characteristics of 65 advantages and disadvantages of 71-72</p> <p>sources of business finance 56-62</p> <p>stakeholders - see business stakeholders</p> <p>suppliers definition and objectives of 105-6 the effect of business activity on 108 and how they impact on business activity 110 possible conflict with other stakeholders 112</p> <p>surveys 19-20</p> <p>survival - as a financial aim and objective 37</p> <p>taxation - types and impact on business 128-29</p> <p>targeting / target marketing 27</p> <p>technology definition of 2 changes in 2-3 and its impact on the marketing mix 95-98 used by business 113-115 and its influence on a business 115-17 business responses to changes in 131-2</p> <p>telephone surveys 20</p> <p>tertiary sector 83</p> <p>total costs - definition and calculation of 43</p> <p>trade credit 57-58</p> <p>unemployment definition of 126 and its impact on businesses 126</p> <p>unique selling point (USP) definition of 12 as a method of adding value 12</p> <p>unit contribution 45</p> <p>unit selling price - (impact of) changes in 47-48</p> <p>unlimited liability (definition and implications of) 64</p> <p>value added 11</p> <p>value added tax definition of 129 impact of changes in (on businesses) 129</p> <p>variable costs definition and examples of 42-43 impact of changes in (on break even charts) 49</p> <p>venture capital definition, advantages / disadvantages of 58-59</p> <p>wants 10</p> <p>website advantages over traditional media 97,116 and impact on sales, costs, marketing mix 115-8</p> <p>why new business ideas come about 2-4</p>
---	--

