

The Nature and Purpose of Business

Goods	These are physical items like books or furniture
Services	These are actions performed by a business to aid the customer e.g plumber, hairdresser
Needs	Goods or services that are necessary for survival – water, food, shelter...
Wants	Goods or services consumers would like but could live without
Factors of production	Land, Labour, Capital, Enterprise
Land	Natural resources used in production
Labour	Staff needed to make the good or service
Capital	Equipment and machinery needed to make the good or service
Enterprise	The person/people with the business idea.
Opportunity Cost	The benefit of the next best alternative that been given up.
Sectors of the economy	Primary, Secondary, Tertiary
Primary sector	Produces the raw materials which are used to make goods and services e.g. farming, mining
Secondary sector	Manufactures goods. They turn raw materials into finished goods
Tertiary sector	Provides services. It also retail which sells the finished goods.
Entrepreneur	The person that starts a new business. They come up with the idea and take the risk.
Characteristics of an entrepreneur	<ul style="list-style-type: none"> • Hard working • Innovative • Organised • Willing to take a risk
Objectives of an entrepreneur	<ul style="list-style-type: none"> • Be their own boss • Flexible working hours • Pursue an interest • Earn more money • Have identified a gap in the market • Dissatisfaction with current job
Reasons for dynamic nature of business	<ul style="list-style-type: none"> • Change in technology • Change in economic situation • Change in legislation • Change in environmental expectations
Four functions of business	<ul style="list-style-type: none"> • Marketing • Finance • Operations • Human Resources
Profit	Total revenue – Total cost
Total revenue	Selling price x number sold
Total cost	Fixed cost + total variable cost
Total variable cost	Variable cost per unit x number sold

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Stakeholders

Stakeholders	A person or group of people with an interest in and influence over a business
Example stakeholders	<ul style="list-style-type: none"> • Owners • Employees • Customers • Local community • Suppliers

Stakeholder objectives

Owners	High profit High dividend payments
Employees	Good wages Job security Promotion prospects Good working conditions
Customers	High quality good or service Low prices
Local community	Jobs for local area Minimal pollution Minimal congestion Ethical behaviour
Suppliers	Regular orders Prompt payment

How stakeholders affect a business

Owners	Main decision makers
Employees	Likely to be unproductive if not satisfied Could leave the job Could use industrial action e.g. strike
Customers	Could complain Could use a competitor instead
Local community	Could complain
Suppliers	May charge extra for late payments May refuse to supply

Stakeholder conflict	Different stakeholders will have different opinions about what a firm should be doing. A firm can't always please all of its stakeholders, so it will have to prioritise the opinions of the stakeholders it sees as being the most important .
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Business Ownership

Types of ownership	<ul style="list-style-type: none"> • Sole trader • Partnership • Private limited company (Ltd) • Public limited company (plc) • Not-for-profit organisation
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Sole trader = a business with one owner	
Advantages	Disadvantages
Easy to set up	Owners may have to work long hours
You get to be your boss	Unlimited liability
You keep all of the profits	Many be hard to raise the money to start up

Partnership = a business with between two and twenty owners	
Advantages	Disadvantages
More owners mean a greater range of ideas and skills	Decision making is shared
The work can be shared	Unlimited liability
All partners put money in at the start of the business	Each partner gets a share of the profit

Unlimited liability = the business and the owners are seen as the same thing. Therefore if the business owes money, the owner owes money.

Private limited company (Ltd) = a business owned by shareholders. Shares are sold privately.	
Advantages	Disadvantages
Limited liability	Shareholders get a share of the profits. They are paid a dividend
Money from the sale of shares can help the business start up	May be difficult to get a loan from a bank due to limited liability
	More expensive and complicated to set up

Public limited company (plc) = a business owned by shareholders. Shares are sold on the stock exchange	
Advantages	Disadvantages
Limited liability	Shareholders get a share of the profits. They are paid a dividend
Money from the sale of shares can help the business start up	Accounts are made public

Limited liability = the business and the owners are seen as separate legal entities. If the business goes into debt, the owners are not in debt.

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Not-for-profit organisation = a business that is not aiming to make a profit. They may be charities, social enterprises or clubs and groups. They are able to set up with either limited or unlimited liability.

Setting business aims and objectives

Aims and objectives	Goals or targets a business aims to achieve
Example aims and objectives	<ul style="list-style-type: none">• Survival• Profit maximisation• Growth• Market share• Customer satisfaction• Social and ethical objectives• Shareholder value
Survival	A short term aim to make sure all costs are covered
Profit maximisation	Aiming to make as much profit as possible either by selling more or by keeping costs as low as possible
Growth	Aiming to increase the size of the business. This may include international expansion
Market share	This shows the percentage of total market sales a business has made. The aim is to have a large market share
Customer satisfaction	Aiming to have positive customer feedback
Social and ethical objectives	Aiming to act in a way that is morally right. This might be for customers, employees, the environment...
Shareholder value	Aiming to make high profit levels so that shareholders earn a large dividend.

Marketing: identifying and understanding customers

Why is it important to identify and satisfy customer needs	<ul style="list-style-type: none">• Provide a product or service that customers will buy• Increase sales• Select the correct marketing mix• Avoid costly mistakes• Be competitive
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Marketing: Segmentation

Segmentation	Dividing the market into different groups with shared characteristics
Types of segmentation	<ul style="list-style-type: none">• Gender• Age• Location• income

Marketing: The purpose and methods of market research

The purpose of market research	<ul style="list-style-type: none"> • identify market opportunities • to understand the needs of customers • to know what competitors are doing
Primary market research	Gathering information for the first time
Secondary market research	Using data that already exists
Qualitative data	Views and opinions
Quantitative data	Information which can be measured or given as a number
Examples of primary market research	<ul style="list-style-type: none"> • questionnaires • surveys • interviews • focus groups
Examples of secondary market research	<ul style="list-style-type: none"> • internet research • printed press e.g. newspapers
Market size	The total sales in the industry = number of units sold x price per unit
Market growth	The percentage change in the size of the market = (change in market size/original market size) x 100%
Market share	The percentage of market sales the firm has = (sales of the product/total market sales) x 100%

Primary Market Research	
Advantages	Disadvantages
The research will be up to date	It is time consuming
The research will be specific to the needs of the business	It may be expensive to collect

Secondary Market Research	
Advantages	Disadvantages
It can be gathered quickly and cheaply	The information may be out date
	The information might not be exactly what the firm needs.

Marketing: The elements of the marketing mix: Price, Product, Promotion and Place

Price

Pricing methods	<ul style="list-style-type: none"> • price skimming • price penetration • competitive pricing • loss leader • cost-plus
Price skimming	Setting a high price for the product when it first enters the market
Price penetration	Launching a new product at a low price to achieve fast sales
Competitive pricing	Matching the price that competitors charge
Loss leader	A product is sold at a loss in the hope that the customer will buy other items from the business where they will make a profit
Cost plus	Products are priced by covering the cost and adding a percentage on top.
Factors influencing pricing decisions	<ul style="list-style-type: none"> • costs • nature of the market • degree of competition
Relationship between price and demand	As prices rise demand will fall. As prices fall demand will rise

Product

New product development	Researching and creating new products for sale.
Important elements of new product development	<ul style="list-style-type: none"> • product design • image • needs of the customer • cost of production

New product development	
Advantages	Disadvantages
Could lead to increase in sales and profits	Expensive
Can increase market share	No guarantees that the new product will be successful

USP	Unique selling point. This makes the product different from competitors
The stages of the product life cycle	<ul style="list-style-type: none"> • research and development • introduction • growth • maturity • decline
Extension strategies	<ul style="list-style-type: none"> • updating packaging

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	<ul style="list-style-type: none"> • adding more or different features • changing target market • advertising • price reduction
Product portfolio	The range of products a business sells
Four categories of the Boston Matrix	<ul style="list-style-type: none"> • Dog • Cash cow • Question mark • Star
Dog	The product has low market share in a low growth market
Cash cow	The product has high market share in a low growth market
Question mark	The product has low market share in a fast growth market
Star	The product has high market share in a fast growth market

Promotion

Promotional mix	The types of promotion used by the business
Reasons for promotion	<ul style="list-style-type: none"> • Inform/remind customers about the product • Create or increase sales • Create or change the image of the product • Persuade customers to buy the product
Factors influencing the choice of promotional mix	<ul style="list-style-type: none"> • Finance available • Competitor actions • Type of product or service • Nature of the market • Target market
Promotional methods	<ul style="list-style-type: none"> • Advertising – newspaper, magazine, TV, internet, billboard • Public Relations • Sales Promotion – displays, 2 for 1 offers, free gifts, samples, coupons, competitions • Sponsorship • Social media

Place

Channel of distribution	The route a product takes from producer to customer
Retailer	A business that buys products and then sells to the customer
Wholesaler	A business that buys products and then sells them to retailers
Telesales	Selling to customers over the telephone
e-commerce	Selling to customers through the internet
m-commerce	e-commerce on a mobile device eg using an app on a mobile

Business Location

Factors affecting location decisions	<ul style="list-style-type: none">• Proximity to the market• Availability of raw materials• Cost and availability of labour• Cost• Competition
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Business planning

Purpose of a business plan	<ul style="list-style-type: none">• Planning a new business• Raising finance• Setting objectives• Planning how the four business functions will be organised
Main sections of a business plan	<ul style="list-style-type: none">• The business idea• Key targets for the business• Finance required• Market overview• Financial forecasts