knowledge and understanding

1.1 The role of business enterprise and entrepreneurship

Entrepreneur	An individual to takes a risk to set up a business
Enterprise	Seeing an opportunity to provide and create a product or service
Opportunity	Taking advantage of a possibility
Characteristics	Features of an entrepreneur (listed to the right)

Characteristics of an Entrepreneur

- Risk taker
- Determined
- Confidence
- Creative

Three purposes of business enterprise and entrepreneurship

Spotting an opportunity
- improving a product or service already provided
- spotting a gap in the market
- producing a product or service more cheaply

Developing an idea
- designing the product or service
- planning production

Satisfying customer needs
- producing the product or providing the service
- marketing the product or service

Rewards

Financial - potential to make a lot of money

Non-financial - independence, self- satisfaction, making a difference

Risks

Financial - losing savings and other assets paying off debts

Non-financial - health - mental and physical illness

Rewards for Risk Taking

- Financially-the greater the risk the bigger the reward. Potentially entrepreneurs can make large profits.
- Independence-entrepreneurs can be more independent and make all of their own decisions.
- Self satisfaction-an entrepreneur will get great satisfaction from taking a risk and succeeding.

Drawbacks for Risk Taking

- Financially-entrepreneurs take big financial risks and could potentially invest in an opportunity that isn't successful.
- Health-if an opportunity fails or it requires more work than anticipated it can put a huge amount of stress on the entrepreneur.

1.2 Business Planning

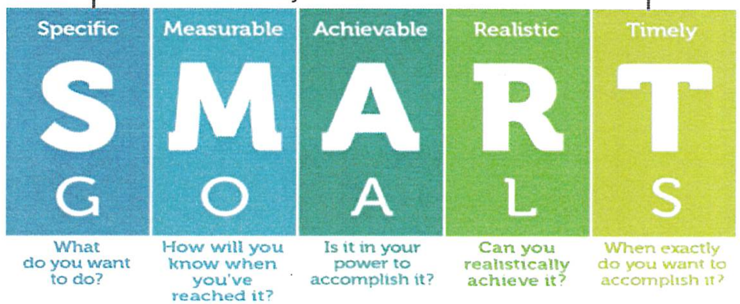
Aims and objectives	Statements of what the business is trying to achieve e.g. profit
Business plan	Simple plan which sets out details of the product or service being sold, and how it will be financed, marketed and details of market research findings.
Finance	A business word used instead of money. The finance needed to start a business is the money required to buy the resources needed
Markets	Where a business sells its goods and services
Resources	The things a business sells needs to make it work, including finance, staff and materials
Operate	A term used to explain how a business works
Success	For a business, can take many forms, including making profit, surviving and providing a good service to customers

Why businesses plan:

1. Reduce the risk of failure
2. To be as successful as possible

The business plan explains how they will achieve their objectives. **It is written before the business starts or when planning a change in how an existing business operates.**

Objectives must be:



Steps in developing a business plan

The idea
- Identifying what the business will produce and sell and what resources it will need
- Identifying the aims and objectives of the business and how these will be met

The people
- Identifying who will be involved
- Identifying the human resource requirements the business will need to operate, including the number of people needed and the skills and experience they should have

Market reserch
- Identifying the markets that the business will target
- Identifying marketing activities to make the business successful
- Identifying the marketing resources needed

Finance
- Identifying how much finance is needed, for what and how it will be raised
- A good business plan is necessary to present to investors if a business hopes to obtain external finance

Competitors
- Identifying the competitors
- Identifying how the product or service will be different to those of competitors - better, cheaper?

Business Plan

Identifying the market

The age, gender and income of target customers for example

Identifying the resources

The resources that are needed to operate, i.e. worker, equipment, machinery

Identifying the finance needed

How much is needed, when it is needed and how it will be obtained i.e. selling shares, obtaining a loan or an overdraft

Achieve the business' aims and objectives

Making a profit, expanding the business, increasing market share or just

1.3 Business ownership

Sole trader	One person owns and finances a business 
Partnership 	2-20 partners own and finance a business
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)	Shares are sold to family and friends 
Public limited company (PLC)	Shares are sold to anyone on the stock exchange 

Unlimited Liability

The owners of the business ARE responsible for the debt of the business. They may have to sell their personal possessions if the business gets into debt.

Limited Liability

The owners of the business ARE NOT responsible for the debt of the business. They DO NOT have to sell their personal possessions if the business gets into debt. They only lose their ***INITIAL INVESTMENT***.

Sole Trader

Advantages
- Owner keeps ALL of the profit **THEREFORE** can decide what to do with it.
- Owner makes ALL of the decisions **THEREFORE** can decide on the objectives for the business.

Disadvantages
- Unlimited liability **THEREFORE** the owners are responsible for the debt and may lose personal possessions which makes it more **RISKY**.
- May be difficult to get a loan **THEREFORE** more difficult to finance any short term (overdraft) and long term (loan) issues.

Partnership

Advantages
- More ideas and skills **THEREFORE** the business is likely to be more efficient.
- Increased amount of start-up capital **THEREFORE** easier to start the business off.

Disadvantages
- Unlimited liability **THEREFORE** the owners are responsible for the debt and may lose personal possessions which makes it more **RISKY**.
- There may be arguments between partners **BECAUSE** they have different views.

Private Limited Company LTD

Advantages

- Can sell shares to family and friends **THEREFORE** raise more capital to invest into the company.
- Limited liability **THEREFORE** shareholders are not responsible for the debt of the business, they only lose their initial investment which makes it less risky.

Disadvantages

- Dividends are paid to shareholders **THEREFORE** a percentage of the profits will have to be distributed.
- It takes time and money to become incorporated **THEREFORE** there is an additional cost of time and money

Public Limited Company PLC

Advantages

- Can sell shares on the stock exchange **THEREFORE** raise more capital to invest into the company.
- Limited liability **THEREFORE** shareholders are not responsible for the debt of the business, they only lose their initial investment which makes it less risky.

Disadvantages

- Dividends are paid to shareholders **THEREFORE** a percentage of the profits will have to be distributed.
- It takes time and money to become incorporated **THEREFORE** there is an additional cost of time and money

Sole Trader

Suitable for start-ups that:

- only need a small amount of finance
- usually have a low financial risk
- require limited or non-specialist skills

Partnership

Suitable for start-ups or established businesses wanting to grow that:

- need larger amounts of finance (than a sole trader)
- low financial risk
- need a wider range of skills
- owners want to keep control

Private Limited Company

Suitable for start-ups and established businesses wanting to grow:

- need more finance
- increased or high financial risk
- have owners who wish to keep control

Public Limited Company

Suitable for established businesses that:

- wish to grow
- needs very large amounts of finance
- has a very high financial risk

Evaluation

Reasons to change to an LTD or PLC:

- Ability to raise capital from selling shares
- Limited liability protects shareholders from company debt

In context:

If a business is growing and requires more capital to invest into the business = change to a LTD or PLC

If a business is growing, there is likely to be more risk therefore changing to a LTD or PLC = limited liability

1.4 Business aims and objectives

Business objectives	These are the aims of a business, and can include survival, profit, growth and providing a service
Evolving	Refers to the ways 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

Survival
- Concerned with a businesses ability to continue trading in the long term
- Businesses may survive for a short period of time without making a profit

Profit
- The reward to owners for taking risks.
- Many businesses seek to maximise their profits for the benefit of the owners.

Growth
- Increasing sales or market share.
- Both are ways of increasing profits

Providing a service
- Some owners want satisfaction of giving customers a good service (provided they can still make profit)
- Can be seen as a way of making profit as customers are likely to return

Market Share
- Refers to the percentage of the market that a business occupies.
- The market is the industry that a business operates in, for example the fast food industry.

How and why objectives might change as businesses evolve

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

Reasons behind business objectives

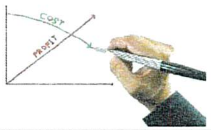
Survival
- For a new business - to become established and secure
- For a business during economic downturn or when a market is competitive

Growth
- New business = growth of sales or market share to help survive
- Established business = gain more power in the market, reduce competition and increase profit

Profit
- New business = minimum level of profit to survive
- Established business = earn profit to reinvest and expand
- Good profits encourage investors

Providing a service
- Helps to get a good reputation = attract new customers & retain existing customers
- Help survival and increase profits

1.5 Stakeholders in business

Stakeholder	Interest
Customers	Quality/price/range /availability of products, customer service 
Employees	Wages, holidays, working conditions
Suppliers	Size of order, payment
Bank	Can afford to pay loan/overdraft back, amount of finance, amount of savings
Owners/shareholders 	Profit, growth, dividends

Conflicting Objectives

How would the interests of each stakeholder conflict:

1. Customers and owners

Customers will want the cheapest price and the highest quality. Whereas owners want to set a high price to ensure a higher profit.

2. Owners and employees

Employees will want high pay and good working conditions. This will increase business costs. Owners want to make as much profit as possible which means paying lower wages.

1.6 Business growth

Organic growth	Concerned with the internal growth of a business e.g. by increasing sales
External growth	The growth of a business by takeover or merger
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
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.

Examples of external growth

Horizontal growth - another furniture manufacturer
- Each factory can specialise in a particular type of furniture
- One factory could be closed if not needed, reducing costs

Diversification - A perfume manufacturer
- Risk is spread, success does not rely only on furniture sales

Backwards vertical growth - A timber merchant
- It guarantees a supply of wood to make the furniture
- The manufacturer can benefit from the timber merchant

Forward vertical growth - Furniture retailer
- The manufacturer is guaranteed somwehere that will sell what it produces to consumers

Organic Growth

Increasing output
Business increases the amount it produces
- using resources more efficdently
- using spare capacity (how much output it can produce)
- increasing the capcity e.g. building new factory

Gaining new customers
the business gains new customers by:
- reducing prices
- opening new shops
- better marketing

Developing new products
- researching and developing
- copying ides from others
- buying ides from others

Increasing market share
- increasing its own sales
- taking business from other firms

	Advantages	Disadvantages
Organic	- Less risk than external - financed through internal funds - business can grow at more sensible rate	- slower form of growth - shareholders may prefer this to be quicker - growth can be limited
External	- Competition can be reduced - market share can be increased very quickly	- very expensive - managers may lack experience to deal with the other business