

**UNIT 1 -
BUSINESS IN THE
REAL WORLD**

**GCSE
BUSINESS**

**THEORY AND EXAM
QUESTION REVISION
BOOKLET**

GCSE Business is assessed by two final exams and is broken down in the following way:

Paper 1: Influences of operations and HRM on business activity	+	Paper 2: Influences of marketing and finance on business activity
What's assessed <ul style="list-style-type: none">• Business in the real world• Influences on business• Business operations• Human resources		What's assessed <ul style="list-style-type: none">• Business in the real world• Influences on business• Marketing• Finance
How it's assessed <ul style="list-style-type: none">• Written exam: 1 hour 45 minutes• 90 marks• 50 % of GCSE		How it's assessed <ul style="list-style-type: none">• Written exam: 1 hour 45 minutes• 90 marks• 50 % of GCSE
Questions <ul style="list-style-type: none">• Section A has multiple choice questions and short answer questions worth 20 marks.• Section B has one case study/data response stimuli with questions worth approximately 34 marks.• Section C has one case study/data response stimuli with questions worth approximately 36 marks.		Questions <ul style="list-style-type: none">• Section A has multiple choice questions and short answer questions worth 20 marks.• Section B has one case study/data response stimuli with questions worth approximately 34 marks.• Section C has one case study/data response stimuli with questions worth approximately 36 marks.

The exams will measure how you have achieved the following assessment objectives.

AO1: Demonstrate knowledge and understanding of business concepts and issues.

AO2: Apply knowledge and understanding of business concepts and issues to a variety of contexts.

AO3: Analyse and evaluate business information and issues to demonstrate understanding of business activity, make judgements and draw conclusions.

Unit 1 Business in the real world

1.1 The nature and purpose of business - What you need to know!

Target	The purpose and nature of business	Insecure	Developing	Secure
T1	Describe what a business is and the reasons for starting a business.			
T2	Describe the difference between goods and services, needs and wants.			
T3	Define and explain the meaning of factors of production - land, labour, capital, enterprise.			
T4	Define opportunity cost.			
T5	Define the three sectors of primary, secondary and tertiary and give examples of types of business that operate in each sector.			
T6	Understand the term enterprise and what is meant by being an entrepreneur.			
T7	Outline the characteristics of an entrepreneur.			
T8	Outline the objectives of an entrepreneur			
T9	Understand that businesses face a constantly changing business environment due to changes in technology, economic situation, legislation and environmental expectations.			

Unit 1 Business in the real world

1.1 The nature and purpose of business - The theory

Key terms	Definition
1. Business	
2. Goods	
3. Services	
4. Needs	
5. Wants	
6. Primary	
7. Secondary	
8. Tertiary	
9. Land	
10. Labour	
11.. Capital	
12. Enterprise	
13. Entrepreneur	
14. Business environment	
15. Opportunity cost	
16. Stages (sectors of production)	
17. Factors of production	

Explain the purpose of a business.

Explain the difference between a good and a service.

Explain the difference between a need and a want.

Can you list five reasons for setting up a business?

- 1.
- 2.
- 3.
- 4.
- 5.

List two goods

- 1.
- 2.

List two services

- 1.
- 2.

List two wants

- 1.
- 2.

List two needs

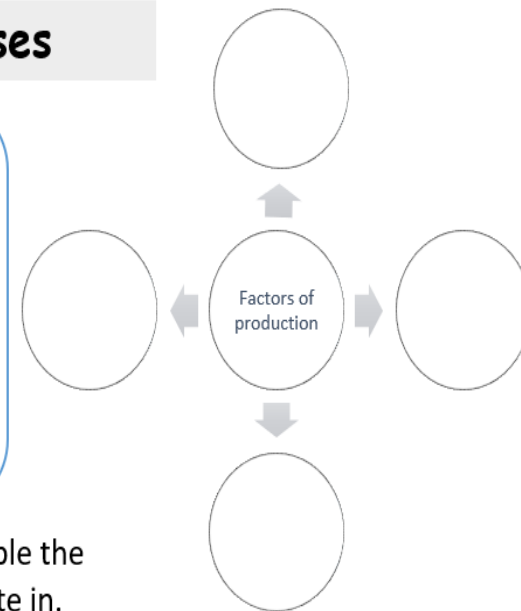
- 1.
- 2.

1.1 The nature and purpose of businesses

Define the concept of opportunity cost –

Why does an entrepreneur setting up a business need to consider opportunity cost?

What is meant by the term entrepreneur?



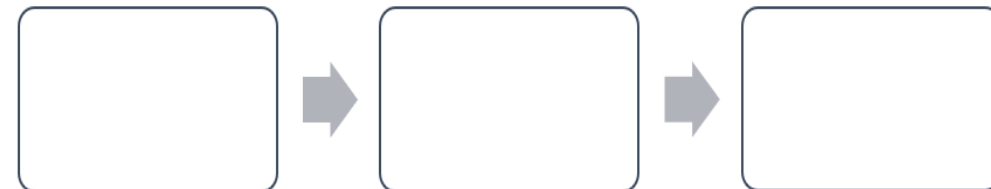
Can you list four characteristics of entrepreneurs?

- 1.
- 2.
- 3.
- 4.

Can you identify the four external changes in business environment that can affect businesses.

- 1.
- 2.
- 3.
- 4.

Identify and explain with an example the different sectors businesses operate in.



Unit 1 Business in the real world

1.1 The nature and purpose of business – Exam Questions

Item A: Jewels4All

Darren is thinking of setting up in business to make and sell jewellery. He studied art and design at school and enjoyed making jewellery as part of the course. He has some savings to help him start up in business but he will need some additional finance to buy the equipment that he will need to make the jewellery. His Business Studies teacher had said that he should try and find a gap in the market for his ideas. Darren will need to decide how he will sell the jewellery. His research shows an increase in online shopping. He is good with computers and is considering making the jewellery at home and selling it over the internet. Alternatively, Darren could rent a stall at the busy weekly craft fair.

Questions:

1. State and explain one reason why Darren might want to start up his own business. (2 marks)

2. State two possible problems that Darren might have had in setting up his business.(2 marks)

3. Explain why Darren will have to consider the opportunity cost when making decision about setting up his new business. (4 marks)

4. Explain two benefits to Darren of aiming his product range at a gap in the market. (4 marks)

Item B: Natural & Sole:

In 2013, Lorelai Gibbons realised there weren't any companies that produced fashionable, vegan friendly and ethically produced clothing. She quit her high-pressured job in retail and set up her own ethical clothing company, Natural & Sole. After visiting many trade shows, she found a manufacture who could provide the cloth she needed for her clothes designs, in small quantities so she never needed to hold much stock on her small office.

In 2014, Lorelai was invited to pitch her clothing to a national retail chain. In the two weeks before her presentation, Lorelai worked everyday to prepare. The pitch was successful, and the retail chain gave Lorelai a contract to supply them with her clothing.

Question:

Analyse how Lorelai has shown she has the qualities needed to be a successful entrepreneur. (6 marks)

<u>How to structure your answer:</u>	
Step 1 (P) - Make one point	
Step 2 (E) - Explain why/how your point is relevant.	
(C) Put your answer in Context by using evidence from the text to support the explanation of your point.	
Step 3 (An) - Analyse by writing about the impact and/or the consequence of your point.	
<u>Use connectives such as:</u>	
Because	
Therefore	
This will mean that	
This is likely to lead to	
This is important because	
As a result	
The impact would be	

Unit 1 Business in the real world

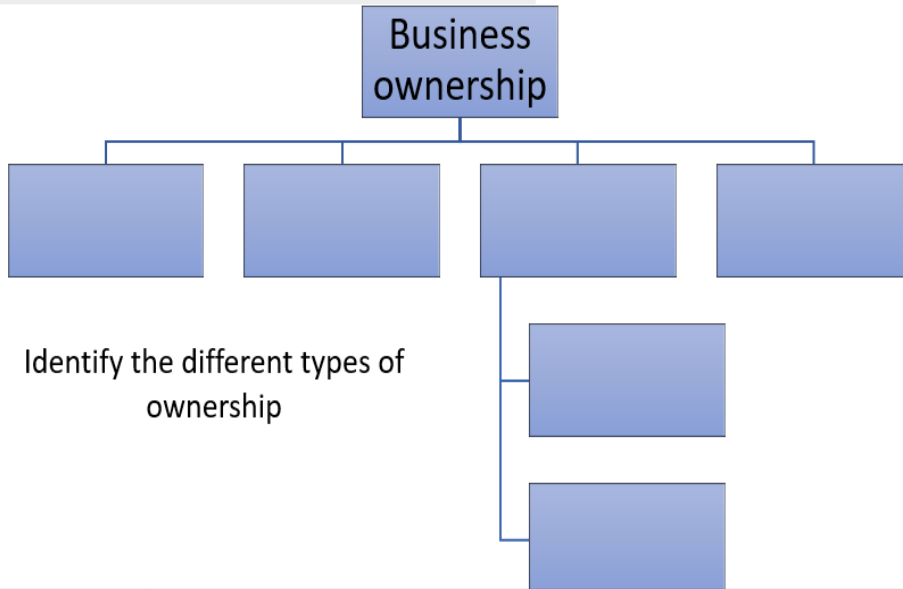
1.2 Business Ownership - What you need to know!

Target	Business Ownership	Insecure	Developing	Secure
T10	Can describe the features (including type of liability) of a <u>sole trader</u> Can explain the advantages and challenges of operating as a sole trader			
T11	Can describe the features (including type of liability) of a <u>partnership</u> Can explain the advantages and challenges of operating as a partnership.			
T12	Can describe the features (including type of liability) of a <u>private limited company (Ltd)</u> . Can explain the advantages and challenges of operating as a private limited company.			
T13	Can describe the features (including type of liability) of a <u>public limited company (Plc)</u> . Can explain the advantages and challenges of operating as a public limited company.			
T14	Can explain the difference between private sector and public-sector organisations.			
T15	Can describe the features of non-profit organisations (social enterprise).			
T16	Can explain reasons for choosing different forms of business and for changing business form.			

Unit 1 Business in the real world
1.2 Business Ownership - The theory

Key terms	Definition
1. Sole Trader	
2. Partnership	
3. A Company	
4. Private limited company (Ltd)	
5. Public limited company (plc)	
6. Shareholder(s)	
7. Share(s)	
8. Dividend	
9. Stock Exchange	
10. Unlimited liability	
11. Limited liability	
12. Flotation	
13. Not for profit organisations	

1.2 Business Ownership



Unlimited liability means.....	Limited liability means....
Businesses which have unlimited liability are:	Business that have limited liability are:

Write a list of things a business should consider when deciding what type of ownership to become.

Key terms	Definition
	A business owned and operated by one person
	A business is started and owned by more than one person . Common examples of partnerships are doctors, solicitors or vets.
	Is a business that has its own legal identity . It can own items, owe money, sue and be sued.
	A company is formed when a business is set up to have a separate legal identity from its owners. Shareholders have limited liability .
	A business that is owned by shareholders . Anyone can buy shares in the business. Shareholders have limited liability .
	These include community and other voluntary organisations, as well as charities. They are often set up as companies or social enterprises , with any surplus money made through their activities being used to help meet the organisation's aims and objectives .

1. Explain a benefit and a drawback of operating as a sole trader.
2. Explain why a private limited company is not the same as a public limited company.
3. Explain why some successful partnerships decide to form a private limited company and remain a partnership.

Sole trader

What type of liability does this type of ownership have?

Who gets the profit?

How is the business financed?

Benefits	Drawbacks

Partnership

What type of liability does this type of ownership have?

Who gets the profit?

How is the business financed?

Benefits	Drawbacks

Private limited company (Ltd)

What type of liability does this type of ownership have?

Who gets the profit?

How is the business financed?

Who owns an Ltd?

Benefits	Drawbacks

Public Limited company (Plc)

What type of liability does this type of ownership have?

Who gets the profit?

How is the business financed?

Who owns a Plc?

Benefits	Drawbacks

Unit 1 Business in the real world

1.2 Business Ownership – Exam Questions

Item B: Bob is a builder in Redditch and has run his business as a sole trader for the last 10 year. He has built up a good reputation and has lots of loyal customers. Being a sole trader he has enjoyed making his own decisions and keeping all his profits. Bob is getting older and is finding it difficult to keep up with the demands for work he has and knows a builders called Jim and Son’s they are also very good and have lots of customers. Jim and Bob have met and discussed the possibility of Bob joining Jim and Son’s to form a partnership.

Question: Advise Bob why he might be better off remaining a sole trader rather than forming a partnership with Jim (9 marks)

<u>How to structure your answer:</u>	
Paragraph 1: Benefit of being a sole trader.	
Paragraph 2: Benefit of being in a partnership	
Use the steps below:	
Step 1 (P) - Make one point	
Step 2 (E) - Explain why/how your point is relevant.	
(C) Put your answer in Context by using evidence from the text to support the explanation of your point.	
Step 3 (An) - Analyse by writing about the impact and/or the consequence of your point.	
Paragraph 3: Conclusion	
A - Answer the question set. Make clear your decision.	
J - Justify your decision	
I - consider what the success of your decision depends on and the impact on the short and long term on the business.	
M - State the most important reason why you've come to your judgement	

Item C: Kingfisher Caravan Parks Ltd is a family run caravan holiday business. The business was established in 1964 and consists of 3 caravan parks situated in Northumberland, the Lake District and Cornwall. Each park has approximately 360 caravans, a small supermarket and a children's play park.

The caravan and camping holiday industry is currently enjoying a revival as an increasing number of people are staying in the UK for their holidays due to the current economic climate. The Camping and Caravan club has recently reported that bookings on UK based caravan parks has increased by 21% with younger families being the main driver behind that growth. Traditionally the key target market for Kingfisher was holiday makers aged 50 and over.

Despite the recent growth in the UK caravan industry, Kingfisher has seen its visitor numbers decline. Customer satisfaction surveys have revealed that although the parks are in areas of Outstanding Natural Beauty, many of the caravans are over 25 years old and as such lack the space needed to cater for younger families. In addition to this, customers have said that when the weather is poor, the parks themselves lack the necessary to entertain and occupy young people.

One of the directors of the company has suggested that they should float the business and convert to a public limited company

Question: Recommend to the owners of Kingfisher Caravan Parks whether or not they should convert to a public limited company. Give reasons for your answer. (9 marks)

How to structure your answer:	
Paragraph 1: Benefit of being a sole trader.	
Paragraph 2: Benefit of being in a partnership	
Use the steps below:	
Step 1 (P) - Make one point	
Step 2 (E) - Explain why/how your point is relevant.	
(C) Put your answer in Context by using evidence from the text to support the explanation of your point.	
Step 3 (An) - Analyse by writing about the impact and/or the consequence of your point.	
Paragraph 3: Conclusion	
A - Answer the question set. Make clear your decision.	
J - Justify your decision	
I - consider what the success of your decision depends on and the impact on the short and long term on the business.	
M - State the most important reason why you've come to your judgement	

Unit 1 Business in the real world

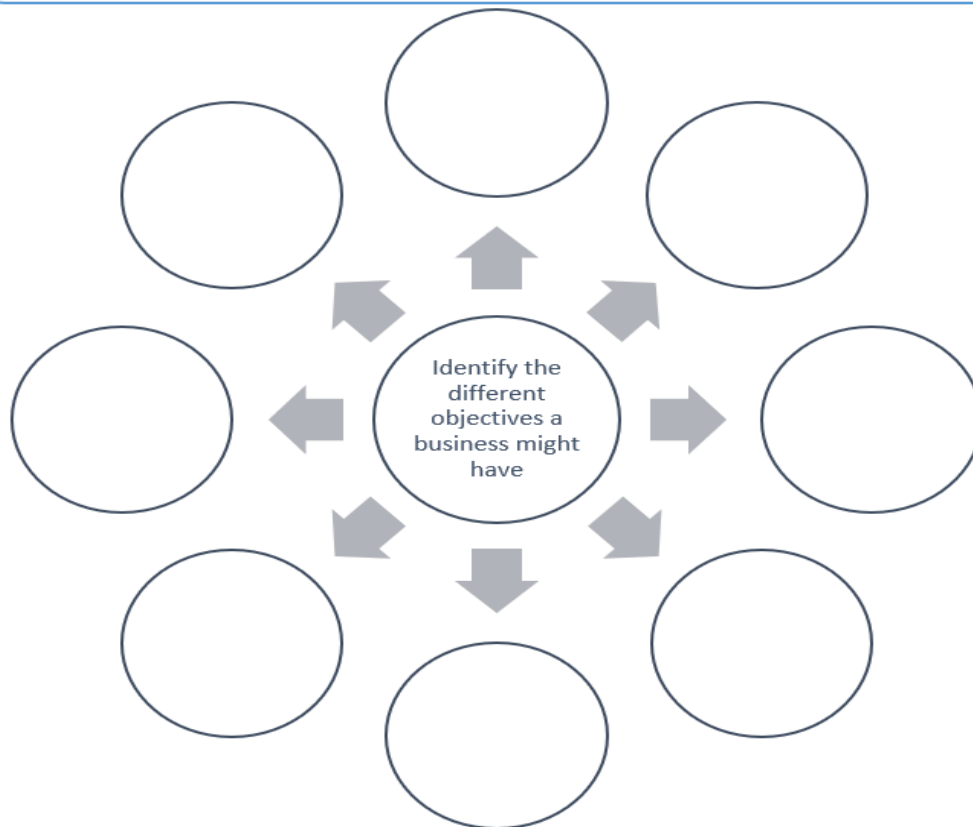
1.3 Business Aims and Objectives - What you need to know!

Target	3.1.3 Setting business aims and objectives	Insecure	Developing	Secure
T17	Can explain what aims and objectives are.			
T18	Can explain the purpose of setting objectives.			
T19	Can understand the main aims and objectives for businesses: survival, profit maximisation, growth (domestic and international), market share, customer satisfaction, social and ethical objectives and shareholder value.			
T20	Calculate market share.			
T21	Can understand how and why the objectives set may change as businesses evolve.			

Unit 1 Business in the real world
1.3 Business Aims and Objectives - The theory

Key terms	Definition
1. Aim	
2. Objective	
3. Survival	
4. Profit maximisation	
5. Market share	
6. Share Value	
7. Growth	
8. Customer satisfaction	
9. Social objectives	
10. Ethical objectives	

Explain the difference between an aim and an objective.



Why do businesses set aims and objectives?

How can a business use aims and objectives to measure the success of the business?

Objectives need to be SMART, what does this stand for?

S
M
A
R
T

The objectives set by businesses will vary depending on what?

1. What does market share mean?
2. What is the formula for working out market share?
3. If a business has a market share in year 1 of 10% and in year 2 they have sales of £90,000 and the total market sales are £750,000 what is the market share and has it increased or decreased?
4. Can you work out what the market share was in Yr1 if total market sales remain the same as year 2?

Item A – A Change of Direction

John was working with a computer repair company for a number of years. One day he decided that he needed a change in his work–life balance and so had the idea of starting up his own independent ‘for–profit’ business. John had many ideas for a new business start-up and knew where he could get good impartial advice on their feasibility, as well as getting new ideas on other potential commercial projects.

From his business studies background, John realised that it was vitally important to identify and target a specific market, or market niche, for his prospective business. He also knew that he might face competition, and that one way to overcome competitors was to supply his market with a good reliable product, or service, that is ‘fit for purpose’ and at a reasonable price.

John knew that an easy way to start up any business was to buy a franchise for a specific product, say a fast-food franchise from McDonald’s or KFC, or service franchise such as Kwik Fit car-servicing. However, as he had not decided on what product his business will produce, or what service it will supply, he did not give franchising very much further thought.

Irrespective of his future business’ type or structure, John knew that he must carefully plan for it and that he must set out very clear aims and objectives for his business before he starts operations. He also knew that many stakeholders would have an influence on how his business operates.

Finally, as yet, John does not know what type of business he wants to start, what legal structure it will take, what product or service it will supply it or how much start-up capital it will need. However, what he does know is that he needs a change of direction in his work–life balance and that he is very determined to effect this change.

1. Identify two possible objectives that John might have for his business. (2 marks)

2. The acronym SMART is often applied to business objectives. Explain why. (2 marks)

3. Explain how John could measure the success of his proposed business. (4 marks)

4. John new that he must carefully plan and set out clear aims and objectives for his business before he starts operations. Explain the difference between a business aim and a business objective. (4 marks)

Read the following case study and then answer the questions that follow.

Case study



One former boss of the fastest growing pizza chain in Britain was reported to carry a tape measure with him – to check that all his outlets always served up pizzas and dough balls to the right size! Ian Eldridge was the chief executive of Pizza Express, which has steadily expanded to 287 restaurants in the UK – more than 136 of them opening between 1997 and 2002. Sales increased from £44.3 million in 1995 to £150 million in 2000 as its customers munched their way through 350,000 pizzas a week.

One reason for its success was Pizza Express's first aim of high quality and excellent service. Recipes are strictly controlled so that the taste and quality is always the same no matter where you go or what you order. From the start, Pizza Express wanted to provide pizza lovers with a more upmarket experience than its rivals. Today, new variations like Soho Pizza and Sloppy Guiseppe are introduced at intervals – but not too often. Apparently, pizza customers know what they like, and don't want the menu to keep changing.

This highly profitable company – profits reached £21.8 million in 2002 – aims to increase its UK outlets to 500 in the next five years and to expand overseas. One of its target countries is Japan, where pizzas with fish toppings are popular. Others are planned in Poland, France and Spain. It has also introduced Pizza Express-To-Go outlets in airports, shops and leisure and entertainment complexes and aims to add to these, too. It also successfully sells its products in Sainsbury's supermarkets.

Pizza Express runs a club with 23,000 members who give feedback on their experiences and these are read carefully. In addition, senior staff regularly travel from one restaurant to another sampling the food, checking the service – and, presumably, measuring the pizzas!

- 1 What was Pizza Express's first main aim when it started?

- 2 Explain why you think it chose this aim.

[illegible]

Unit 1 Business in the real world

1.4 Stakeholders - What you need to know!

Target	3.1.4 Stakeholders	Insecure	Developing	Secure
T22	Can define what stakeholder means.			
T23	Can identify who the main stakeholders of a business are, including owners, employees, customers, local community and suppliers			
T24	Can understand stakeholders' main objectives including maximising pay for workers, minimising environmental impact on local community and high dividend payments for owners			
T25	Can understand the impact and influence stakeholders have on businesses and their objectives and how businesses may face conflict between stakeholders.			

Unit 1 Business in the real world

1.4 Stakeholders - The theory

Key Term		Definition
Stakeholder		
Stakeholder	Identify if they are internal or external	Explain the objectives of different stakeholders
Shareholders /owners		
Managers and employees		
Customers		
Suppliers		
Banks and Investors		
Government		
Local community		
Competitors		

Item A – A Change of Direction

John was working with a computer repair company for a number of years. One day he decided that he needed a change in his work–life balance and so had the idea of starting up his own independent ‘for–profit’ business. John had many ideas for a new business start-up and knew where he could get good impartial advice on their feasibility, as well as getting new ideas on other potential commercial projects.

From his business studies background, John realised that it was vitally important to identify and target a specific market, or market niche, for his prospective business. He also knew that he might face competition, and that one way to overcome competitors was to supply his market with a good reliable product, or service, that is ‘fit for purpose’ and at a reasonable price.

John knew that an easy way to start up any business was to buy a franchise for a specific product, say a fast-food franchise from McDonald’s or KFC, or service franchise such as Kwik Fit car-servicing. However, as he had not decided on what product his business will produce, or what service it will supply, he did not give franchising very much further thought.

Irrespective of his future business’ type or structure, John knew that he must carefully plan for it and that he must set out very clear aims and objectives for his business before he starts operations. He also knew that many stakeholders would have an influence on how his business operates.

Finally, as yet, John does not know what type of business he wants to start, what legal structure it will take, what product or service it will supply it or how much start-up capital it will need. However, what he does know is that he needs a change of direction in his work–life balance and that he is very determined to effect this change.

1. Stakeholders will have an influence over how John’s business operates. What is meant by the term stakeholder? (2 marks)

2. Apart from John, identify two possible stakeholders in his proposed business. (2 marks)

3. Explain two ways in which a stakeholder differs from a shareholder. (4 marks)

4. There will be many potential stakeholders in John's proposed business. Discuss how conflict might occur between stakeholders when their objectives differ. Give reasons for your answer. (9 marks)

[illegible]

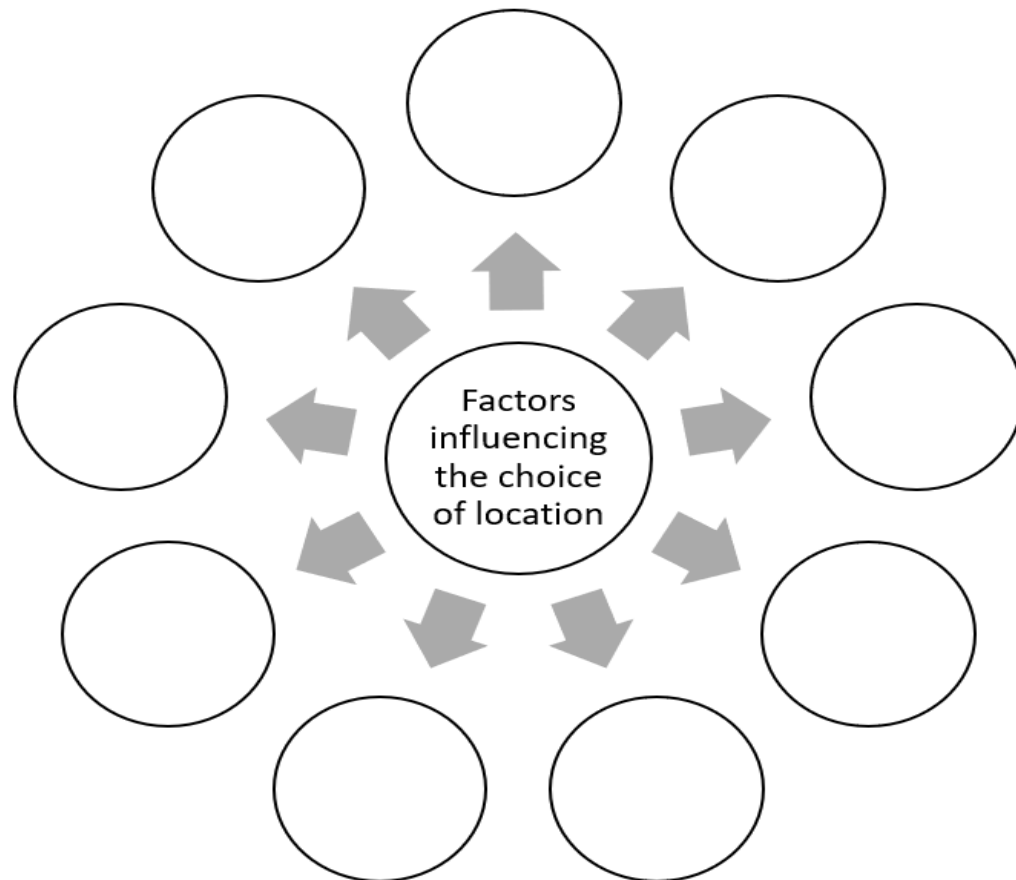
Unit 1 Business in the real world
1.5 Business Location - What you need to know!

Target	3.1.5 Business Location	Insecure	Developing	Secure
T26	Can understand the factors that influence where a business is located, including proximity to the market, availability of raw materials, labour, competition and costs.			

What does the key term location mean?

What does the key term tariff mean?

What does the key term imports mean?



Identify the advantages and disadvantages of locating overseas

Advantages	Disadvantages

1. Why is location such an important decision to a business?
2. What might some businesses decide to locate overseas?
3. Explain why a business would need to consider the needs of their stakeholders when choosing a suitable location.

Item A – A Change of Direction

John was working with a computer repair company for a number of years. One day he decided that he needed a change in his work–life balance and so had the idea of starting up his own independent ‘for–profit’ business. John had many ideas for a new business start-up and knew where he could get good impartial advice on their feasibility, as well as getting new ideas on other potential commercial projects.

From his business studies background, John realised that it was vitally important to identify and target a specific market, or market niche, for his prospective business. He also knew that he might face competition, and that one way to overcome competitors was to supply his market with a good reliable product, or service, that is ‘fit for purpose’ and at a reasonable price.

John knew that an easy way to start up any business was to buy a franchise for a specific product, say a fast-food franchise from McDonald’s or KFC, or service franchise such as Kwik Fit car-servicing. However, as he had not decided on what product his business will produce, or what service it will supply, he did not give franchising very much further thought.

Irrespective of his future business’ type or structure, John knew that he must carefully plan for it and that he must set out very clear aims and objectives for his business before he starts operations. He also knew that many stakeholders would have an influence on how his business operates.

Finally, as yet, John does not know what type of business he wants to start, what legal structure it will take, what product or service it will supply it or how much start-up capital it will need. However, what he does know is that he needs a change of direction in his work–life balance and that he is very determined to effect this change.

Finally, John knows that the nature of his business will be one factor in deciding its location. However, he does have available to him a very large and empty garage at his family home!

As well as this, he has the option of renting an empty local business unit of comparable size, or buying or renting an empty former corner shop that has recently become vacant. The latter option is located more than 25 miles from his home but would provide him with a much larger work and storage space, with vacant living accommodation above it.

1. Identify two advantages to John of starting his business in the family’s garage. (2 marks)

2. Identify two different ways in which a good local and national transportation system can help a small business to set up, establish and grow. (2 marks)

3. Identify and explain two other factors that might need to be considered before John finally chooses a location for his business. (4 marks)

4. Explain two benefits that John's proposed new business would get by choosing an appropriate set-up location. (4 marks)

5. Recommend to John whether or not she should initially set up his business in the family garage. Give reasons for your answer. (9 marks)

How to structure your answer:	
Paragraph 1: Benefit of being a sole trader.	
Paragraph 2: Benefit of being in a partnership	
Use the steps below:	
Step 1 (P) - Make one point	
Step 2 (E) - Explain why/how your point is relevant.	
(C) Put your answer in Context by using evidence from the text to support the explanation of your point.	
Step 3 (An) - Analyse by writing about the impact and/or the consequence of your point.	
Paragraph 3: Conclusion	
A - Answer the question set. Make clear your decision.	

<p>J - Justify your decision</p> <p>I - consider what the success of your decision depends on and the impact on the short and long term on the business.</p> <p>M - State the most important reason why you've come to your judgement</p>	

Question paper 1 – Item A– ‘Life’s a Beach’ Gift Shop

Will Smooth has been working part-time in a souvenir shop on the coast of Devon for five years while studying at college. He has noticed that the shop sell the products for a lot more than they buy them in for from their suppliers in China. He is positive this is a good way to make profit and, when he leaves college, he wants to set up his own beachfront gift shop which he wants to call ‘Life’s a Beach’.



Will Smooth could set up his shop where he is now, which is a tourist area. He is also considering the possibility of setting up his shop five miles down the coast, where the rent may be more expensive but it attracts more tourists.

Will is also considering making some souvenir frames from driftwood and shells he finds washed up on the beach at the end of the day.

Question: Discuss the factors which have influenced Will when making his decision about where to locate his start-up business for handmade beach products. (9 marks)

[illegible]

Unit 1 Business in the real world

1.6 Business Planning – What you need to know!

Target	3.1.6 Business Planning	Insecure	Developing	Secure
T27	Can understand the reasons why businesses create plans, including importance in setting up a new business, raising finance, setting objectives and detailing how functions of a business will be organised			
T28	Can identify the main sections of a business plan			
T29	Identify the benefits of business planning			
T30	Identify the drawbacks of business planning			
T31	Can explain the difference between variable costs, fixed costs and total costs			
T32	Can explain the concept of revenue, costs, profit and loss.			
T33	Can calculate profit or loss			

Unit 1 Business in the real world

1.5 Business Planning - The theory

Key Term	Definition
Business Plan	
Business Planning	
Uncertainty	
Risk	
Revenue	
Total costs	
Variable costs	
Fixed costs	

List and explain the purpose of business planning for each type of business	
New business (start-up)	Existing business

Explain what is contained in each section of the business plan	
Section of the business plan	Explanation
The ideas	
Objectives	
Finance required	
Market overview	
How the business will operate	
Cash flow forecast	

Identify the benefits and drawbacks of a business completing a business plan	
Benefits	Drawbacks

**What is the formula for the following -
Formulas:**

Revenue =

Total costs =

Total variable costs =

Profit =

Item A – A Change of Direction

John was working with a computer repair company for a number of years. One day he decided that he needed a change in his work–life balance and so had the idea of starting up his own independent ‘for–profit’ business. John had many ideas for a new business start-up and knew where he could get good impartial advice on their feasibility, as well as getting new ideas on other potential commercial projects.

From his business studies background, John realised that it was vitally important to identify and target a specific market, or market niche, for his prospective business. He also knew that he might face competition, and that one way to overcome competitors was to supply his market with a good reliable product, or service, that is ‘fit for purpose’ and at a reasonable price.

John knew that an easy way to start up any business was to buy a franchise for a specific product, say a fast-food franchise from McDonald’s or KFC, or service franchise such as Kwik Fit car-servicing. However, as he had not decided on what product his business will produce, or what service it will supply, he did not give franchising very much further thought.

Irrespective of his future business’ type or structure, John knew that he must carefully plan for it and that he must set out very clear aims and objectives for his business before he starts operations. He also knew that many stakeholders would have an influence on how his business operates.

Finally, as yet, John does not know what type of business he wants to start, what legal structure it will take, what product or service it will supply it or how much start-up capital it will need. However, what he does know is that he needs a change of direction in his work–life balance and that he is very determined to effect this change.

John knew that starting an independent ‘for-profit’ business was a risk-filled option and from his business studies background realised that in order to have any chance of success he must have a business start-up plan. John knew what such a plan should contain. He also knew that if he got into difficulty when writing it, plenty of sources of help were available to him.

1. Explain two reasons why John might want to draw up a business plan. (4 marks)

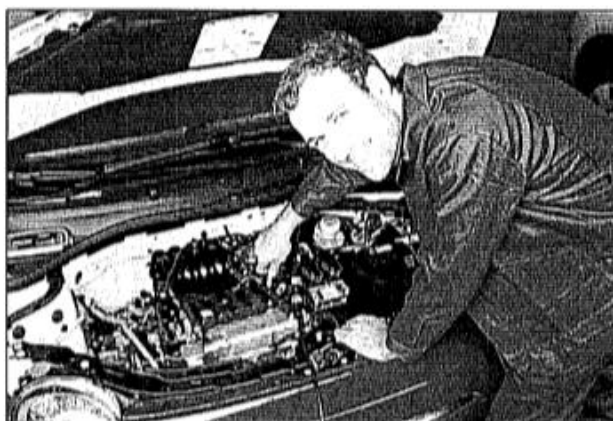
2. Explain two reasons why John might not want to draw up a business plan. (4 marks)

3. Identify two stakeholders who might be interested in John having a business plan. (2 marks).

4. Do you think that John should draw up a business plan? (5 marks)

Question paper 1 – Item B – Tom's Midnight Garage

Tom Crews has been running a successful garage in his local town for over 10 years. He specialises in repairs and servicing of high-end sports cars, and opens until midnight two nights a week so that customers working late can drop off their cars. However, he noticed last year that his revenue through income was falling. He thinks the cause may be the new, larger garage that has opened in the same town, which is offering MOTs and repairs of any car. Due to the increased competition, he has had to reduce the hours of his five mechanics and one receptionist that he employs, so staff morale is currently very low. Tom is now considering his next move and whether he should change his business objectives; he thinks he may need a new business plan.



So that he can be competitive in the town, he is considering reducing the price of his standard car services that car owners need to have every year. He is also considering opening an MOT bay to start taking advantage of the many requests he gets to do MOT testing on his regular customers' cars. He would need to hire two new specialist mechanics for this, or consider retraining the ones that he has already. He hopes this will increase demand for his garage services and improve business.

1. State and explain two benefits of Tom producing a business plan (4 marks)

Unit 1 Business in the real world

1.6 Expanding a business – What you need to know!

Target	3.1.7 Expanding a business	Insecure	Developing	Secure
T34	Identify different methods of organic growth: Franchising Identify its advantages and disadvantages as a method of growth			
T35	Identify different methods of organic growth: Opening new stores Identify its advantages and disadvantages as a method of growth			
T36	Identify different methods of organic growth: E-Commerce Identify its advantages and disadvantages as a method of growth			
T37	Identify different methods of organic growth: Outsourcing Identify its advantages and disadvantages as a method of growth			
T38	Identify different methods of external growth: Merger & take over Identify its advantages and disadvantages as a method of growth			
T39	Identify and explain the different methods of integration that can be used during external growth. (Horizontal, vertical forward/backward and diversification)			
T40	Understand the benefits of growth in terms of unit cost advantages due to economies of scale . Understand the meaning of purchasing and technical economies of scale			
T41	Understand the drawbacks of growth due to diseconomies of scale . Understand diseconomies of scale are due to poor communication, coordination issues and reduced staff motivation			
T42	Can calculate and interpret average unit costs.			

Unit 1 Business in the real world
1.6 Expanding a business - The theory

Key Term	Definition
Expansion	
Internal growth (Organic)	
External growth (Integration)	
E-commerce	
Outsourcing	
Franchising	
Franchise	
Franchisee	
Franchisor	
Economies of scale	
Diseconomies of scale	
Integration	
Takeover	
Mergers	

How can you measure the size of a business?

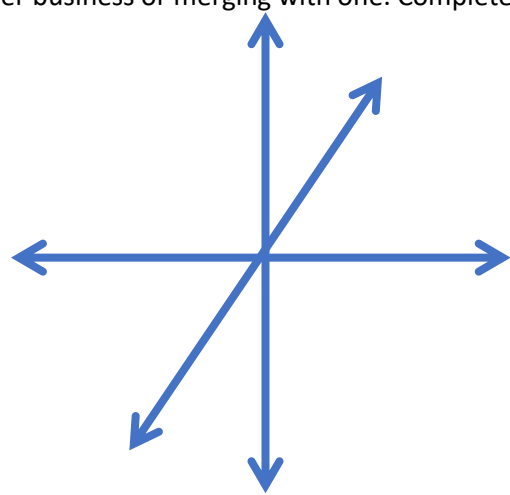
List the main types of organic growth:

- 1.
- 2.
- 3.
- 4.
- 5.

Explain the advantages and disadvantages of organic growth.	
Advantages of organic growth	Disadvantages of organic growth

The main types of external growth are via taking over another business or merging with one. Complete the diagram below to show the different types of integration.

- Horizontal
- Vertical Forward
- Vertical Backward
- Conglomerate



Explain the advantages and disadvantages of organic growth.	
Advantages of external growth	Disadvantages of external growth

Item A – Sow and Grow

Richard and Dorothy have known each other for many years. They met and became friends when at their local sixth form academy. Both then went to the same university. Richard obtained a degree in Business Studies and Dorothy successfully completed an Art and Design course. When at university, they struck up friendships with Jamal, who was studying Accounting with Marketing and ICT, and Bozydar, studying Product Technology with woodworking as a substantial element of the course.

After university the friends lost close contact, except for Richard and Dorothy who remained close, living in the same town. Neither of these two graduates got permanent work after leaving university. They were obviously very disappointed. One day they met at Richard's house to discuss what the future held for them. The outcome would sow a small seed, an idea, which would eventually grow. Their decision was to set themselves up in business. However, questions such as: From where do we get the money? What type of business will we start? How do we go about starting up a business? etc. were foremost in their mind.

Luckily, they knew that they could get advice from both of their sets of parents, who were successful entrepreneurs with solid finances and extensive business contacts. Richard also was aware that they could get help and advice by undertaking a government sponsored business start-up course, Business Link.

After a few months of searching for a suitable business to undertake, Dorothy's father made them aware that a small and established business would soon be available for sale, as a going concern. The owner, Juan Delgado, decided that he was going to retire and emigrate to a warmer climate.

Both Mister Delgado's business and business model were very simple. They involved marketing and selling flat-pack kitchen units to customers and outsourcing their fitting and installation. His business premises, including a large storage warehouse and private parking area, were situated on a very commercialised end-of-street shopping complex in a major town centre.

Richard and Dorothy both thought long and hard about buying Mister Delgado's ongoing business. They sought advice and finance from their parents, a local high-street bank and from the government-sponsored Business Link. Both Richard and Dorothy eventually concluded that buying Mister Delgado's business, as a going concern, was a good option as it was in the right location, had a proven good track record and already had customers on its books.

Richard and Dorothy clearly set out the aims and SMART objectives for their business venture. They drew up a business plan, raised the necessary finance, bought Mister Delgado's business, set up as a private limited company (Ltd). Richard became the Managing Director and Dorothy his assistant, responsible for overseeing the installation and outsourcing of kitchen units. Finally, their company started to trade under the name Blue-Print Ltd.

The company proved to be very successful and at the end of its first year of trading had a turnover of £100,000. In view of this, both Richard and Dorothy decided that after one year of trading it was time to expand the business. However, they did realise that expansion was fraught with risks as well as benefits. They also knew that, being a relatively large business, expansion could be by merger, takeover, organic growth or franchising. However, it would be up to them to decide the most suitable method.

As a former Business Studies student, Richard also knew that any degree of expansion, irrespective of the method, will impact all the business' stakeholders. Richard also realised that, as Blue-Print Limited expands, its aims and objectives will change, as will the consideration it must give to ethical and environmental issues and the suitability of its current location.

1. Richard and Dorothy are considering the possibility of expanding Blue-Print. Identify one benefit and one risk of business expansion. (4 marks)

2. Identify two different methods that a large limited company like Blue-Print could use to expand its operations. (2 marks).

3. Using the business' retained profits is one way that Richard and Dorothy could expand their business. Identify two other methods of organic growth they could use. (2 marks)

4. Explain how a merger differs from a takeover. (2 marks)

5. Franchising is a possible method of expansion for a large business-like Blue-Print. Explain why this may not be currently be an ideal way to expand Blue-Print Limited. (5 marks)

6. Employees are one group of stakeholders in Blue-Print Limited. When Richard and Dorothy decide to grow and expand their business, explain two ways that this might impact specifically on employee stakeholders. (5 marks)

James and Jimmy own a farm in Worcestershire they specialise in growing fruit vegetables and grain. James has spent a long time trying to improve their business and for the last five years they have focused on growing organic fruit and vegetables for local restaurants and shops, this has proved successful and the business has made record profits for the last two years running. In a meeting James has suggest to Jimmy that they should use the profits and reinvest them in the business to expand it further, he believes they are missing a huge target audience and they should take over the farm shop and cafe in the local town selling their produce direct. James is worried that this could cause problems in terms of keeping control as currently once they have supplied the shop or restaurant they get paid and do not have the hassle of selling the fruit and vegetables.

- 1) Describe the type of integration would be taking place if James and Jimmy took over the farm shop and cafe? (2 marks)

- 2) Analyse the benefit to *James and Jimmy* of growing in size in this way (6 marks)
