



Examiner tip

Location is an area of the specification that lends itself to evaluation, as the key factors influencing location vary according to the type of business and its situation in the case study.

- the economic wealth of the local area and whether it can support the number of businesses located in the vicinity
- pedestrian traffic flow (footfall) during opening times
- parking factors — cost and time
- competitors' locations — is competition fierce or will it attract potential customers into the area?
- location history — does the individual site have a good track record of successful business activity?
- council policies, such as limiting certain business activities (e.g. nightclubs) to certain areas of a town

Analysis

Opportunities for analysis are:

- analysing the factors that influence the start-up location
- comparing the relative merits of alternative locations
- recognising that the relative importance of a factor may vary according to the type of business

Note that location decisions can not only be analysed through interpretation of passages of text, but may also be based on numerical/financial data or maps.

Evaluation

Opportunities for evaluation are:

- recognising the relative importance of different factors influencing start-up location decisions
- judging the relative importance of qualitative factors in a location decision
- assessing whether changes in circumstances necessitate a change in location

Links

Location decisions are a central part of the business plan. They may be influenced by government support for entrepreneurs and also link closely to the market and target market segments. Location decisions are heavily based on financial factors such as costs and the potential to generate revenue.

Knowledge check 10

Identify three factors that might influence the place where a business locates.

Employing people

Reasons for employing people

Entrepreneurs setting up a new business will need to employ people for a number of reasons:

- Only in the smallest businesses will the owner have the capacity to carry out all the tasks needed to provide the finished product or service.
- An entrepreneur will not often have all the skills required to run a business, and so will need to employ people with certain expertise.
- Some businesses are seasonal in nature and will need to employ more staff at peak times.

Types of employee used in small businesses

- **Permanent employees** (who may be full time or part time) have a continuous employment contract with the business.
- **Temporary employees** have a fixed-term employment contract, so their employment ends at a certain time (or after certain work has been completed).
- **Zero-hours contracts** allow a business to have people on-call to work whenever necessary and mutually convenient.
- **Agency staff** have contracts with an employment agency. A firm hires them for an agreed time from the employment agency.
- **Self-employed freelancers, consultants and contractors** offer their skills to a business for an agreed sum, but work for themselves.

Permanent or temporary staff?

Permanent staff are those needed throughout the year and whose services are necessary to the continued running of the business. They tend to be more motivated than temporary staff, who have less loyalty to the business.

Temporary staff are those needed to meet seasonal demand, to complete a particular task or to cover for situations such as staff illness and holidays.

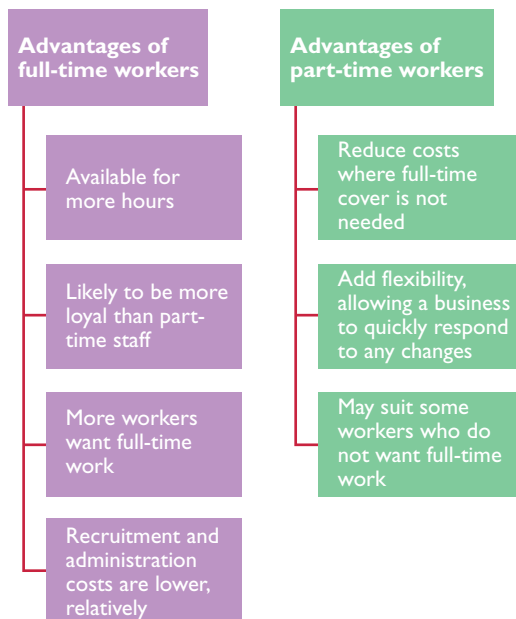


Figure 8 Full-time or part-time staff?

External consultants, contractors and advisers

In addition to employees, a business might hire the services of consultants, contractors and advisers. As these people will be self-employed or belong to a separate company, this is a useful way of taking advantage of extra skills and labour without incurring unnecessary costs.

Examiner tip

Students often confuse 'part-time' with 'temporary' staff and confuse 'full-time' with 'permanent' staff. Make sure that you are aware of the differences (and similarities) between them.



Drawbacks and difficulties of employing people

Drawbacks include the following:

- **Cost of employing people.** As well as the actual wage or salary paid, businesses incur other costs such as national insurance contributions, possible pension contributions and extensive administrative costs.
- **Meeting the range of employment legislation requirements.** This is often a burden for small businesses, as they lack specialist knowledge of employment laws.
- **Managing staff.** An entrepreneur in a start-up business may not have the skills to manage employees.
- **Employee absence.** This can be a major problem in a very small firm because it is difficult to cover absences.

Knowledge check II

Why has employment of part-time staff increased in recent years?

Analysis

Opportunities for analysis are:

- analysing the reasons why a small business might employ staff
- comparing the relative merits of temporary and permanent staff
- comparing the relative merits of full-time and part-time staff
- demonstrating the need for a blend of temporary and permanent or full-time and part-time staff
- showing the drawbacks and difficulties of employing people
- recognising situations in which the use of consultants and advisers is necessary
- examining the problems involved in employing consultants and advisers

Evaluation

Opportunities for evaluation are:

- appreciating the relative merits of full-time and part-time or temporary and permanent employees in different situations
- evaluating situations in which the use of consultants and advisers is particularly useful
- discussing the main difficulties for a particular business arising from its employment of people

Links

This topic links to the legal structure of the business, as limited companies are likely to employ far more people. There may be links to the impact of employing people on the objectives of the entrepreneur. Employing people also has major financial implications for a business.

- An entrepreneur is an individual who develops an idea by setting up a business.
- Entrepreneurs are usually motivated by profit but must also consider the risks of running a business.
- Every decision has an 'opportunity cost'; this is the next best alternative that was not chosen.
- The risk of a start-up can often be reduced by becoming a franchisee. This involves paying for the right to use a business idea that has been developed by someone else (the franchisor).
- Ideas can be protected from other businesses through patents, copyright and trademarks.
- Transforming resources into outputs can add value by converting materials into a form that consumers value highly, such as transforming wood into furniture.
- A business plan will help an organisation to have clear objectives, to get financial support, to decide on its strategies and to monitor its progress.
- Useful sources of information for a small business include accountants, bank managers, government agencies and specialist advisors.
- Market research can be secondary (collected first) or primary (collected second).
- Quantitative research gives numerical data; qualitative research shows why customers behave in a certain way.
- The size and method of sampling can improve the reliability of market research but adds to the cost.
- The demand for a product is influenced by factors such as price, consumers' incomes, marketing, competitors' actions and seasonality.
- Market size and growth can be measured by volume (units sold) or value (revenue received).
- Market share (%) is a key indicator of a firm or product's success. For a firm it is measured by the formula:

$$(\text{sales by firm} \div \text{total sales in market}) \times 100.$$
- Market segmentation helps a firm to focus on the types of customers that it wishes to target, and how to attract them.
- Sole traders and partnerships are unincorporated businesses and have unlimited liability, so owners must pay their debts in full. Limited companies (LTDs and PLCs) have limited liability and so owners can lose only the sum of money that they have agreed to provide to the business.
- Raising sufficient finance is vital for a business start-up. The source of finance should be linked to its purpose. For major assets it needs to be medium term or long term, such as the owners' personal finance or a bank loan; for cash flow it should be short term, such as an overdraft.
- The 'best' location for a business is often a compromise between choosing a site that helps to boost sales revenue but which also helps to keep costs low (the 'least-cost' site).
- Businesses require full-time and permanent staff for the core activities of the business. Part-time and temporary employees add flexibility and, sometimes, specialist skills. They are usually cheaper but less loyal.

Dave had received some worrying information — raw material costs had been increasing quite substantially. This was likely to cause his costs to rise much more rapidly than expected. The adviser also warned him that the area in which he was locating was well away from any main roads and that this might lead to delays in deliveries. Garden centres often suffered from unexpected changes in demand. If Dave chose the wrong plants to stock, he might suffer a dramatic decline in sales. Larger garden centres were able to overcome this problem by stocking a complete range of plants and flowers.

Questions

1 (a) What is meant by the term 'closing balance' (Table 1)? (2 marks)

e A definition is required. The line reference provides an excellent clue.

(b) (i) What is the missing figure at (i) in the cash-flow forecast? (2 marks)

(ii) What is the missing figure at (ii) in the cash-flow forecast? (2 marks)

e Missing figures in a table will require a simple calculation.

(c) Dave's cash-flow forecast is going to be identical to Jim's with only one exception: the wages Dave pays will be 10% higher than those paid by Jim in his cash flow. Based on this change, calculate Dave's closing balance at the end of his first year of trading. (5 marks)

e It is vital that the question is read carefully to recognise the change that is needed and the year to which it applies.

(d) Identify three sources of information for a cash-flow forecast. (3 marks)

e 'Identify' and 'state' both mean the same: no explanation is required.

(e) Explain two possible objectives of Dave's business start-up. (6 marks)

e Two objectives must be identified and reasons given for their being chosen as objectives.

2 (a) Analyse two reasons why Dave would want to complete a cash-flow forecast. (10 marks)

e In effect, two benefits of completing a cash-flow are required, analysed in the context of Dave's business.

(b) To what extent did Dave manage to overcome problems that he might have met in setting his budgets? (15 marks)

e This wording requires a contrast to problems that existed and those that were avoided or overcome, followed by an overall judgement on the degree to which the problems were overcome.

(c) Discuss the reasons why Dave's business might fail.

(15 marks)

e This is a synoptic style of question. The reasons may be drawn from any part of the case study. Judgement should be in the form of whether Dave is likely to fail and/or which reasons are most likely to lead to failure.

Student A

1 (a) It is the amount of cash held at the end of a particular period of time in the cash-flow forecast.

e A clear and concise definition that earns both marks.

(b) (i) £9,330
(ii) £6,100

e Two correct answers.

(c) Wages total £18,900. 10% = £1,890. Closing balance = £22,930 – £1,890 = £21,040.

e Full marks are awarded for an efficient calculation.

(d) Other businesses, business advisers, market research.

e Three correct answers. The word 'identify' means that no explanation is required.

(e) Dave's main objective appears to be an enjoyable work experience outdoors. Dave was not enjoying his present job but loved gardening and the idea that he could earn money from this would be a main aim.

A secondary objective was to make money (£20,000). However, the business appeared to be expecting to make less than £20,000.

e These answers are explained well in the context of Dave's business.

2 (a) Firstly, Dave would want to see if he was likely to get into difficulties. If the forecast showed a shortage of money at any time, he could take steps to plan to raise finance, such as by getting an overdraft. Bank managers are always very keen to look at a cash-flow forecast before supporting a start-up business. Overall, the cash-flow forecast appears to indicate that this financial support is not needed. This is very useful information for Dave.

A cash-flow forecast can also help Dave to understand that his business will be seasonal and that cash flow may be reduced in the winter months. It also emphasises the relative difficulties of the opening of a new business — his net cash flow in the first quarter is expected to be negative.