THEME 1 – INVESTIGATING SMALL BUSINESS

1.1 ENTERPRISE and ENTREPRENEURSHIP

1.1.1 DYNAMIC NATURE OF BUSINESS

People who want to start up a business are called **ENTREPRENEURS.** These are people willing to take risks. **Reasons why new business ideas come about;**

1. Changes in what consumers want i.e. more health conscious, online downloading. Changing tastes and designs
2. Products and services become obsolete – VHS tapes
3. Advances in technology such as fast broadband access, mobile phone Apps.

1. Entrepreneurs need to create business ideas to satisfy new demands. Need to listen to what customers want and how their needs change and how lifestyles change. Keep existing customers and attract new ones. Can engage with customers on social media including online reviews i.e. trip advisor.
   By getting data on a person's purchase history it can target them directly on what else they may want.

2. Technology like downloading films and music can make products such as DVD's and CD's less popular. Changing fashion or taste can also lead to a product becoming obsolete or in much less demand.

3. Changes in e-commerce or m-commerce (online buying through mobile devices like phones or pads) mean changing opportunities for business. 3D printing is now much less expensive and therefore used more regularly. Businesses like Amazon and E-Bay make online purchasing far easier, cheaper and often faster. Entrepreneurs have no need to pay rent and other costs on a shop when selling online.
   Social media allows businesses to advertise through Facebook, twitter and You tube among others. This is a very cheap way of promoting your business. You can set up facebook pages and give offers to those liking your page.

   How new ideas come about
   Often ideas come about through the following:
   - Adapting an existing product or services to keep up with changing trends. This can be less risky than launching a new product. Lucozade has developed new flavours and have adapted the drink for the fitness market. Previously it was just for those who were ill.
     Changing a brand name can also help. Snickers used to be called Marathon bars.

Could respond to new fashions by offering different coloured products, or you could adapt the promotion strategy.
By adapting or customising an existing product you can cut your development costs and speed up the launching of the new product, if it is adapted from an existing one.

- Creating a completely original product or service to satisfy a new or previously unknown customer trend. This can be difficult to do. Great original ideas of previous times include Dyson vacuum cleaners, cats eyes on roads.

Examiners tips
Link an idea for a business method you identify, by giving a REASON why this will be a success. Say HOW or WHY it will work. This is you showing ANALYSIS skills.

1.1.2 RISK and REWARD

Entrepreneurs always have to take risks. These include risk of business failure, or great financial loss or a lack of security.
Risks can be minimised through market research that identifies a market, or by looking at cash flow and revenue forecasting.

Causes of failure include having cash flow problems so there is not enough to pay wages, other bills or suppliers. Cash flow problems can also be caused by unexpected drop in sales and therefore sales revenue. Revenue could drop due to recession, where people have less money to spend or it may be caused if there is more competition and they cut prices.

Financial loss can be caused by the entrepreneur not making the money back that they have invested in starting up the business. A poor reputation can affect the ability to raise money in the future, or financial loss can be caused by simply not having enough money to launch the product in a way that attracts customers attention.

If competitors do better and spend more on marketing then this may lead to financial loss. A technical risk can happen if your product does not do what it says or work as intended.

Lack of security means that the entrepreneur does not have the security of working for someone else, or the security of a regular wage or sick pay or a pension from your employer. Using your own money to set up your business leads to financial insecurity as you may have run out of money, and all savings may have been used.

Intuition is another risk as many entrepreneurs base their decisions on intuition rather than on analysis or facts. Intuition can be seen as a ‘gut feeling’ or a ‘hunch’ that something will work out.

Rewards are what the entrepreneur sees as success. Even working for yourself or making all of your own decisions can be seen as rewarding.

Business success is a key motivation, starting from nothing and building up to something successful can be rewarding, or having the idea that no one has thought of before is rewarding. Being able to provide work for people by giving them jobs is also rewarding.

Obviously where there is a great risk, when the business does succeed and make a profit then this is a major reward, particularly when there is no real idea how soon it would succeed, or if at all. The greater the investment the greater is the reward when profits are made.

Being independent is a reward. Not having to work for someone else and being able to make all of your own decisions, including taking risks others may not agree to, can be very rewarding.

Examiners Tip
If you are asked to explain TWO risks or TWO of something, then ONLY give and explain TWO, and say WHY and HOW these are important.
Do NOT explain three or four as you will not be rewarded for this.

1.1.3 ROLE OF BUSINESS ENTERPRISE

The role of a business enterprise and the purpose of a business activity can be put into three categories – producing goods or services, or meet customer needs or to add value in a number of different ways.

- Producing goods or services

The more goods and services that satisfy consumers needs and wants then the more competition there will be. Making and selling leads to increased profits that are reinvested leading to further growth, thus creating jobs and wealth and improved standards of living.

- Meeting customer needs

Offering people exactly what they want and understanding their changing needs. Positive relationships allow for feedback and then changes can be made where necessary to improve products and services or develop new ideas. There can be a range of customer needs including:
Fast delivery
Reasonable and competitive prices
Friendly and helpful customer service
Prompt answers to enquiries
Enough stock so they can buy the item there and then
A website that is easy to use and buy from

- Adding value

This means increasing a products value. It could be the difference between the final price and the cost of producing the item. Value can be added in a number of different ways:
Branding – if customers are more attached to a brand then they will pay more for it, so that adds more value. Brand loyalty means people stay loyal to your product and will pay more than for competitors products or services. Apple is a good example as it has a strong brand name so people more willing to pay more for their iphones than a competitors.
Convenience – If it is easy to access, always available or easy to pay for then this makes your product or service more convenient and could lead to repeat business or brand loyalty.
Quality – you need to demonstrate you have a quality product or design if you want people to keep coming back. Having a reputation for good quality helps to add value. If it looks attractive people are more likely to pay a higher price.
Unique Selling Point (USP) – this is something unique to your product or service and distinguishes it from competitors products or services. It could be the price or quality or the fact it is first one onto the market.

Role of entrepreneurship

It is important to consider what entrepreneurs do. Their activities include –

Organising resources – These include finance, people and physical items like equipment and machinery.

Making business decisions – They make all of their own decisions, which can be a responsibility if they employ a number of people. They need a long term vision as you have to develop a new concept before developing a product or service. Must also be able to solve problems that customers may have and need resolving.

Taking risks - As this is part of being an entrepreneur then it becomes part of the role. Financial risk taking is vital and it is important to try to minimise risks.

Examiners Tip
If asked for an advantage then identify the advantage THEN explain the IMPACT it can have upon the business.

Write down the things an entrepreneur does when setting up a business, then consider how important these things may be to the success of the business.

1.2 SPOTTING A BUSINESS OPPORTUNITY

1.2.1 Customer needs

Entrepreneurs need to spot a business opportunity and they often achieve this by understanding customer needs, using market research to achieve this.
Identifying and understanding customer needs

Four needs that have to be considered:

1. PRICE
   Customers are normally influenced by price and usually the lower the price the more customers will be attracted hence sales and revenue can be increased. Researching customer opinion on price is vital as in some cases a customer may be willing to pay a higher price, often depending upon brand, image and quality.

2. QUALITY
   Customers identify quality as fitness for purpose and opinions are based on their expectations. Quality is not just based on how much you pay but whether it meets your expectations. Anything meeting your expectations could be seen as good quality, so a cheap UK camping holiday may be seen by the customer as of better quality than an exotic holiday abroad. A burger costing £3 may meet your expectations more than a gourmet meal costing £50.

3. CHOICE
   People prefer more choice so a business with a wide range of products or brands may be able to show how differing products represent different choices based around exact needs of customers. Toothpastes may cater for: people with sensitive teeth, childrens teeth, a premium dentist recommended paste, a mint flavoured paste or different flavoured paste's. This type of product differentiation allows customers to choose what may be best for them.

4. CONVENIENCE
   Some shops or even gym's are convenient as they are open from 6am to 11pm so this creates convenience for customers. Having items available in as many outlets as possible is also convenient. If a customer cannot find a small value item - chewing gum or crisps, they will not wait they will just buy a competitors version of the same item.

Meeting the above needs helps ensure you are successful. If customers are happy with the price and the quality then they are likely to become a loyal customer making repeat purchases. This increases sales and also, satisfied customers are more likely to make recommendations to other people.

Why it is important to identify and understand customers and their needs
You could launch an excellent product or service but it is likely to fail if the business has not fully understood its customers and provided for their needs. People won't buy a product that does not meet their needs.
Customers base decisions on family needs, their financial needs, emotional needs and on brand loyalty.
If prices are above what its intended market can afford to pay then it will not generate enough sales to survive. If you stop selling a certain brand then customers loyal to it may go elsewhere where they can buy that particular brand.

1.2.2 Market research
You need to find out about the market and potential customers, who they are and what they want. This is known as market research and there are two types – **Primary** and **Secondary.**

Primary Research is also known as FIELD research and is gathering information for the first time, maybe by using questionnaires to survey potential customers.

Secondary Research is also known as DESK research and involves using data that already exists, it may be on a website or in a report published by someone else.

Reasons for conducting MR
It allows you to learn more about the market you want to sell into. It means your marketing activities can be more effective as you will better know when and where to advertise and to who, as you target customers.

- **market opportunities** – is there a trend, so if its going well there may be new opportunities i.e. internet access via mobile phones, organic foods, home shopping
- **market size**, measures value of sales in £'s or the volume – how many items are sold
- **market growth,** measures rate market is increasing in size and its possible future growth
- **market share** that firms already have i.e. what percentage of the total market sales does one business have
- **market segments,** are there differing groups – young, old, gender biased. For lucozade there is the segment who use it for sports recovery and the segment using it for a boost when they are ill. Products could be advertised differently depending on the segment. Ice cream has the impulse buying segment and the take home and keep in a tub segment.
- **Competitor research,** so you know what they do and what they are good at along with any weaknesses.so you can try to do better than them.
- **Customer needs,** the more you can find their exact needs the more you can develop the exact right product for them at the right price.

What features do they want, or what do they don’t feel are necessary and would maybe appreciate a lower price instead of that feature.

Secondary MR

Advantages
Its quick and cheap – newspapers, magazines, internet, reports. Government data can also be used as they publish information on the economy and social trends.
It can also give information on large sections of the population, particularly when looking at government data.

Disadvantages
What already exists has been done by someone else and it may not be exactly what you want. You might want information on only Seahouses or Wooler but it only gives Alnwick district.
The secondary data could also be out of date as some markets change rapidly.

Primary MR
This can be gathered in a few different ways:

- Observing – watching people, numbers entering a shop/café in a certain time period
- Experimenting – try out new advertising and measuring the response
- Surveying – interviewing potential customers to get their responses and reasons for buying

A benefit of Primary is that you can adapt it to meet the exact needs of the business. The following methods of gathering primary data can be used:

Telephone Surveys – ringing up to get their views. Cheap and fast, but many people refuse or say anything to get the call ended quickly

Questionnaires – you can do this by post but the response is usually very poor. Doing it as a survey is better as you can stop people and ask, either door-to-door or in the town centre, but is it representative? i.e. when we went into town we would not have interviewed many working people because they would have been at work at 2pm. Often people are trained to make sure they ask the right questions of the right people. This can be time consuming.

Customer feedback – helpline or customer feedback forms or phone numbers allows customers to respond with feedback. This only relies on existing customers and not potential new ones.

Focus groups – small group selected to give their views on a business on any range of issues. As its small it doesn’t reflect the market but it does allow you to get more in depth feedback.

Internet research – could get feedback through your website if you have one. Can track customer visits to website and search engine used. Also leads to secondary information gathering.

Problems of start up Research
It can be time consuming and expensive so many businesses cut corners and do not fully do any research. They think they know what customers want without the need for MR. Lots of businesses fail by not fully understanding customer needs. Lack of money is another big problem for many start up businesses so they either rely on secondary research that may not be appropriate to them, or just do limited research.

Examiners Tip
Don't assume that because some MR has been done that it will automatically be useful. Check how it was gathered and ask someone else what they think of the research.

Possible Exam Q – Do you think market research will guarantee the success of the business?

- Give reasons why undertaking MR can be useful
- Identifies target customers and their needs
- Helps decide if market is expanding, see what the trends are
- Identifies competitors and what they do
- BUT research alone is no guarantee due to
- May not use the research findings correctly
- State of the economy could affect a business
- Staff may not be trained
- Poor quality of what you make and sell

Examiners Tip
Link statements by saying 'as a result of this' or 'this leads to' when explaining the benefits of MR. Try to concentrate on the most important benefit and say WHY it is important. This develops ANALYSIS.

Use of data in market research
There are 2 types of data – **QUALITATIVE** and **QUANTITATIVE.**

Qualitative data is what people think and their opinions. Open questions are needed so they can say WHY they like or do not like a product or service. Focus groups or face to face questions are useful here. Useful for new products or a new marketing campaign, so you can understand customer reactions.
ADVANTAGES – detailed picture of why customers behave in a certain way, and can listen to what customers are saying.
DISADVANTAGES – small groups of people so biased, expensive to do with large numbers. Answers may be based on one persons opinions so are subjective. Results can also depend on how interviewer ask the Q's.

Quantitative data is based on opinions from questionnaires and of large numbers of people. Often closed Q's used with yes or no answers or offering a range of answers to select one or two options.

Good for statistics i.e. 45% prefer blue, 76% buy once a week, 35% go to the cinema once a month etc.

Using social media to collect MR data

Businesses can set up a FACEBOOK page to communicate with its target audience and monitor the feedback of both customers and potential customers. They can also monitor competitors via their facebook pages.

TRENDS can be monitored as they set up automated searches relating to brands and get notifications whenever their brand name is mentioned.

Monitor how customers TALK to one another about its products or services and then use the same language in its marketing. By joining customer conversations on social media the business gets an insight that normal MR will not provide.

Social media SAVES TIME as results can be gathered in minutes and through social media there can be large samples gathered as anyone can contribute and communicate.

Reliability of MR data

The **validity** of data depends on how good the research is and whether the findings can be trusted. Any research where there are leading questions asked may not be valid as you are forcing the customer into an answer. **Reliability** may depend on how representative the results are of the wider sample. If you want information for an elderly persons service but ask younger people then the data is not reliable as you have not asked a representative sample.

Examiners tip
If you are given any market research data in an exam make sure you look at how and when it was gathered. If an entrepreneur asks her friends what they think of her business idea the response is likely to be positive because they won't want to upset her. This market research does not provide useful data. When gathering data you must think about the cost, the time taken and the reliability of the data.

1.2.3 Market Segmentation

This is dividing a market into smaller categories by grouping together customers with particular needs or interests. Identifying the correct market segment is a vital part of any marketing strategy. You need to know who your intended customers are so you can aim your products at those target customers.

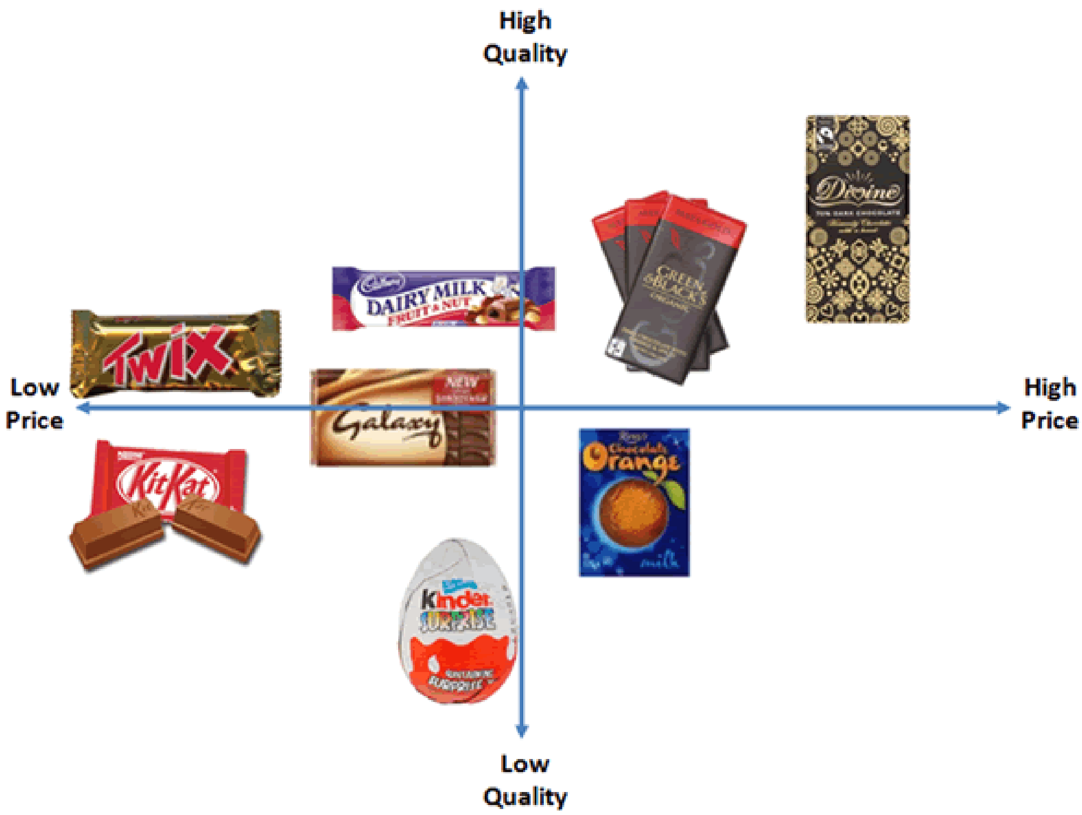
MARKET SEGMENTS can be split by:

- Location – or geography. Could be by a region, i.e. north east, or by an estate or area. Post codes can be used. Darras Hall is where many rich people live in Newcastle so could target homes when promoting high quality, expensive items.

- Demographics – could split by sex or family type, so may aim item at females or families. Family life cycle could be used so you aim some products at young singles, or couples without children (more money to spend), families with young children, then teenage children, then older couples with no family at home and then retired couples. This can show how peoples buying habits and choices change as they progress through life and their priorities change.
- Behaviour – people can be monitored by their behaviour, are they impulse buyers where they maybe buy something they do not necessarily need. This may be to take advantage of a sale or to cheer themselves us by gaining satisfaction from something. Loyalty cards influence consumer behaviour.
- Lifestyle – how people live their lives so business connects with its customers interests so builds relationships.
- Income – segmenting by income, so differing cars sold to different income groups. Low income buys a hatchback, families a people carrier and high earners buy fast or luxury cars. Don't advertise expensive cars to a segment that cannot afford them. This segmentation allows you to choose how and where to advertise.
- Age – needs and wants change as we get older so a product bought by people in 20's is of little appeal to those in their 60's. Over 60's is an increasing global market so businesses may target this segment.

Market mapping to identify gaps in the market along with competitors

A **market map** is a diagram that identifies all products in a market and maps them against two of their features, i.e. low-high price and low-high quality.



It allows you to see where your products are in the market and where competitors are, along with where there are gaps in the market.

The axes can vary, could be by luxury, age, low tech to high tech.

A gap in the market may not necessarily be filled – who wants to buy a low quality but high priced choc bar?
These maps are based on opinion however and it can vary between people.

1.2.4 The Competitive Environment

It is very important to understand your competition particularly their strengths and weaknesses.
There can be both **Direct** and **Indirect** competitors. Direct are those selling the same type of product or service whilst Indirect competitors are those not selling the same items but are still in competition with each other. Differing methods of travel – ferry, flight, train, coach are in competition to someone going to Paris whilst watching NUFC or going to the pictures or Metro Centre are all in competition with each other for a Saturday afternoon.

Competition is strongest when there are lots of competitors and little difference between the products. This is where customers can shop around a lot for the best deals.
Barriers to entry can reduce competition, so where costs of starting up are high due to research and development costs then few businesses will be able to enter the market.

Strengths and weakness need to be known of each competitor. If your price of sandwiches is lower than a competitor then this is your strength. If competitor has lower quality sandwiches with low quality bread then this is a weakness of your competitor. Location, if you are in the market square where many people pass through then this is a strength compared to a stall on the edge of town. If your competitor makes a greater range of sandwiches then this is their strength. If your service is quick and your staff are very friendly then this is a strength over competitors.

A SWOT analysis can be carried out where you look at your Strengths, Weaknesses, Opportunities you may be able to take advantage of and Threats that you may face in the future. You can also do a SWOT on your key competitors. A SWOT on a competitor may allow you to take decisions like update your own marketing or start developing a new product or change your pricing.

Impact of competition on a business's decision-making

Competitors may make you more likely to innovate or think of new product ideas to help keep ahead of the competition. May need to control costs to help maintain or increase profits.

1.3 PUTTING A BUSINESS IDEA INTO PRACTICE

1.3.1 Business aims and objectives.

Why set an objective?

This is a target you set yourself, giving you a focus on what you are doing and allows you to look back and see if you have achieved what you wanted to. Objectives allow you to be clear about what the business is trying to do:
- helps with decision making and establishing priorities. Is priority to sell locally or to grow the business overseas?
- Helps investors to understand the direction in which the business is heading
- Provides a target so everyone can compare actual with planned results and determine how successful it has been
- Can motivate everyone connected with business as they can see what they are trying to do and know they can measure their success

OBJECTIVES

1. **Survival –** in short run simply surviving is an achievement.
2. **Providing a good product –** doing a good job and taking pride in their work is important.
3. **Earning a profit –** whilst accepting lower profits in the short run whilst getting established, in the longer term businesses will want to make a decent profit in the long run
4. **customer satisfaction –** may want to achieve a certain level of customer satisfaction by providing a better product or wider range of products than competitors. Satisfied customers will return.
5. **market share –** businesses want an increased share of the market. This measures sales of one business as a percentage of the total market sales. They may want say 25% of a markets sales within 5 years.
6. **being ethical –** is to do with what is right or wrong – paying staff decent wages, treating suppliers and customers with respect and being honest with everyone.
7. **environmental targets –** try not to use products that damage the environment, so use recyclable materials and reduce waste.

EFFECTIVE OBJECTIVES

Objectives should state what the target is i.e. increase profit by 20%, when it should be achieved – i.e. within one or two years, who is to achieve it – i.e. who is in charge, and how is it to be achieved – i.e. what is and is not acceptable behaviour.

NON-PROFIT MAKING ORGANISATIONS

Public sector organisations like hospitals, schools and police all aim to provide a public service and are non-profit making.

Social objectives are increasingly important. Selling organic or Fairtrade products are important as is being ethical and ensuring employees are treat well in terms of wages and other working conditions.
Many businesses may say they pay a small percentage of profits to charity – though sometimes saying this and actually doing it are different things.
Supporting other local businesses or local clubs, artists etc may be such an objective.

USING OBJECTIVES TO MEASURE PERFORMANCE
You only know if you have been successful if you know what you are trying to achieve. A profit of £20,000 is a success if your target was only £15,000 but not a success if your target was £40,000.

Examiners tip
Always look for the objectives of the people starting up a business – only then can you judge properly whether or not they have succeeded. You may not be happy with earnings of £20,000 a year but someone else may be.

1.3.2 Business revenues, costs and profits.

RUNNING COSTS – these are paid either daily, weekly, monthly or every now and then. You pay them on an on-going basis.
Examples include – wages, rent, regular advertising, bills, materials

START-UP COSTS – these have to be paid before you can start running the business, so are often only paid once but not necessarily.
Examples include – tables & chairs, computers, initial market research, initial advertising, machinery

FIXED COSTS – these are costs that DO NOT change with every item made or sold. They might change, but it won't be as a result of making or selling a few more.
Examples include – rent, wages per hour, salaries, advertising, insurance, bills
NOTE: your bills may vary, then could change each month but they are still classed as FIXED COSTS because the change is maybe due to someone keeping the lights or heating on longer and not because if any extra items made or sold.

VARIABLE COSTS – these are costs that do VARY DIRECTLY with EVERY item made or sold. Classic examples are raw materials or packaging. Could also be wages per item made (also known as Piece Rate), where you are paid only for no of items made or sold. So you make one car you need one steering wheel, 10 cars need 10 steering wheels etc..
NOTE: watch for the wages in a question. If exam refers to wage per item then this is a VARIABLE COST whilst if it refers to wage per hour this is a FIXED COST. Wages per hour mean you get say £10 per hour REGARDLESS of how many items you make or sell.

INDIRECT COSTS – these are basically the same as FIXED costs, they are costs not directly contributing to the actual making of an item.

DIRECT COSTS – these are same as VARIABLE and include anything that goes directly into the making of the item i.e. materials, packaging, piece rate wages.

REVENUE – this is money from SALES and it is simple to work out. It is the SELLING PRICE x AMOUNT SOLD. So it is an INFLOW as it is money coming INTO your business. Total Revenue is just the revenue from sales of many different items all added up together.

COSTS are broken down as there are many costs in any business. In order to work out the TOTAL COSTS of a business, we need to be able to add up all of the FIXED COSTS and the VARIABLE COSTS.

PROFIT – this is NOT NOT NOT the same as Revenue !!!! Profit is what you have left when you take TOTAL COSTS away from the TOTAL REVENUE. PROFIT = TOTAL REVENUE – TOTAL COST

TOTAL COSTS CALCULATION = Fixed Cost + Variable Cost
We add up all of our FIXED COSTS and then we work out the VARIABLE COST. This depends on how many items we make so if we make 1000 and VC is £5 PER ITEM then we MUST MUST MUST multiply the £5 by 1000 to get £5000 !!

So if FC = £500, we sell 100 items and VC is £2 per item then our TOTAL COST is £500 plus (100 x £2) which is £500 + £200 which is £700. The TC is NOT £502 as this would only be accounting for one item sold NOT 100. Businesses use an INCOME STATEMENT to keep track of revenue and costs and show whether they are making a PROFIT or a LOSS.

A loss is shown by a figure in brackets () so if you see **Net Profit** of (£9,000) then this is a LOSS of £9000.

The Income Statement calculates both Gross Profit and Net Profit. Gross Profit is calculated by SALES REVENUE - COSTOF SALES = GROSS PROFIT, where cost of sales are costs of materials for making and selling the item.

Net Profit is a more accurate figure because it takes account of other expenses like wages, bills, advertising. These are called either expenses or overheads. GROSS PROFIT – EXPENSES = NET PROFIT.

A key comparison is to look at NET PROFIT from one year to the next. If it gets bigger then the business is improving and making more profit.

Interest is what you pay on money you have borrowed, often from a bank. If you borrow £10,000 at interest of 5% a year then the total interest to be paid for one year is 10,000 x 0.05 = £500 so total payment is £10,500 for the year.

When a loan is taken over say 10 years then a lot more interest will be paid in total. To work out the total percentage of interest in a loan you work out

$$\frac{\text{Total repayment – borrowed amount}}{\text{Borrowed amount}} \times 100 = \text{interest in \%}$$

So if 5,000 is borrowed and total repayment comes to 8,000 then

$$\frac{8{,}000 - 5{,}000}{5{,}000} \times 100 = \frac{3{,}000}{5{,}000} \times 100 = 60\%$$ so interest is 60% of total borrowd

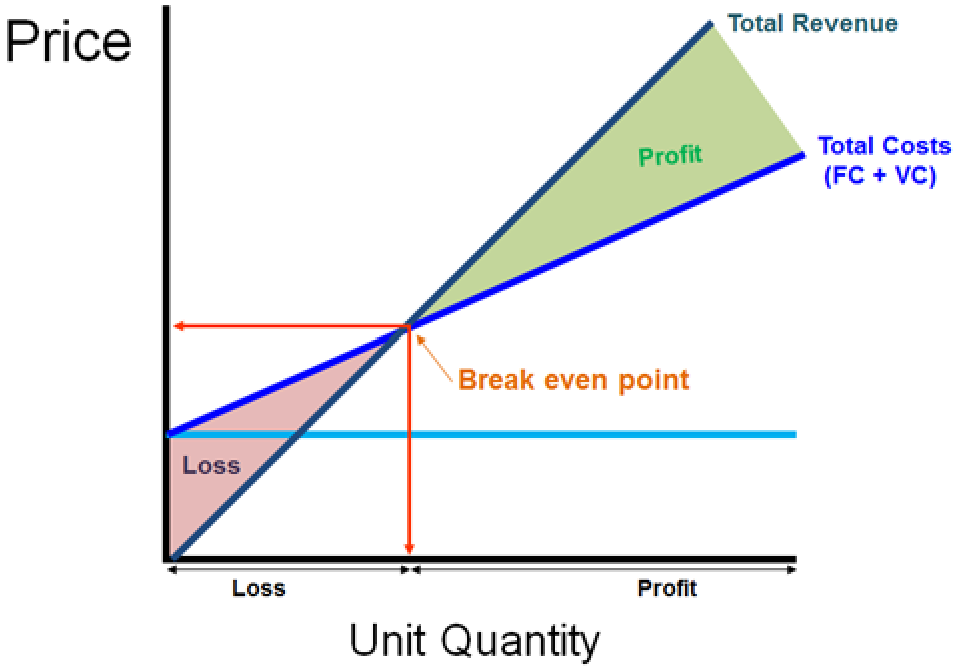
Break-even level of output is point where total revenue exactly equals total costs, so it is where TR = TC. It is the number of units a business needs to sell to cover its costs. it can be calculated by:

$$\frac{\text{Fixed costs}}{\text{Selling price-variable cost}}$$ so FC = 500 SP=8 VC = 3 then $\frac{500}{8-3}$ = 100 Units

A business needs to work its break-even point out so it can assess how many it needs to make and sell to cover all its costs. If it can only make say 800 items a week but it needs to make a 1000 to break-even then it has to decide whether to go ahead, or how it can reduce its costs to reduce the break-even point.

A **margin of safety** is the total number of sales minus the break even number. So if a plane sells 400 seats and its break-even number per flight is 250 then it has a margin of safety of 150. If it can sell all 400 seats then it makes a good profit, and for every seat over 250 the flight will make a profit.

A break-even chart is shown below



Impact of changes in revenue and costs
If revenue increases then so long as costs do not rise by the same amount then there will be an increase in profits. If costs rise by more than the increase in revenue however then profits will go down.

If revenue falls then usually it means that profits may fall so a business has to look at ways of reducing its costs to cover this fall in revenue. If costs can be reduced by more than the fall in revenue then profits could still increase.

If costs increase then profits can be reduced. Whether costs have to be absorbed and profits fall, or whether they can be passed on to the customer depends on the amount of competition. Passing on costs to customers means prices going up but risk is customers may not pay the increased prices.

Costs decreasing usually means an increase in profits however if customers know the costs have fallen then they may expect a lowering of prices to them, so cost reductions are passed on to the customer in lower prices.

1.3.3 Cash and Cash-Flow

Cash is vital to a business as it is used on a daily basis to pay suppliers and bills on a daily, weekly, monthly basis. Overheads is the term used to cover all of these bills like rent, wages, utility bills, interest on loans, advertising etc..

Credit payment is a key issue for a business. You tend to buy and sell to other businesses on CREDIT, this means buy now and pay later in 30 or 60 days time. Small businesses have to control the credit they give to their customers as they could run short of money if all customers have 30 days to pay for items bought. It is also good if you can buy on 30 days credit from your own suppliers so you receive the item then pay later. Credit Agreements are where you agree a period of say 30 days with your customer or supplier. This is the period you give each other to pay before the need to chase up the money. A business may need to give generous credit terms – 60 days to win customers if there is a lot of competition. It could be a marketing ploy to encourage people to buy from you.

Buy now pay later, or interest free deals are also used to win customers, but you can lose out as you don't get as much money, but you do get their business.

CASH FLOW FORECASTS
These show all of the money flowing INTO a business and all the money flowing OUT of a business. You need to work out a cash flow every month so you know how your business is doing.

All INFLOWS are also known as REVENUE or RECEIPTS. They use different names but **DO NOT BE FOOLED !!** it is still money coming into the business. The main source is from sales but if you receive a loan or interest paid to you for money invested elsewhere then this is all seen as INFLOWS.

All OUTFLOWS are your spending. It may also be known as EXPENDITURE or OVERHEADS but again **DO NOT FALL FOR IT !!** it is still money going out of your business.

When working out the CASH FLOW every month there is a very easy term called NET CASH FLOW to work out. It is quite simple –

For EVERY month **NET CASH FLOW = REVENUE – EXPENDITURE** (don't forget they might call it INFLOWS-OUTFLOWS or RECEIPTS-OVERHEADS or any combination of these) but it is simply everything coming in minus everything going out.

Like all of us, a business only really knows how it is doing if it also adds into its calculations the money it already has at the start of every month. To get the clear picture we must add:

Opening Balance plus Net Cash Flow = Closing Balance

This tells us what we made in the month from Net Cash Flow (Revenue – Expenditure) and we add to this our Opening Balance i.e. what we already had from the previous month. This then gives us a new Closing Balance, what we have left at the end of each month.

TIP – when looking at a cash flow over say 6 months a very easy way to see if your business is doing well or badly is to look at the Opening Balance in the first month and then compare with the Closing Balance of the final month. Is it higher or lower. If the Closing Bal is lower then you may have a problem as the business is losing money, but if it is higher then the business is making more money.

Also check other key indicators – is monthly Revenue increasing, what about monthly payments/expenditure, are they going up and are they higher than revenue? Is Net Cash Flow (revenue-expenditure each month) increasing, which is good, or falling, which could be bad.

Remember a figure with () is a negative so (900) is minus 900.

<u>Why do we use Financial information</u>

Break-even allows us to work out how many items we need to make and sell before
we start to make any profit. We can change things like increase or decrease our selling price, or change our Fixed costs and then work out our new break-even point. If our break-even point is higher than the number of items we can actually make then there is a big problem and it tells us we need to make changes quickly otherwise we will not survive.

Cash flow forecasts allow us to look ahead and plan what is likely to happen in terms of our inflows and outflows. We do this on a month by month basis and if we see that the **closing balance** in month 6 is a lot worse than the **opening balance** in month 1 then we know we have lost money in the business. We might still make a profit but it will have fallen, or we might now be making a loss.

Danger signs are if the **Net cash flow** for any month is negative ( ) and if this is the case for more than one month.

Signs to look out for – are sales increasing every month. Is there a large outflow that you could reduce or spread over a few months. Are your purchases of materials high – can you reduce them by buying less or from elsewhere. Can wages be reduced?

One other way of using our financial information is to compare how we are doing against last year or 2 years ago. Are the Net Profits higher? is the Sales Revenue higher? is the Closing Balance on the Cash Flow forecast higher?

Difference between cash and profit
Cash coming into a business has to be used to pay off its costs so it cannot be called profit. Only when ALL COSTS have been deducted from ALL REVENUES can PROFIT be calculated, and if revenue does not cover these costs then a LOSS will be made.

1.3.4 Sources of finance

INTERNAL to a business includes using retained profits from previous year, selling some assets to raise money.
EXTERNAL includes a government grant, a loan, selling shares, venture capital, overdrafts, trade credit, owner putting own money into business or friends & family putting money in.

Owners own funds are where you put your own money into the business to help get it started.

Selling shares – you issue shares for people and businesses to buy. This often used for large scale finance, when you need to raise £millions. Risk here is that someone buys lots of shares and tries to takeover your business.

A Government Grant is where you get money to help you set up and get started. It does NOT need to be paid back. Could be between £5000 and £50000 depending on what you are doing and how many people you are going to employ.

Loan from bank or building society – ADVANTAGES are you get money quickly so can use it, and have fixed monthly re-payments that DO NOT CHANGE and are a lot smaller than the amount of the loan, so it helps you control your cash flow. DISADVANTAGES are that interest is calculated at the start of the loan and added to the amount you borrow. If loan is over a few years then you end up paying a lot of interest. Recommendation is to take out a loan when interest rates are relatively low (4 or 5%) as your loan is fixed at this rate. If interest rates are higher then the higher rate will apply over the whole length of the loan, regardless of whether the interest rate falls during the loan period.

Friends or Family are useful for a start-up business as it is maybe easier to ask a parent to invest a few thousand pounds. This is usually quick and often it can be at generous pay back rates where they may not ask for any re-payment until your business is doing well, and they may charge you a lot less interest than a bank. The risk however is that their circumstances can change and they might need the money back quicker than they planned. This would NEVER happen with a bank who set the monthly repayment rate and do not change it.

Overdrafts are SHORT TERM and very flexible loans, perhaps only for a few days when you need money each month. If you plan ahead it is easier to get a bank to agree an overdraft, so long as they know it can be paid back. The benefit is that you only pay interest when you use the overdraft facility and if you don’t use it you don’t pay for it.

Venture Capital is where you get a big business to invest in your business by giving you some money. In return they get a share of your profits and may even have a say in your business decisions. Its useful to get you started, or to allow you to expand if you have a really good business product or service.

Crowdfunding is getting money from a large number of people who each pay a small amount. In return they will want discounts of some sort as a pay back for their investment. They do not want a share of the profits however, unlike investors who buy shares.

Trade credit is another SHORT TERM source, where you buy now and pay later, usually in 30 or 60 days time. It can be essential to keep a business going as it delays payments until it can get more money in from its own customers.

INTERNAL sources are best because it is your own profits you are using, or you are selling your own assets, so you do not have to owe anyone anything.

Examiners Tip
Think which sources of finance are best for different types of new business. Link it to the type of ownership and its liability – limited or unlimited. Sole Traders tend to use own money plus bank loans and government grants. Banks may however be unwilling to lend as much as you want due to the higher risk possibly involved.
Partnerships are similar but there are 2 or more partners investing.
If you are a Private Limited Company then the above are also useful but you could also sell shares to other people you know so they pay you for the shares, or you could go to a Venture Capital business and ask for say £20000-£50000 to help get started or expand. These can be good but do involve you losing some control of the business.

1.4 MAKING THE BUSINESS EFFECTIVE

1.4.1 TYPES OF OWNERSHIP

SOLE TRADER
This is a business owned and managed by one person. They might employ a number of staff but only one owner.

Advantages
Quick and easy to set up. Do not need to register with government.
Make all decisions yourself so decision making is fast and do things the way you want.
Keep all of the profits yourself.

Disadvantages
Can be stressful making all decisions yourself.
Have to handle everything – finance, marketing, general running of the business and not everyone is good at all of these.
You have **UNLIMITED LIABILITY** so if getting into debt you could lose your own possessions in order to pay off the debt.
It can be difficult to raise finance as you just have your own money, no one to help you. Banks may charge higher lending rates as a lot of new businesses fail.
Sole traders are small and don't have buying power over suppliers, so costs can be higher and profits lower.

PARTNERSHIP
When two or more people set up in business. They have to create a **Deed of Partnership** which is a legal document and sets out how profits are divided between each partner, how decisions are made, how much each partner puts in and how the partnership will be valued if someone wants to leave.

Advantage over a Sole Trader
More finance made available to help set up and run
More ideas and experience so better decisions can be made
Each partner can specialise in area of their own expertise
Partners can cover for each other in terms of holidays and decisions to be made

Disadvantage
Different ideas can lead to disputes
Decisions can be slower as all partners want to be involved in discussion
Rewards shared out between partners
Partners have **unlimited liability** so their own possessions at risk, even where one partner makes costly mistake all others are equally responsible

PRIVATE LIMITED COMPANY (ltd)
A company is formed when two articles are completed – Memorandum of Association which shows the name and purpose of the business, where it is registered and its main activities.
Articles of Association – concerned with voting rights of shareholders, how profits are distributed, directors are elected and the duties and powers of directors.
These two documents are sent to Companies House and the business gets registered. At this stage a company has been created.

The company is owned by investors and are known as **shareholders.**

A Private limited Company is one where shareholders all know each other and could be family or friends. It is known as 'ltd' having these letters after its name. It cannot advertise shares publicly and company can only sell shares privately to people it knows and only if all owners are in agreement. In law the business and the owners are seen as 2 separate things, so it is only the business that gets sued and not the owners.

Advantages of setting up as a private limited company
It has **limited liability** so shareholders own personal possessions are safe. Only the business gets sued. This encourages investors into a start up business as they know they cannot lose everything if things go wrong. Status can be high as companies seem to have more status than a sole trader. This can be a good marketing move and can attract more favourable lending terms from a bank (i.e. lower interest rates and longer period to re-pay the loan).

Disadvantages
Legal procedures need to be completed – registering, and this takes time and money.
Business accounts must be produced and made public, so competitors can see.
Corporation tax has to be paid and this can be more than what sole traders may pay in tax.
Additional shareholders will have a vote and it can slow down decision making plus their objectives and values may not be the same as the original shareholders.

Risk is often the key factor when deciding type of ownership. If you have to spend a lot of money before you receive revenue from sales then you may need protection through LIMITED LIABILITY so if all goes wrong you can only lose what you invested.
If however there is not much risk as you receive revenue straight away then it may be easier to stay as an UNLIMITED LIABILITY business, i.e. a sole trader or partnership.

Examiners tip
Exam questions often ask you to compare the advantages of one type of legal structure with another, so think about the following:

- liability of the business (limited or unlimited)
- control of the business (do owners want to keep complete control or do they want to bring in other people)
- skills and experience required (do owners have enough skills or do they want to benefit from other peoples experience and skills)
- whether or not the owners want to work with others

FRANCHISES
You can choose to become part of an existing business by buying a FRANCHISE. This is where a larger firm (**FRANCHISOR**) sells the rights to use its product/brand name to another business (**FRANCHISEE**). This is done in return for either a set monthly or annual fee, or for a percentage of all future profits. McDonalds, British School of Motoring and Pizza Hut are examples of franchises.

ADVANTAGE OF BUYING A FRANCHISE

- Idea already exists so reduces risk of setting up in business
- Brand name could be well established
- Franchisor provides support and training and advice
- Costs of national marketing can be shared with other franchisees as they promote the brand together
- Other franchisees can work together sharing new ideas and experiences i.e. one may try out a new product and if it is successful it can then be used by all other franchisees.
- You are still your own boss if you buy a franchise so make all decisions, whilst at same time you have the support of the franchisor

DISADVANTAGE OF BUYING A FRANCHISE

- you do not keep all of the profits as you must give a share to the franchisor.
- If one franchisee has a problem with quality it can reflect badly on all other franchisees and whole business may suffer because of problems elsewhere
- Dispute over balance of power between franchisor and franchisee. Franchisor may want a high level of control.

Examiners tip
A common exam question asks you to decide whether or not an entrepreneur should buy a franchise. You need to understand the advantages and disadvantages of owning a franchise compared to running an original business. Ultimately the decision will decide on factors such as personality – could the entrepreneur (franchisee) work well with the franchisor, the terms of the deal – cost of having the franchise and what you have to pay to the franchisor, and the success of and service provided by the franchisor.

1.4.2 LOCATION

Type of business – has impact on location. Should it be near customers for easy customer access, or does it not matter. Might it need to be near suppliers, or good transport links – for employer and distribution access.
Availability – often the best locations have gone, taken by established firms so new start ups often have to settle for second best initially.
Competitors – must consider their location. Sometimes you do not want to be near competitors – petrol station, fast food outlet, but in some circumstances it may benefit to be close to competitors as it draws people into the area – hotels in a tourist area, motorbike shops are all in Westgate Rd in Newcastle.
Availability of materials – if you rely heavily of raw materials you may want to be near to where you get the materials from. It might cost a lot to transport the materials. A dairy will be near to the cows or a wine business will be near to the grape vines.
Availability and cost of labour – if you need a lot of employees then you need to be where there are people with a range of skills and experiences nearby. Some businesses go to areas where costs are cheaper. This could even be to overseas countries like China or the far east or eastern Europe.
Costs – cost of buildings, land may determine where you set up. Amount of rent is also important. A shop in Bondgate Within pays more rent than a shop in Fenkle street or Bailiffgate as it is in a prime location with greater access to customers, so you pay more for this.
Transport – if you export you may want to be near an airport or a port. Being near effective road and rail links can be important for some businesses.

Inertia is where a business sets up in an area just because the owner is from there and maybe not because of any other reason or benefit.

Internet impact upon location
There is often no need for a fixed location or premises. There may only be a virtual location. This happens when there is **e-commerce** – selling online, or **m-commerce** – selling online through a mobile phone or pad.

Benefits of e-commerce or m-commerce
Much lower operating costs as don't need premises or rent or staff.
Can reach a much wider audience as anyone online can see your products.
Easier to adapt to changing buying habits so make website mobile friendly.

Many businesses still have retail outlets as well as online sales, so they have **a multi-channel approach.** This allows them to hopefully maximise sales and market share.

Examiners tip
The 'right' location for a business will depend on the nature of the business. Think about the particular business in the exam question. Does it need to be near customers or raw materials?

1.4.3 MARKETING MIX

This is split into 4 areas, known as the 4 P's

Product – Design and features of the item. There are many aspects of a product that help it to sell, it may be reliable, durable or long lasting, consistent i.e. McDonalds anywhere in the world, sugar free or it has a distinct design – Apple (sorry Dan!!)

Promotion – Let people know the business and the product exists. Sometimes known as the **promotional mix.** Advertising is done through newspapers, local radio, social media, online, sponsoring local events. NOTE – television is very expensive so unlikely for a start-up business. Promotion is NOT JUST advertising as it involves sales promotions such as special offers, leaflets, posters, free samples and even word of mouth. Sponsoring an event or a team or an individual is also a form of promotion.
Social media like facebook, twitter and youtube are increasingly being used as cheap forms of promotion that reach a wide audience.
Digital communication is useful – reaching customers via e-mail, texting, facebook, blogging.
WHAT is crucial is that you choose the promotion method to match the product you want to sell and where your customers are, i.e. a hotel in Alnwick wouldn't hand out leaflets in town they would want to advertise in magazines or with travel agents outside of the area.

Price – There is a lot to price, such as payment terms – do you want customer to pay all at once or allow them to pay in instalments – this is better for them and may be the difference in them buying from you rather than elsewhere. Can they pay by credit card or does it need to be cash?
Another big factor is the price you charge – how does it compare to competitors price? **Customer needs to feel they get value for money**.
Some businesses sell at lower prices – Primark, Aldi but they sell large volumes so that makes their profit, but they don't make much on each item sold.

Place – Where are you distributing your products from? A shop or direct to customer through online sales.

Choosing the best Marketing Mix is very important and changes depending upon the product or service being sold. It is vital that elements of the mix need to work together so – a high quality product could lead to selecting a high price to sell at and also placing the item in more exclusive retail shops with promotion aimed at higher income earners. Jewellery or designer label clothing could be in this category.

Creating a **brand loyalty** or **product differentiation** are important when applying the marketing mix. You want your product or service to be different to the competition so it creates brand loyalty and customers want your product. When you have this you can even get away with raising your prices as customers still want your item so within reason will still buy it even at higher prices.

Other factors influencing your choice of marketing mix include;

- Target customers, how much do they earn, why are they going to buy your product, how much do they need the product – is it a luxury or a need.
- Competitors products and how do they use the marketing mix. How does it compare to your products.
- Do you want to be different, if so then be clear what will be different and why
- Product – is it distinctive, unique, long lasting and what does the customer expect from it. Could charge a higher price if it is unique and long lasting but a cheaper price if it won't last too long and its similar to others.

Using ICT for International marketing

Due to the internet and the creation of websites a small business can now reach people anywhere in the world.

Examiners Tip

The 4 parts of the marketing mix must work together as they must combine to make a customer buy a product. You may have the best product in the world but if no one knows about it, or it is sold at the wrong price or in an inaccessible place then you will not make a profit.

If you sell cheap clothing or cheap items generally then you need to aim for price sensitive people, but if you have an exclusive range of high priced items then you need to advertise in fashion magazines.

A possible Exam Q – Is price the most important element of the marketing mix?

- Give reasons why price is important
- Aimed at customers
- Could be competition based
- Value for money
- Payment terms – cash or credit card or instalments
- Then consider other parts of the marketing mix
- Promotion must be right or no one will know
- Place needs to be where customers get easy access to you, or you to them
- Product itself – no good having a great price if quality is poor
- Value for money is important to customers.

1.4.4 BUSINESS PLANNING

PURPOSE OF PLANNING

States what business is trying to achieve over the next few years and how it intends to do this. A plan should include:

- information on owners and previous experiences
- analysis of market and firms position within it
- firms objectives
- a plan on how it will compete against its rivals, be competitive and get better than competition
- analysis of financial situation i.e. cash flow forecast, sales forecast and profit forecasts

With a plan you are better placed to deal with problems as you have a sense of direction of what you are trying to achieve. It helps a business reduce the DEGREE OF RISK when setting up, or expanding into unknown territory.
A plan is also useful to show potential investors so they see when they might get a return on their investment.
You can also monitor against your plan by comparing the ACTUAL with what was FORECAST and make decisions based on if things are better or worse.

PROBLEMS IN PLANNING

Uncertainty – not easy to look ahead and plan what is going to happen in a market or to estimate future sales. Market conditions change quickly.
Lack of experience – people setting up do not always have the experience or skills to plan ahead and may not know how to do market research.

The business plan is not a guarantee of success as there are many risks involved, but it does help the entrepreneur and stakeholders to look ahead and know what they are trying to achieve.

Examiners tip
Producing a business plan can help a business to organise its activities but it does not guarantee success. To judge how useful a particular plan is, you need to look at who produced it, how it was produced and what research they did. If things have gone wrong was it the result of bad look or should the managers have predicted that these problems might have occurred?

1.5 UNDERSTANDING EXTERNAL INFLUENCES

1.5.1 IMPORTANCE OF STAKEHOLDERS

A stakeholder is an individual or organisation that affects and is affected by the activities of an organisation.

Employees – if business grows they might have promotional opportunities and will want more pay. Could go on strike if not happy so affects the business.
Suppliers – deliver to the business and will want paying on time. If business grows could benefit from more orders. Late deliveries and poor quality can affect a business.
Customers – will want best value for money – best quality but lower prices. If customers lose interest or go elsewhere then business will have problems. If customers buy more online then you will have to adapt and provide online sales, often through a website.
Local Community – may want a business to behave responsibly, and will hope to supply the workforce.
Owners – can affect the business by the amount of profit they take out, or the amount they re-invest.
Government – they make laws that affect the business – Employment and Health & Safety, but also take money in taxes. Higher tax rates affect a business more.

Examiners tip
To decide how particular stakeholders can affect the objectives of a business, you need to consider what power that group has and what actions they could take to affect the business if it does not pay attention to them.

GROWTH AND IMPACT UPON STAKEHOLDERS

EMPLOYEES get more job security and are more motivated. May even get greater rewards – pay etc. Disadvantage is that employee may feel isolated in a large organisation and not feel valued anymore. Communication could be difficult and employees may not feel fully informed.
SUPPLIERS can get additional orders from the larger business, however if they do merge there may be greater range of suppliers to choose from.
LOCAL COMMUNITY could see more jobs created. Business may decide to re-locate elsewhere however where it is cheaper labour or land.

How stakeholders impact upon a business

Owners (shareholders) – provide the funds and set the aims and objectives. Can sell shares to new owners if need to raise more funds.

Employees - can go on strike if they are not happy with pay or treatment. If not trained they can have a negative effect or if highly motivated they can be efficient and this can attract more satisfied customers.
Customers – buy items and recommend how to change or improve. Could boycott or stop buying if habits or taste changes.
Suppliers – can they supply more if demand increases, what is their quality, are prices too high?
Community – supply the workforce and supply the customers in a local area. Could object however if ethical or environmental issues they not happy with. Could object to planning permission for an extension.
Government – apply taxes so could raise them and costs go up. Make laws and business needs to spend money to meet these new laws. Could provide grants to help develop a business.
Pressure groups - create bad publicity if business is not behaving ethically or in an environmentally friendly manner. Could improve conditions for its employees.

Examiners tip
If you are asked how stakeholders are affected by growth, remember that it may depend upon

- Which stakeholder group is involved, as some may be better off and some worse off
- How the business is managed. Some businesses treat their stakeholders well but others concentrate more on their investors – those who have put money into the business

Stakeholder conflict
The following conflicts lead to lower profits or higher costs for a business who may be able to satisfy one but not both, or neither.

Suppliers want more pay but owners want more profit.
Employees want higher wages but suppliers want higher prices.
Customers want cheaper prices but owners or shareholders want more profits.
Government wants more tax and employees more wages.

Think of some more combinations where there may be conflict.

1.5.2 TECHNOLOGY IN BUSINESS
Technology changes rapidly in business and some significant influences are:

e-commerce – this is using internet through computers and laptops.

m-commerce – this is use of mobiles, both phones and pads.

E-commerce allows trading at any time and from anywhere. Orders may be processed quickly and if you do not run a retail shop then costs can be reduced due to very few overheads.

On the down side however, you must keep technology regularly maintained, there could be security risks of fraud, computers can crash, and you also do not see customers face to face so cannot build any relationships.

Social media – facebook, twitter, Instagram, youtube etc. It can be very cheap and allows you to reach targeted customers quickly with communications. You can get feedback and respond to both positive and negative reviews.

Digital communication – email and texting allows you to aim at specific customers so you are reaching your target market. You can communicate at any time of the day or night.
Businesses can have staff working from home as they can keep in touch via email, skype etc. This may save costs on office space.

Payment systems are made easier as can use both e-commerce and m-commerce, usually 24/7. Can use pay pal as a means of payment and Apple pay.

Technology impacts upon sales as sales can be made at any time and from anywhere in the world, so effectively a shop never closes.
Technology also used in warehouses to track and re-order stock quickly.

Technology influences costs as it reduces paperwork and keeps general costs lower. Documents can be e-mailed so no need for posting that takes time and money. Websites can be fairly cheap to set up.

Technology and the marketing mix
Price – online shopping is very competitive so forces prices to drop as businesses compete. Also, lack of overheads means business can lower its prices.

Product – technology like robots and computers make products 24/7, so ave costs are reduced. New ways to access i.e. streaming music, downloading films.

Place – easy to use e-commerce websites allows customer access and easy purchases. Place can almost be anywhere.

Promotion – social media and other cheap digital means can be used – e-mailing or texting target market. Cookies can track what you look at online.

1.5.3 PROTECTING STAFF THROUGH LEGISLATION (LAWS)

People need protecting by laws when they are at work, or even applying for jobs. Some laws also help businesses.

Minimum Wage – there is a minimum wage per hour that no one should earn less than. It changes slightly from 16-18 then 18-21 then an adult rate. Current adult min wage is around £6.50

Equal pay – people should be paid the same for doing the same job. Many years ago women were paid less than men even if doing the same job but this can no longer be the case.

Impact on a Small Business
It can increase the production costs so if costs are higher it could mean less profit for a business. A way around this is to not employ as many workers but this can be a problem if more staff are actually needed.

DISCRIMINATION LAWS
There a few other laws to protect people from being treated differently without good reason to do so.

Sex Discrimination Acts – You cannot advertise for men only and must not treat sexes differently when choosing employees for promotion, or when selecting staff.

Race Relations Act – cannot discriminate on grounds of marital status, colour or race.

Disability Act – cannot treat a disabled person less favourably than others. Must make 'reasonable adjustments' to allow for employment of disabled persons. This may mean ramps or adapting equipment for a disabled person to use.

Employment Equality (Age) Regulations – Cannot discriminate on grounds of age if under 65. Can't say a new employee must be above or below a certain age. Cannot deny them same training opportunities offered to others

Health and Safety Act 1974
This law is to make sure the employers safeguard the health of their employees. This happens by;

- Good lighting and temperatures at work
- Install and maintain safety equipment
- Give staff sufficient breaks during the day
- Protection against dangerous substances
- Guards fitted on dangerous equipment
- Display signs for safety where needed

IMPACT ON SMALL BUSINESSES
Owners and managers must make sure job adverts are not discriminatory in any way and that all employees are treated the same. It could increase costs if they have to pay someone more money to make them equal, or to spend money building a disabled lift/ramp/toilet.

As they won't have any legal experts on employment law then they may need to pay for legal advice on what they can and cannot do, so again it can add to the costs.

IMPACT on a SMALL BUSINESS
Again this tends to involve costs, meeting the bullet points above costs money. However meeting the points means a business can get a good reputation and be seen as a safe and therefore happy place to work. So there can be some benefit also. Staff need to be trained in understanding employment laws, or with Health & Safety equipment and machinery may need to be changed.

Examiners Tip
It can be argued that all the employment laws and the rights of employees, and Health & Safety Act will all have greater impact upon a small business than a larger one as they don't have as much money to spend on meeting these legal requirements.

CONSUMER PROTECTION LAWS
Businesses can treat customers unfairly. Some ways are listed below:

- Selling goods and services that are not as described – quantities are less than stated on the packet, or 100% wool but its only 50%
- Selling products that are unsafe – toys
- Selling products that do not work properly
- Selling products at unfair prices
- Passing on or selling information about consumers to other businesses but without their permission

WHAT THE LAWS ARE:

Labelling of products
Customers need to know information on products to help them decide whether to buy or not. Ingredients must be listed on the label along with weights and measures.

UNFAIR TRADING REGULATIONS say that you cannot give customers incorrect information on labels or packaging, and there cannot be aggressive door to door selling.

Sale of Goods
We are protected in law when we buy items. Businesses cannot charge very high rates of interest when taking out a loan with them to buy expensive items.
SALE OF GOODS ACT makes sure that items when sold should work as expected. They should be of the **expected quality and fit for purpose**.

Safety of products
Customer safety needs to be protected. CONSUMER PROTECTION ACT says firms cannot sell dangerous products to consumers and if they do then they could go to court if a customer is injured. Food cannot be sold to consumers if it is unsafe and may cause illness.

Examiners Tip You do not need to remember the details of these laws, just a broad understanding of how they protect consumers.

1.5.4 THE ECONOMY AND BUSINESS
Impact of economic climate on businesses

Unemployment – if its low then fewer employees they can hire, so business may need to put wages up to attract people to work for them. However peoples incomes will be higher so leads to increasing demand as got more to spend. If unemployment is high then could lower wages but may find it harder to get suitable people to apply.

Changing levels of consumer income – if people have lower incomes they may buy more budget, lower priced products. Demand will fall so businesses lose revenue and sales and profits. May need to reduce staff. With higher incomes then more likely to buy higher priced items, and number of items bought rises. People more confident so make larger purchases. Have greater job security.

Inflation – this is the increase in prices. If prices rise by 5% in 2016 then only 2% in 2017 then it is STILL inflation even though the rate has fallen, it just means prices have not increased by as much.
Higher inflation can mean prices going up so materials can cost more. Hopefully peoples wages also go up when inflation rises, therefore demand can increase. Low inflation means prices are lower so pay less to suppliers.

Changes in interest rates – This is the amount of money a bank charges when you borrow money. Also, the bank pays you interest if you have money kept with them. If interest rates are low then it is cheaper to borrow money, credit cards are cheaper so people tend to buy more and spend more. At present the UK rate is 0.25% (July 2017) is the lowest it has been for many many years. Demand will rise for goods and services.
If interest rates are high then it will cost you more to borrow money so bank loans cost more in repayments, credit cards have higher interest to be paid back, so it will discourage people from borrowing as much. This means they may spend less. Demand will fall for products and services.

Government taxes – Individuals and businesses pay taxes. If income tax rates rise then people pay more tax so have less disposable income, so demand will fall. If business tax rise then a business has to pay more in tax so profits are lower. They may raise prices to make up for this, or may not invest as much back into the business.

A drop in tax rates means people have more disposable income to spend so demand increases. Businesses pay less so have more profits to put back into the business or to use to lower prices for customers, to attract them to buy more.

Changes in exchange rates – this is the value of one currency against another. E.g. if £1 = $1.5 then selling an item in US for £100 costs Americans $150. If rate drops to £1 = $1 then value of pound has fallen and Americans now only pay $100 NOT $150 for the item worth £100. Americans will buy more when the rate of the £ falls and it will also be cheaper for them to visit the UK on holiday, as only need to give $1 for a £1 and not $1.5.
If the rate rises to £1 = $2 then the pound is stronger and the opposite happens. It makes items we buy from America cheaper as we now get $2 for our every £, instead of only $1.5, so going to the US becomes cheaper as does buying their products.
Generally **imports** are cheaper when the exchange rate is higher, but our **exports** become more expensive.

1.5.5 EXTERNAL INFLUENCES

How businesses respond to changes in the following:

Technology – Not responding means you can fall behind competition and market trends quickly and therefore lose sales plus a knock to your reputation. This is particularly the case if competitors adapt to the changing technology. HMV has suffered due to likes of Netflix and Spotify, Apple music and general music streaming and downloading of music and films.

Legislation – If you do not respond to changes in the law then can be fined penalties or even have staff imprisoned or closed down, i.e. restaurant ignoring environmental health warnings. Can be costly to comply – increase in minimum wage, or higher standard of materials needed.

Economic climate – if incomes of people fall, due to a recession then it would pay a business to lower its prices to keep customers coming. Or may be advisable to look at other markets, either overseas, or widening products appeal to a new market – Lucozade from helping people who are ill to being an energy sports drink. Failure to react can lead to cash flow problems.
If interest rates rise then may be beneficial to a business to hold off large investment or expansion programmes that involve large scale borrowing. Otherwise costs of borrowing will be increased.
If taxation rates drop then a business does not need to give as much to the government so they could employ more staff or pay existing staff more with the savings they make through tax savings. More staff may make you more effective in terms of customer service and can get ahead of your competitors.