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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.apt-initiatives.com](http://www.apt-initiatives.com), via email: [support@apt-initiatives.com](mailto:support@apt-initiatives.com), or by phone: 01952 540877.

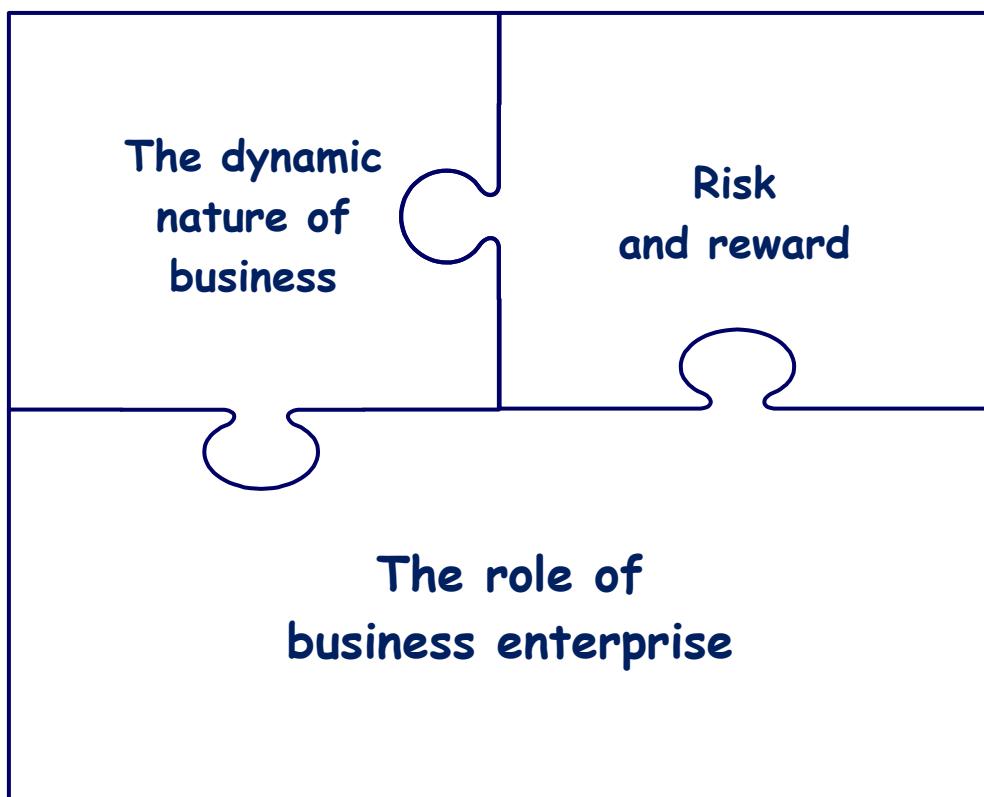
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# Topic 1.1

## 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"><li>➤ changes in technology</li><li>➤ changes in what consumers want</li><li>➤ products and services becoming obsolete.</li></ul> | <ul style="list-style-type: none"><li>➤ original ideas</li><li>➤ adapting existing products / services / ideas.</li></ul> |

### 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.

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