

1 Business activity

1.1 Role of business enterprise and entrepreneurship

Purpose of business enterprise and entrepreneurship

REVISED

Figure 1.1 shows the three main purposes of business enterprise and entrepreneurship. An **entrepreneur** may see an existing product and **spot an opportunity** to develop and improve it.

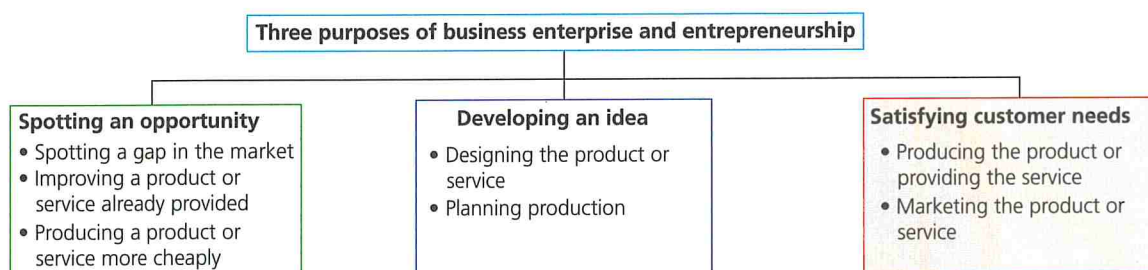


Figure 1.1 Main purposes of business enterprise and entrepreneurship

Now test yourself

TESTED

The entrepreneurs that developed Spotify saw an opportunity: ICT could be used to sell and deliver music, podcasts and video streaming. The consumer can buy the product online in the comfort of their own home and receive immediate delivery. The entrepreneurs worked with record labels and independent musicians to sell their music in return for a royalty. They then put in place the technology to enable this to work, such as the software to be able to stream the content to buyers and to take payment from them. Spotify sells directly to the consumer and so distribution costs as well as the cost of managing shops is saved. Spotify customers say the service is much better than going to shops to buy music.

Analyse **two** ways in which Spotify satisfies consumer needs.

[6]

Entrepreneur: A person who takes the risk of starting and running a business enterprise.

Spotting an opportunity: The ability to see the need for a particular product or service customers need.

Exam tip

When answering 'analyse' questions, always apply your answer to the business in the case study. For example, when answering the 'Now test yourself' about satisfying customer needs, stress that Spotify has met the need by offering a faster service at a lower cost. Explain why Spotify has been able to do this.

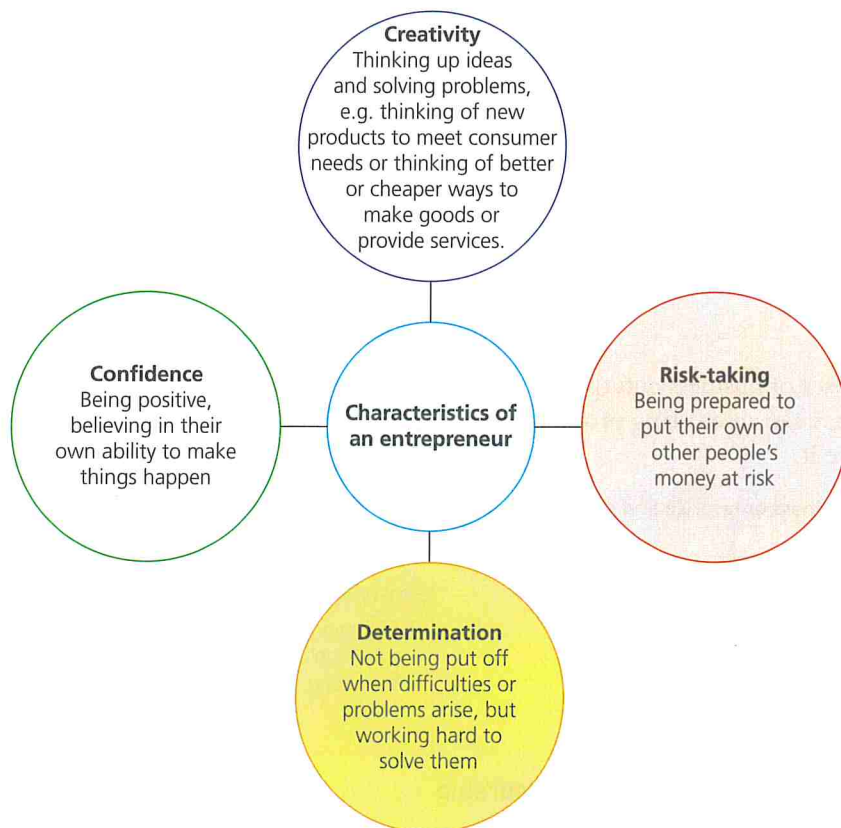
I can ...

- ☐ State three purposes of business enterprise and entrepreneurs.
- ☐ Analyse examples of businesses spotting opportunities and developing ideas.

Characteristics of an entrepreneur

REVISED

'Characteristics' refers to the qualities, skills or abilities that a person must have to be a successful entrepreneur. There are four main **characteristics of entrepreneurs**, as shown in Figure 1.2.



Characteristics of an entrepreneur: The features of an entrepreneur, which include being determined, creative and having the ability and confidence to take risks.

I can ...

- ☐ State and explain four characteristics that an entrepreneur should have.
- ☐ Analyse the characteristics of an entrepreneur in the context of a case study.

Figure 1.2 Characteristics of an entrepreneur

Exam tip

In the examination carefully read the case study. Think about how the information in it matches what you have learnt and revised; in this case, how the characteristics of entrepreneurs were demonstrated by James Dyson. Then explain how these characteristics helped him to make a success of his business.

Now test yourself

TESTED

Frustrated by a poor-quality vacuum cleaner which he used in his home, James Dyson created the idea of the bagless vacuum cleaner. Dyson gave up his paid job and used his savings while he worked in his garage to produce something better. Showing great determination, he tried out of over 500 different designs, believing that, in the end, he would be successful. During this time, his wife worked as a teacher to support them. Dyson then risked his money to start up a business producing and selling the vacuum cleaners.

Analyse **two** characteristics of an entrepreneur that helped James Dyson to succeed when starting up his business. [6]

Risks and rewards of being an entrepreneur

REVISED

Entrepreneurs hope for **rewards** when they go into business, but they are taking **risks** by doing this. These are summarised in Table 1.1.

Table 1.1 Risks and rewards of entrepreneurship

	Risks	Rewards
Financial	● If the business does not succeed, the risk of losing savings (and other assets) to pay off debts.	● The potential to make a lot of money.
Non-financial	● Health – the strain of running a business can cause mental and physical illness.	● Independence – being in control of what you do; not being told what to do by others. ● Self-satisfaction – feeling good because the business is a success. ● Making a difference – improving the lives of customers; providing socially responsible goods and services.

Now test yourself

TESTED

1 Which of the following is **not** a risk of being an entrepreneur? [1]

- (a) Making a loss
- (b) Feeling satisfied about making a success of starting a business
- (c) Experiencing poor health
- (d) Suffering from strained relationships with friends and family

2 Amelia Prendergast bought a small newsagent shop using her own savings and a loan from a bank. She had been fed up in her office work as an accounts clerk and wanted to run her own business. She really struggled having to get up at 5 a.m. each day, sorting the papers in to 'rounds' for the paper boys and girls to deliver and then working in the shop all day until she closed at 6 p.m. After three months, exhausted and stressed, Amelia put the shop up for sale. However, in the time that she ran the business, she had increased the number of customers and the revenue the shop earned. Amelia sold the business for more than she had paid for it.

Evaluate the risks and rewards to Amelia of being an entrepreneur.

[9]

Rewards: The benefits an entrepreneur receives from starting up and running a business. They may be financial or non-financial.

Risks: The possible losses that an entrepreneur may suffer from starting up and running a business.

Exam tip

When evaluating the risks and rewards of being an entrepreneur, write about the rewards the person has gained as well as the risks they have faced and what it has cost them. Remember to use the evidence in the case study so that you are applying your learning. Always make a judgement – have the risks and rewards been worthwhile or not? Sometimes you may want to suggest further information that would help you make your conclusion.

I can ...

- ☐ State two risks that entrepreneurs may take.
- ☐ State four rewards that entrepreneurs may receive.
- ☐ Evaluate whether an entrepreneur is receiving sufficient reward for the risks he or she is taking.

1.2 Business planning

Purpose of planning business activity

REVISED

A business must plan its activities to:

- reduce the risk of failure – for example, it must think about the prices and goods competitors offer
- be as successful as possible – for example, decide the kind of people it needs to run the business and how to market its product as effectively as possible.

Figure 1.3 shows the steps involved in developing a business idea.

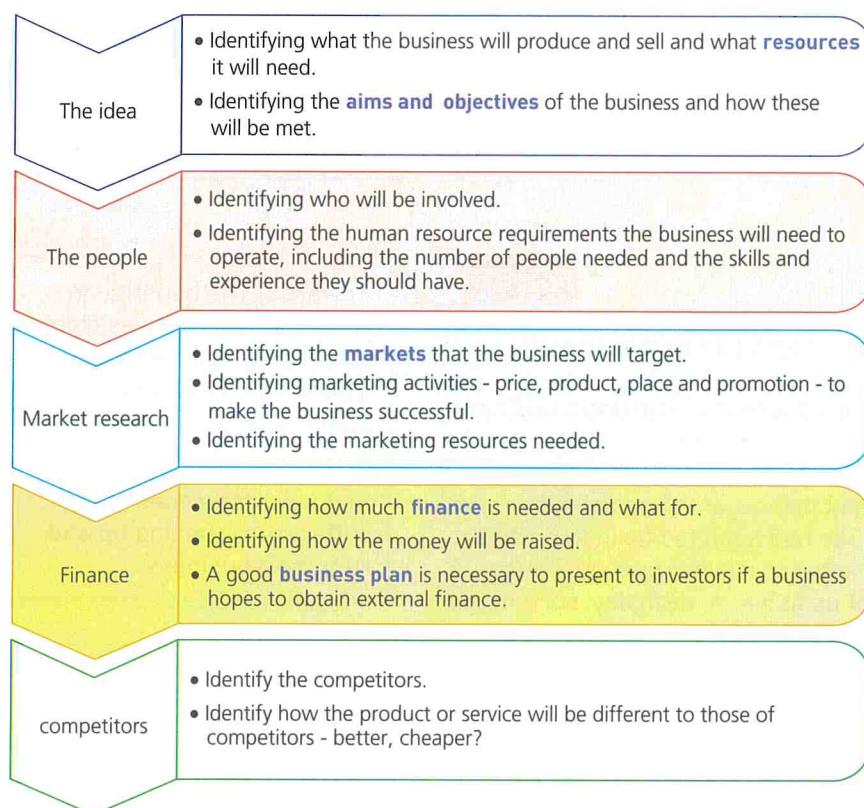


Figure 1.3 Steps involved in developing a business idea

Aims and objectives:

Statements of what the business is trying to achieve, such as grow larger or make a profit.

Business plan: A simple plan which sets out details of the product or service being sold and how it will be financed, marketed and details of market research findings.

Finance: A business word used instead of money. The finance needed to start a business is the money required to buy the resources needed.

Markets: Where a business sells its goods or services.

Resources: The things a business needs to make it work, including staff and materials.

Now test yourself

TESTED

A case study was produced by www.englandgolf.org. The focus of the study was Dunning Golf Club, which had produced a plan about how it should increase its membership and profitability. The plan included the following:

- improving the golf course
- offering more benefits to paid-up members (such as subsidised lessons)
- using outside caterers to ensure better and cheaper catering
- more clearly stated priorities for the future and how these would be financed.

Explain the purpose of writing a business plan, such as that produced by Dunning Golf Club. [4]

I can ...

- ☐ Explain the main purposes of a business plan.

Role, importance and usefulness of a business plan

REVISED

A business plan explains how a business intends to achieve its objectives. It may be written before the business starts, or when planning a major change to the way an existing business **operates**.

A good business plan will cover all the objectives shown in Figure 1.4. It will also make these objectives SMART:

- **Specific** – clearly stating what is to be achieved.
- **Measureable** – stating how to measure the **success** of the plan using, for example, sales or profits.
- **Achievable** – the targets are possible for the business to achieve.
- **Realistic** – the targets are appropriate for the business.
- **Timely** – the plan includes a deadline for achieving the targets.

Operate: A term used to explain how a business works.

Success: For a business, success can take many forms, including making a profit, surviving and providing a good service to customers.



Figure 1.4 A business plan details how a business intends to achieve its objectives

Exam tip

When evaluating a business plan, write about what it contains and what other information might be useful. Does it cover all four areas identified in the business plan diagram? Is it SMART – does it give measureable and timed targets?

Now test yourself

TESTED

- 1 A business plan is useful because it will:
 - (a) make sure a business cannot fail.
 - (b) help competitors to improve.
 - (c) identify the resources that a business needs to succeed
 - (d) reduce the costs of running the business.
- 2 Using the information provided on page 10, evaluate the Dunning Golf Club business plan.

[1]

[9]

I can ...

- ☐ Explain the main purposes of a business plan
- ☐ Evaluate a business plan.

1.3 Business ownership

Features of different types of business ownership

REVISED

When a business becomes incorporated, it has a separate and distinct legal entity that is independent of the business owners. **Sole traders** and **partnerships** are not incorporated, while **private limited companies** and **public limited companies** are incorporated, which means they have limited liability (see next section).

The main features of the different types of business ownership are shown in Table 1.2, together with their advantages (✓) and disadvantages (✗).

Partnership: A business owned by between 2 and 20 partners.

Sole trader: A business owned by one person.

Table 1.2 Types of business ownership

Feature	Sole trader	Partnership	Private limited company	Public limited company
Easy to set up	✓ Few forms to complete.	✓ Only needs a deed of partnership (a written agreement between partners).	✗ The Registrar of Companies requires legal documents, which take time to produce.	✗ The Registrar of Companies requires legal documents, which take time to produce.
Easy for the owner(s) to control	✓ The owner makes all the decisions.	✓ The partners (usually) make decisions between themselves. ✗ It is possible that the partners may disagree which would lead to problems making decisions. ✗ The profits will have to be shared between all the owners.	✓ Shareholders can restrict who can buy shares.	✗ Anybody can buy shares .
Continuity	✗ The business stops when the owner dies.	✗ A new deed of partnership will be needed when an owner leaves or joins.	✓ The business continues even if shareholders sell their shares or die.	✓ The business continues even if shareholders sell their shares or die.
Business information can be kept private	✓ No information about profits must be published.	✓ No information about profits must be published.	✗ The public can see information about the business.	✗ The public can see information about the business.
Raising finance	✗ This is limited because there is only one person to invest savings and banks may think they are risky to lend to. The business cannot sell shares to raise finance.	✗ Usually there are only a few partners to invest in the partnership and banks may think they are risky to lend to. Ability to raise finance may be limited as a result. ✗ The partnership cannot sell shares to raise finance.	✓ New shareholders can invest and banks are willing to lend. Larger amounts can be raised than sole traders and partnerships (usually).	✓ New shareholders can invest and banks are willing to lend. Large amounts of money can often be raised.

Feature	Sole trader	Partnership	Private limited company	Public limited company
Level of liability (risk)	✗ Owner has unlimited liability.	✗ The owners (partners) have unlimited liability.	✓ The owners (shareholders) have and benefit from limited liability.	✓ The owners (shareholders) have and benefit from limited liability.
Workload	✓ The owner makes all the decisions but may have to work long hours.	✗ The work is shared between the owners, but the fewer the partners, the greater the workload of each.	✗ Managers are employed to make decisions.	✗ Managers are employed to make decisions.

Now test yourself

TESTED

- Which of the following is a feature of a public limited company? [1]
 - The business does not need to publish its business information.
 - The owners have limited liability.
 - The owners draw up a deed of partnership when the business is created.
 - The business cannot sell shares to raise extra finance.
- Aaron Albright started a sole trader business manufacturing and fitting sun blinds. He began by selling the sun blinds to home owners. However, the business has grown and he now sells to business customers as well as fitting blinds in shops and offices. Aaron needs to produce more blinds to meet demand. He wants to move production to a larger factory than he currently uses but will need a big investment to do this. Aaron is working long hours and is worried about coping with a bigger business. He is considering taking on a partner who will contribute some money to finance the investment.

Evaluate the advantages and disadvantages to Aaron of taking on a partner.

[9]

Deed of partnership: A document stating who owns the partnership, how much money each partner has invested and their role in the business.

Private limited company (Ltd): Usually a smaller business, it can sell shares to invited people only.

Public limited company (plc): It can sell shares to anyone who wants to buy.

Share: Part ownership of a business.

Exam tip

Questions which ask you to state and explain the advantages and disadvantages or the suitability of different types of businesses are very common.

I can ...

- ☐ State who owns the different types of businesses.
- ☐ State the advantages of different types of businesses.
- ☐ State the disadvantages of different types of businesses.
- ☐ Evaluate the benefits of changing the type of business ownership.

Concept of limited liability

REVISED

When we talk about business liability, we are referring to the responsibility of the business' owners for debts incurred by the business. The owners of an unincorporated business, such as sole traders and partners, have **unlimited liability** – in other words, they are responsible for *all* the debts of the business. Shareholders who own private limited or public limited companies benefit from **limited liability**. The table below summarises the differences between limited and unlimited liability.

Limited liability: The owners of a business can only lose the money they have invested in a business if it fails.

Unlimited liability: The owner of a business is responsible for repaying all the debts of a business.

Table 1.3 Comparison of limited and unlimited liability

Issue	Limited liability	Unlimited liability
Effect on owner	The shareholders who own the company do not have to use their own savings or other private possessions to pay off the debts of the company if the business fails.	- The owners must pay back all the debts of the business they own. - If the business goes bankrupt, the owners must sell any assets the business has. - If this sale does not raise enough to pay off the debts, the owner(s) can be ordered to use their savings or sell private possessions to raise the money needed to pay off the debts.
Effect on business	It helps businesses to start up and raise extra finance to expand because people are prepared to invest, knowing that they are not risking all their personal possessions.	- People may be discouraged from setting up a business because of the risk to their savings and other personal assets. - This can limit the creation and expansion of sole trader and partnership businesses.
Other impacts	Forming a business as a limited company can be complicated because various legal documents need to be prepared and sent to the Registrar of Companies.	It is easier to start up as a sole trader or partnership because legal documents do not have to be sent to the Registrar of Companies.

Now test yourself

TESTED

1 Which statement about limited liability is false?

- (a) The owner of a business who has limited liability cannot be ordered to sell private possessions to pay off debts if the business fails.
- (b) The owner of a sole trader business has limited liability.
- (c) Limited liability encourages people to invest in a business because it reduces their risk.
- (d) The shareholders in private limited companies benefit from limited liability.

[1]

2 Dan Wynne and Barbara Tennyson run a road haulage business. They have a fleet of refrigerated lorries which they use for delivering frozen foods for their customers. They began the business with one lorry which they paid for with their savings. Dan and Barbara expanded the business by buying a further seven lorries, which they paid for mainly with loans from the bank. They also have an overdraft on their bank account. Dan and Barbara started the business as a partnership but changed it to a private limited company when they expanded.

Analyse the benefit to Dan and Barbara of changing their business to a private limited company.

[6]

Assets: Items owned by the business, such as stock, buildings and vehicles, as well as less obvious things such as a good reputation.

Exam tip

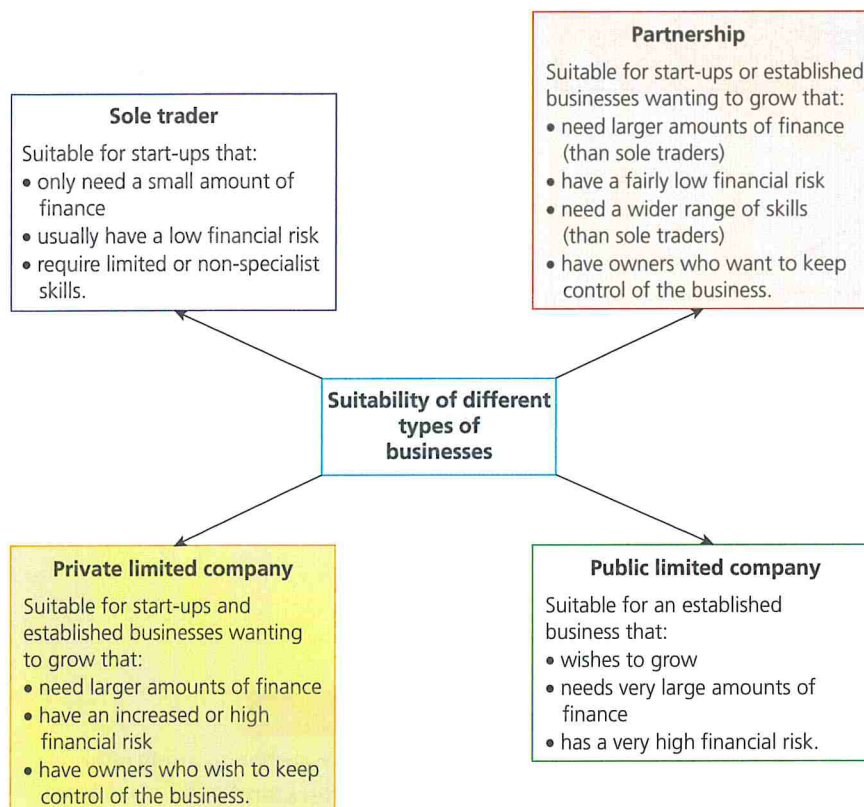
Liability is about risk. Whether liability is limited or unlimited is a key point to stress in answers to questions about different types of businesses.

I can ...

- ☐ Explain what limited liability means.
- ☐ Explain what unlimited liability means.
- ☐ Analyse why limited liability is important for businesses.
- ☐ Analyse why unlimited liability is important for businesses.

Suitability of different types of ownership in different business contexts

The most appropriate type of ownership for a business will depend on the needs of that particular business. A **start-up** business and an **established business** will have very different **finance** requirements and their type of ownership – sole trader, partnership, private or public limited company – will reflect that. Figure 1.5 summarises the main points about the suitability of different types of businesses.



Established business: A business that has been trading for some time.

Finance: The money used to start up or to expand a business, usually from savings and loans. It is used for capital items such as investment in buildings and machinery.

Start-ups: New businesses that are just beginning.

Figure 1.5 Types of businesses

Now test yourself

TESTED

In 1884, Michael Marks borrowed a small sum of money from a friend to start up a market stall business selling a range of cheap goods for a penny per item. By 1894, he wanted to open a permanent market stall selling a wider range of goods. Thomas Spencer, an experienced book-keeper with many business contacts and his own savings, became a partner in 1894. Marks & Spencer opened more and more shops and the business became a public limited company in 1926. Today Marks & Spencer has over 850 shops in more than 10 countries.

Evaluate how the different types of business ownership helped Marks & Spencer to develop.

[9]

Exam tip

Think about the needs of the business owners with regard to finance, risk, skills and level of control of the business – and then decide which type of business ownership would most appropriately meet these needs.

I can ...

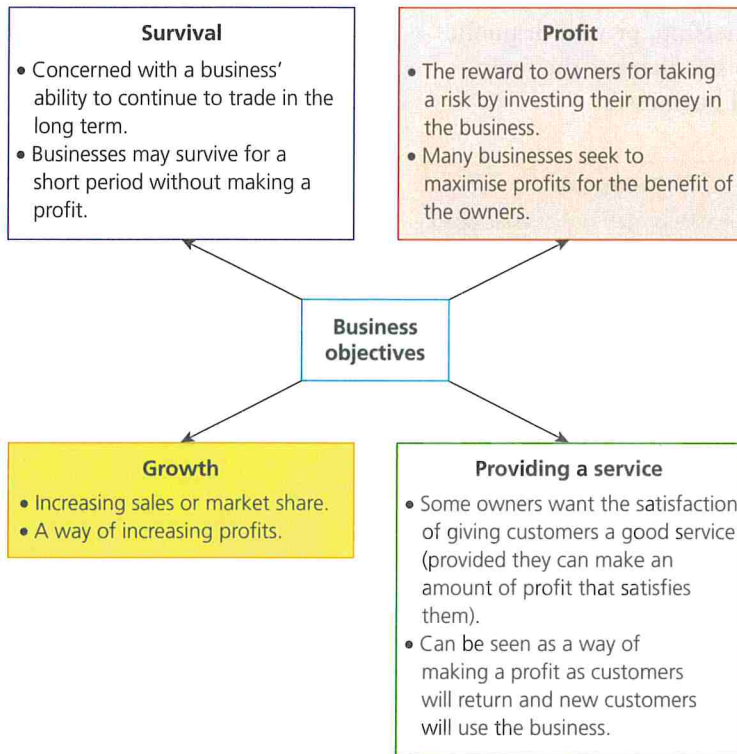
- ☐ State and explain the different needs of start-up and established businesses.
- ☐ Evaluate the type of business ownership required to meet the needs of a business.

1.4 Business aims and objectives

Aims and objectives of business

REVISED

Figure 1.6 summarises the different **business objectives**.



Business objectives: These are the aims of a business, and can include survival, profit, growth and providing a service.

Figure 1.6 Business objectives

Now test yourself

TESTED

- Which of these statements is **not** a business objective? [1]
 - A business seeks to maximise the profit it makes.
 - A business wishes to increase its sales.
 - A business cuts the wages of its workers.
 - A business wants to gain a good reputation by providing a good service.
- In the table below, match the business objective with the description of the case study business.

Business objective	Description
1 Survival	a) E.ON, the energy company, has raised its prices even though costs have not risen.
2 Profit	b) Abdul has just opened a coffee shop in a small town where there are already four other coffee shops. He needs to establish the business in this competitive market by gaining sufficient customers to help it to stay in business in the longer term.
3 Growth	c) The Co-Operative supermarket chain aims to act responsibly and respectfully to its customers.
4 Providing a service	d) American business, Post Holdings, has bought the Weetabix brand from owners, China Bright Food.

Exam tip

Remember to apply your understanding of business objectives when you are asked to write about the objectives of a particular business in a case study.

I can ...

- ☐ State and explain and apply the main objectives of businesses.

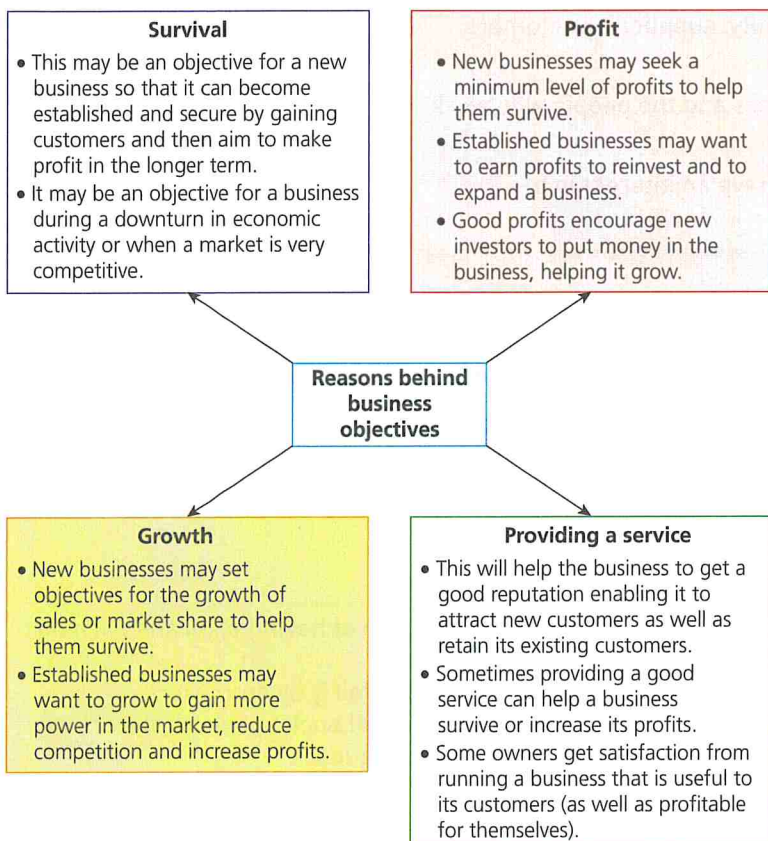
How and why objectives might change as businesses evolve

REVISED

As businesses **evolve** they will have different objectives because:

- they are at different stages of their development
- their owners have different motivations
- they are influenced by different market conditions
- they are experiencing different economic conditions.

Figure 1.7 examines some of the reasons why businesses have different business objectives.



Evolving: Refers to the way a business develops and changes over time, by becoming bigger or smaller and by selling different goods and services or a wider range, as well as selling in different places and in different ways.

Exam tip

Be ready to write about how the objectives of a business can alter as it changes or as economic conditions change. When writing your answer, remember to consider what motivates the owners of the business, too.

I can ...

- ☐ Explain different ways in which businesses evolve and how their objectives may change.
- ☐ Analyse why different business objectives are suitable for different businesses.

Figure 1.7 Reasons for different business objectives

Now test yourself

TESTED

Ron Crosbie is a sole trader who sells and fits car tyres from a tyre centre in Ormskirk. Ron does make a profit but has never wanted to expand by opening other tyre centres. His business has a good reputation for competitive prices and a quality service and he believes this is what has kept him in business so long. The biggest threat came when Kwik Fit opened a tyre outlet in the town. Kwik Fit now owns over 570 outlets across the UK as well as mainland Europe after the company bought Speedy Tyres in France and Pit Stop in Germany. Kwik Fit expanded further by starting to sell insurance services.

Analyse the different objectives of Ron Crosbie Tyres and Kwik Fit.

[9]

1.5 Stakeholders in business

Roles and objectives of internal and external stakeholder groups

REVISED

Table 1.4 lists the **internal** and **external stakeholders** of a business and states the role and objectives of each type of **stakeholder**. 'Role' refers to what a stakeholder may do in connection with the business, while 'objectives' refers to what the stakeholder wishes to achieve.

External stakeholders: The local community, suppliers, customers and government.

Internal stakeholders: The business owners and the people who work in the business.

Stakeholders: Groups or individuals who have an interest in a business.

Table 1.4 Roles and objectives of internal and external stakeholders

	Role	Objectives
Internal stakeholders		
Owners	● Provide finance to start up and expand the business. ● They may manage or run the business or they may employ managers to run it on their behalf.	● Make profits.
Employees	● Produce goods and services.	● Satisfaction of having a job and earning an income. ● Be treated fairly by employers. ● Enjoyment of social aspects of working with colleagues.
External stakeholders		
Customers	● Buy goods and services.	● Enjoy the benefits provided by goods and services. ● Pay affordable prices.
Suppliers	● Sell goods for resale or components and materials needed to manufacture goods or provide a service.	● Make sales. ● Earn profits.
Government	● Help businesses, workers and communities.	● Encourage businesses as this leads to high employment and prosperous communities. ● Government wants to encourage businesses because this increases the taxes paid to government.
Local community	● Provide workers. ● Monitor and influence business activities.	● Have a local area which is prosperous, healthy and safe.

Now test yourself

TESTED

- 1 Which of these stakeholders of Debenhams plc will want to earn a wage from the business? [1]
- (a) Customers of Debenhams plc.
 - (b) The government.
 - (c) Workers at Debenhams plc.
 - (d) The shareholders of Debenhams plc.
- 2 Cuadrilla is a fracking company which extracts gas from below ground. It has permission to drill at Roseacre Wood, a rural area in Lancashire north of the city of Preston and surrounded by several small villages. It has drill wells at the site. Cuadrilla needs to pump a lot of water in to the site, build roads and dig trenches for pipes. Some of the local community were involved in a campaign to stop planning permission being given for the wells, but others in the wider community area hope there will be increased employment opportunities as a result of Cuadrilla's plans.
- State **two** internal and **two** external stakeholders in Cuadrilla plc. For each stakeholder, state their role and their likely objective. [8]

I can ...

- ☐ Define the term 'stakeholder.'
- ☐ State the main internal and external stakeholders of a business.
- ☐ State the role of each of the internal and external stakeholders.
- ☐ State the objectives of each of the internal and external stakeholders.

Exam tip

Always read questions carefully and obey the command in the question. The command word here is state. State simply means name – the stakeholders in this case. Stating the stakeholder's role means saying what they do, while stating their objective means saying what they want to achieve. In this type of question there is no need to add any discussion, for example, of whether the fracking will be good or bad for stakeholders.

Effect of business activity on stakeholders

REVISED

A business can affect stakeholders both positively and negatively. Table 1.5 gives examples of the **benefits of business activity** and **problems caused by business activity** for stakeholders that arise from the activities of a business.

Benefits of business activity: For stakeholders, these include profits, jobs and incomes, goods and services, sales, taxes and prosperity.

Problems caused by business activity: For stakeholders, these include financial losses, redundancy, poor goods and services, late or missed payments, bad publicity and negative impacts on the local environment and community.

Table 1.5 Benefits and problems for stakeholders arising from business activities

Stakeholder	Benefits of business activities	Problems from business activities
Owners	● Earn profits if the business is successful.	● May lose money invested in the business if it fails.
Employees	● Employed in a job role within the business and able to earn an income from the business.	● May be made redundant if the business does not do well or if their job is replaced by automation such as a robot. ● Employment conditions may be unfair, leading to stress.
Customers	● Obtain products and services at good prices that satisfy their wants.	● May be sold poor quality goods and services. ● May be over-charged for goods or services. ● May experience poor customer service.
Suppliers	● Sell their goods to another business and earn profits from doing this.	● May lose money if the business does not pay for goods supplied. ● Cash flow problems in the business may mean that they delay payment to their suppliers.
Government	● Receive tax revenue from the owners, workers, suppliers and customers of the business.	● Very large companies can become 'too big to fail' – the government may be criticised if the business fails and the government does not step in to help it to survive.
Local community	● People in the community can earn money from jobs with the business or because workers in the area have money to spend in their businesses.	● The community can be affected by negative externalities such as pollution and road congestion caused by the business.

Now test yourself

TESTED

Read again the Cuadrilla case study on page 19, then answer the following question.

Identify **one** internal and **one** external stakeholder in Cuadrilla (you may wish to choose the same stakeholders you wrote about in your answer to the data response question in the previous section). For each stakeholder, analyse **one** benefit and **one** problem which they may experience from the business activities of Cuadrilla plc. [8]

Exam tip

Learn at least one benefit and one problem experienced by each type of business stakeholder so that you are able to answer a question which focuses on any one of the stakeholders.

I can ...

☐ Analyse how each stakeholder in a business may be affected by it.

Effect of stakeholders on business

REVISED

Stakeholders can influence **business success**. Table 1.6 summarises ways in which each stakeholder can help a business to succeed or cause **business failure**.

Business failure: This can be indicated by losses, low sales, poor quality goods and services and a negative impact on the local community.

Business success: This may be measured in terms of profits, growth, sales, returning customers and a positive contribution to the local community.

Table 1.6 Stakeholder influences on business

Stakeholder	How the stakeholder may influence the success of a business	How the stakeholder may contribute to the failure of a business
Owners	- Investing enough money. - Using the investment in ways that will help the business to grow and succeed.	- Not investing enough to make the business efficient. - Failing to change the business when the market for its goods and services changes.
Employees	Working hard to produce good quality goods or services at competitive costs.	- Producing poor quality goods or services. - Demanding high wages as this will lead to higher costs. - Disrupting production by industrial action.
Customers	- Purchasing goods and services. - Creating a good reputation for the business by recommending it to others.	- Deciding to buy from competitors. - Publicising instances of poor quality goods or bad service, leading to a poor reputation for the business.
Suppliers	Providing supplies promptly and at competitive prices to help the business produce its goods and services cheaply and reliably.	- Supplying poor goods or services which lead to quality problems. - Not supplying components or materials on time which can cause production delays.
Government	- Giving the business a grant to enable it to pay for investment or by giving it planning permission to develop or expand its facilities. - Government may also be a customer of the business, buying goods and services from it.	- Reducing the business' profits by increasing taxes or by raising the National Minimum Wage so that wage costs increase. - Preventing the expansion of the business by refusing planning permission.
Local community	Providing the business with customers and supporting its plans for development.	- Opposing the business' plans for expansion or preventing production by not supporting its application for planning permission. - This may lead to increased legal costs for the business as it fights for planning permission.

Now test yourself

TESTED

Re-read the Cuadrilla case study (page 19), as well as the information below.

Cuadrilla will submit a planning application to allow it to develop the drilling site at Roseacre Woods. It intends to use very experienced employees to prepare its planning application. It knows that the local community are very much against planning permission for the site to be developed and that there are well-off, qualified and articulate people living in the area.

Evaluate the possible effects on **one** of the following stakeholders on the success of Cuadrilla's planning application:

- Employees of Cuadrilla [7]

or

- Local community. [7]

Exam tip

Evaluation is the most difficult skill to develop. You need to consider arguments that are both 'for' and 'against' and decide what will affect the importance of each. In the Cuadrilla case study, think about how well each of the two stakeholders involved will present their arguments and what skills and qualities they will need to present their case well.

I can ...

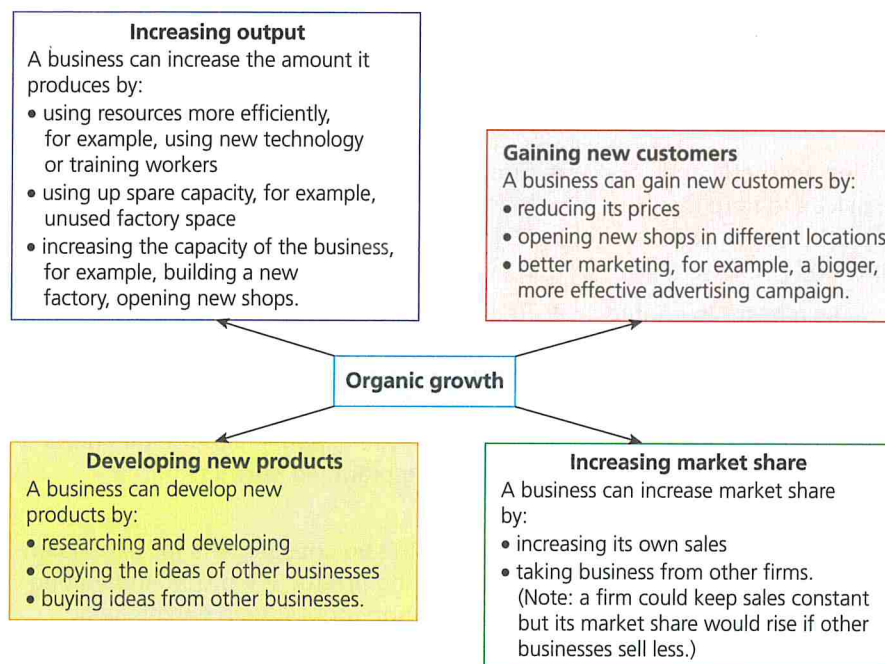
- ☐ Analyse and evaluate the effect that each stakeholder in a business can have on the business.

1.6 Business growth

Organic growth

REVISED

Figure 1.8 shows four ways in which **organic growth** can take place. Although the diagram shows four separate boxes, the examples of growth described in the boxes are interconnected. For example, a business may increase its **capacity** because it has increased its sales or a firm may increase its sales because its market share has increased as a result of a new advertising campaign.



Capacity: For a factory or shop, capacity refers to how much output it can produce or sell.

Organic growth: Concerned with the internal growth of a business, for example, by increasing its sales.

Figure 1.8 Ways in which organic growth can occur in a business

Now test yourself

TESTED

Apple was started in 1976 and is now the largest company in the world. It began by making and selling desktop computers and its first order was for 50 computers sold at \$666 each, bringing in revenue of \$33,300. In 2016, its revenue had grown to \$49.6bn – a huge increase, even allowing for price rises since 1976. During its history, Apple has taken over only a very small number of other businesses. Apple has researched and developed a range of successful products, including laptop computers such as the Macbook Pro, mobile phones (iPhone), tablet computers (iPad) and services such as Apple Pay. Apple has run some very effective marketing campaigns. It often introduces new products around September and advertises them heavily in the lead up to Christmas. Its advertising is often very innovative, using catchy music, a confident narrator and minimalist backgrounds in order to focus attention on its products.

- 1 What evidence is given in this case study for the growth of Apple? [1]
- 2 Analyse the reasons for the growth of Apple. [3]

Exam tip

Case studies are designed to provide clues and evidence to help you to answer the questions. Read them carefully so that you use the information in them to gain as many marks as possible.

I can ...

- ☐ Explain the meaning of organic growth.
- ☐ Analyse how the organic growth of a business can take place.

Figure 1.9 illustrates the different kinds of **external growth** that can occur within a business. This example focuses on a furniture manufacturer. The boxes around the outside of the diagram show how the furniture manufacturer business is involved in a **merger** or **takeover** with other businesses, with the type of growth that occurs labelled next to the arrow. The benefits of each type of growth are shown inside each box. vv

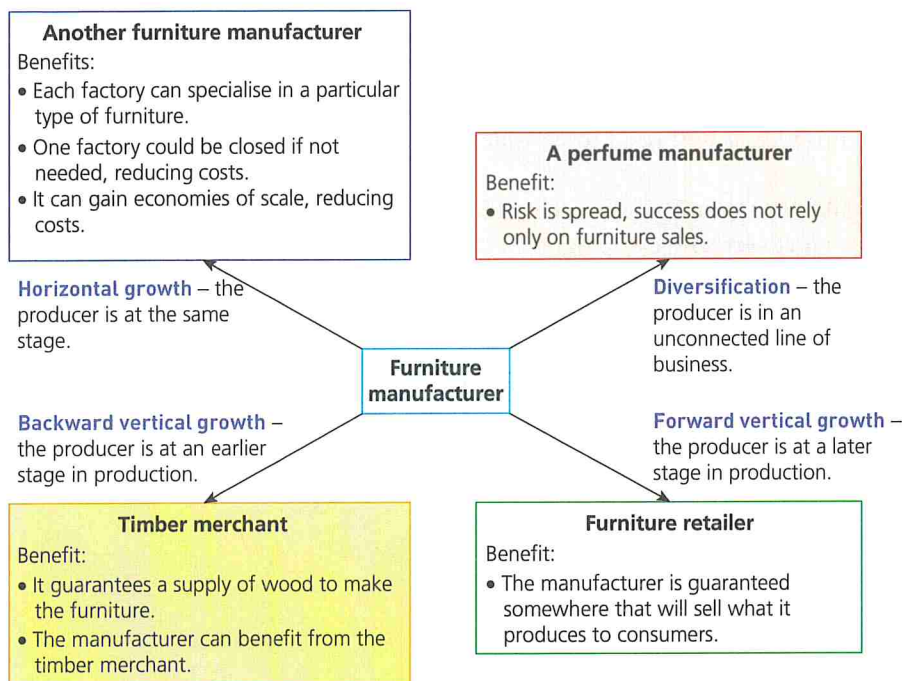


Figure 1.9 Types of external growth

Backward vertical growth:

When a business merges with, or takes over, a business that supplies it with goods or services.

Diversification: When a business merges with or takes over another business with which it has no connection.

External growth: The growth of a business by takeover or merger.

Forward vertical growth:

When a business merges with, or takes over, a business that it supplies goods or services to.

Horizontal growth: A merger or takeover where the two businesses are involved in a similar operation.

Merger: Where two or more businesses agree to join to become one business.

Takeover: Where a business takes a controlling interest in another business, for example, by buying more than 50% of the shares in it.

Exam tip

Be ready to answer questions which ask you to identify the type of external growth described. Make sure you can explain the different reasons why businesses merge or takeover other businesses.

Now test yourself

TESTED

- Which of the following statements describes a takeover? [1]
 - Orange and T-Mobile joined together to become EE.
 - Disney the film-maker bought the cartoon animation company, Pixar.
 - Honda Motor Company builds a factory to manufacture gear boxes for its cars.
 - Netflix increases its share of the market.
- Identifying the type of growth which takes place in each of the following and give a reason for your choice. [6]
 - A brewery takes over chain of public houses.
 - A bus company takes over a chain of fitness centres.
 - A food retailer merges with another food retailer.

I can ...

- ☐ Explain the difference between a merger and a takeover.
- ☐ Identify the different types of external growth.
- ☐ Analyse the reasons for or benefits of different types of external growth.

2 Marketing

2.1 Role of marketing

Purpose of marketing within business

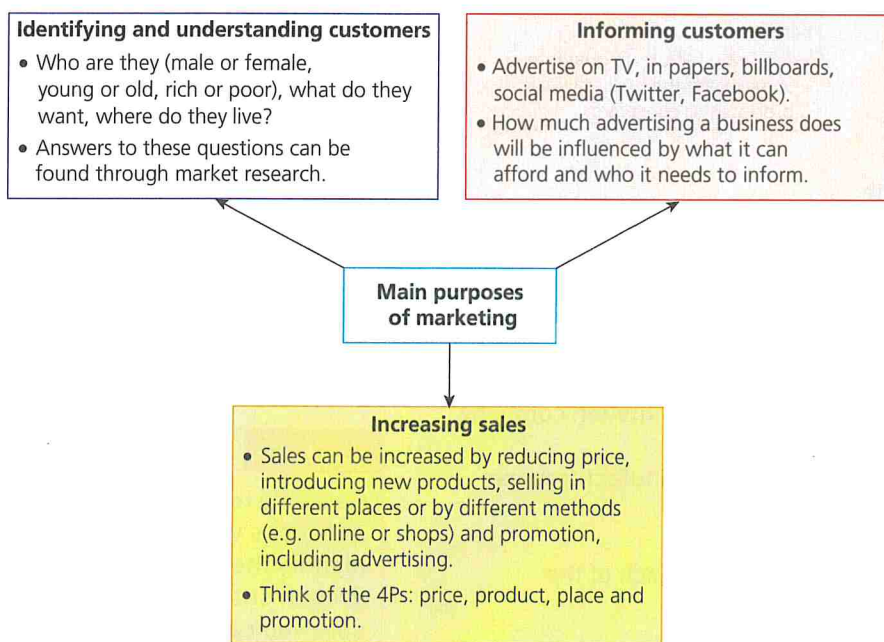
REVISED

Figure 2.1 shows the three main purposes of **marketing**.

When a business decides to market a product, it will need to consider these factors:

- Finance – how much finance is available to spend on research and development of the new product or an advertising campaign?
- Who the marketing is aimed at – young people may be more likely to respond to advertisements on social media. Different groups of people may require different products, for example, some older people may like a mobile phone that has large buttons and is easy to use; only rich people may be willing to pay high prices for top quality goods.
- Location of potential customers – which country or region of a country do they live and what language do they speak.

Marketing: Finding out the needs of consumers and demonstrating how a business fulfils those needs so that its sales increase.



Exam tip

When answering a question on evaluation, make sure you use any evidence given in the case study to make a judgement. You might include further evidence in your answer if you have some or explain what further evidence would be useful.

Figure 2.1 Main purposes of marketing

Now test yourself

TESTED

Samsung wants to increase the sales of its mobile phones.

- 1 Explain **three** ways in which Samsung could increase its sales of mobile phones. [6]
- 2 Analyse **one** factor which will influence how Samsung markets its mobile phones. [3]

I can ...

- ☐ Explain what marketing is.
- ☐ Explain the purposes of marketing.
- ☐ Analyse the factors which influence how a business chooses to market its product.