

Topic 1

Starting a business enterprise

What the specification requires

You need to learn about and understand that businesses are set up to provide those things that people want. These products may be **goods** or **services**. In most cases, businesses are set up with the intention of making a **profit**. In some cases — called **social enterprises** — they are set up to provide a service to a community.

In brief

What is a business? It is a person or group of people who find out what people want and need, and then aim to provide this. People want goods and services. Goods are basically things you can touch — ranging from food to fuel, computers to kites, telephones to toys. Services are things that are done to you or for you: for example, haircuts, delivery, entertainment, banking and communication.

Businesses decide what to sell by seeing what people want (known as **demand**) and what is not currently being supplied. If people demand something and no one is supplying it yet, this is called a **gap in the market**.

Revision notes

- Businesses are set up in order to provide the products that people need and want, but which they are not able or willing to provide for themselves.
- By providing products to the customers who want them, businesses are operating in a market.
- A market is anywhere that buyers and sellers come together to agree on the price for an amount of a product. This does not have to be a physical place: markets can take place via telephone or online.



Just one sort of market — with products, supply and demand

- A product will be either a good or a service. Goods are things that can be touched; services are done for or to a customer.
- People start businesses either to make a profit or to provide a service to a community.
- Those people who take the risk of starting a business, and provide the organisation, are called **entrepreneurs**. Their reward, if the business is a success, is profit. Profit is the surplus of income (revenue) over costs.
- Those businesses providing a community service (like charities and co-operatives) are called social enterprises.
- New businesses look for a gap in the market. A gap in the market is where a demand exists, but it is not being met. Some gaps are to provide specialist goods or services; these are called niche markets.
- Businesses with new products or ideas may be able to create a gap in the market.

Speak the language



demand — the amount of products and services customers are willing to pay for

entrepreneurs — the person who takes the risk of starting a business

gap in the market — where there is demand, but no product to fill it

goods — those things that can be touched

profit — the surplus of income (revenue) over costs

services — those things done to or for a customer

social enterprises — businesses set up to provide a service to a community

In a nutshell

- * Businesses provide products to markets.
- * To succeed, they need to find a gap in the market.
- * Often they are set up to make a profit.
- * Profit is the surplus of revenue over costs and the reward for the entrepreneur.
- * Sometimes they are set up to provide a service to a community.



Boost your grade

AO1 to AO2: you are unlikely to be asked questions on 'what is a business' that require AO3-level answers. The idea of what a business is, and what it does, and an understanding of key terms like 'profit' will give you AO1 marks. For AO2 marks, you must use the business example you are given.

Test yourself

Fill in the gaps in the paragraph below.

Businesses are set up in order to provide the that people need and want.

Businesses sell and customers buy. This is called a Goods are things that can be touched as opposed to things done for or to a customer, called

Entrepreneurs start businesses either to make a or to provide a service to a community. Those businesses providing a community service (such as charities and co-operatives) are called

Topic 2

Franchising

What the specification requires

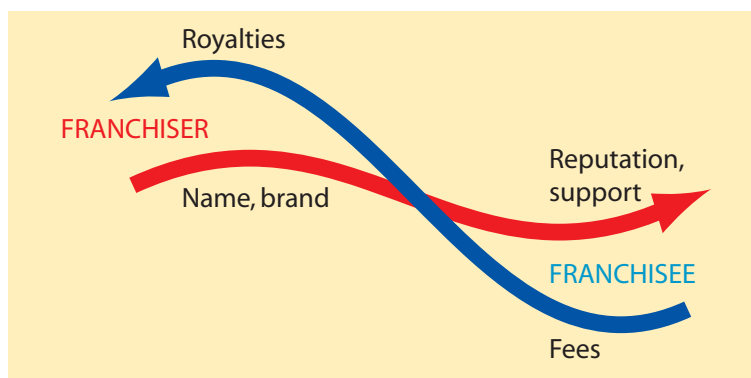
You need to know and understand why a person starting up a business might operate as a franchisee. You need to understand that there are both advantages and disadvantages to being part of a franchise, rather than setting up an independent business.

In brief

Franchising is when a successful business decides to expand by selling the right to other businesses to set up using its ideas. A franchise is a way of starting, owning and operating a business without the high levels of risk that may be associated with other types of start-up. A franchise is a way to organise a business rather than a form of business ownership. It helps the person selling the franchise to expand and gives the person buying the franchise a much better chance of surviving and succeeding.

Revision notes

- A franchise is permission to sell a product (good or service) or brand or to use the successful format of an existing business.
- There are two key players in a **franchise**.
- The **franchisee** buys the franchise from the **franchiser** (think employer and employee to get these the right way round).





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BSM instructors buy franchises from BSM

- The franchisee buys into the success of the established business. It buys the use of its name, its brand, its advertising, its reputation and its support.
- The franchiser is the seller of the franchise that has a successful product, brand or format.
- Franchisers charge a fee for the franchise and collect a **royalty**, usually based on a percentage of the annual sales of the franchisee.
- Because a franchisee is buying into a successful product, the fee for the franchise can often be high and competition to buy a franchise quite fierce.
- Franchisers may be restrictive — insisting on particular suppliers and making sure that uniforms, products and services are identical.
- The advantage to franchisees is that they buy into an established business and may receive help with products, staff, training, marketing and sales materials. They are much more likely to succeed.
- Franchisees may also gain an exclusive territory, away from competition for the same brand.
- The disadvantage is that there may be restrictions on how they can run the business.
- The advantage to the franchiser is that their idea or brand is spread. It is a way to expand the business.
- Franchisers also receive an income from the franchisee.
- One disadvantage is that a poor franchisee may harm their reputation.

Speak the language



franchise — permission to use a successful business format

franchisee — the buyer of the franchise

franchiser — the seller of the franchise

royalty — a percentage of the franchisee's income taken as payment by the franchiser

In a nutshell

- * A franchise is a form of business organisation.
- * Franchisees buy the right to use the franchiser's name and reputation.
- * Franchisers gain by expanding their business and receiving fees.
- * Franchisees gain by being much more likely to succeed.



Test yourself

Choose the most appropriate answer from the following alternatives.

- 1 A franchisee is **(a)** the seller of the franchise, **(b)** the buyer of the franchise, **(c)** the owner of the brand, **(d)** a customer of the franchise.
- 2 A royalty is **(a)** a set amount, **(b)** based on a percentage, **(c)** Burger King, **(d)** fixed each year.
- 3 If a franchisee harms the reputation of the franchise, this is **(a)** an advantage to the franchiser, **(b)** an advantage to the franchisee, **(c)** a disadvantage to the franchiser, **(d)** a disadvantage to the franchisee.
- 4 Franchises can help new businesses to **(a)** set up, **(b)** borrow money, **(c)** reduce risk, **(d)** expand.
- 5 Franchises can help successful businesses to **(a)** set up, **(b)** borrow money, **(c)** reduce risk, **(d)** expand.

Boost your grade

AO1 to AO2: a franchise is just one form of business ownership, but can be very appropriate to a start-up business. For AO2 marks you may be asked to explain or give reasons why a franchise may be suitable to the business you have been given. AO1 marks will be given for stating a reason (it is a successful business) and AO2 marks will be given for explaining the reason (so the new business will already be well known).

Topic 3

Business aims and objectives

What the specification requires

You need to know and understand the difference between **aims** and **objectives** and why a business sets them for itself. You should know the main types of aims, such as survival, profit, growth and market share. You should understand how and why a business might try to set **ethical** and **sustainable** aims. You should know how objectives are used to help measure success.

In brief

Businesses need to know whether or not they are making progress or succeeding in what they are trying to do. To find this out, they need to measure their progress. Progress can be measured by using aims and objectives. Aims are long term and shape how the business operates. Objectives are shorter term and can be used to help run the business. Progress can be measured by setting and reaching objectives.

Revision notes

- Aims are long-term goals towards which the business can work.
- Aims are often not precise; a business may, for instance, aim to be 'the customer's first choice', 'the best in the world' or 'always out in front'.
- Sometimes the aim of a business will be contained in its **mission statement** or vision.
- The main aim for a start-up business is survival; further aims may be profit, growth or bigger market share.
- Most businesses will aim to satisfy their customers.
- Owners may also want to achieve other aims, such as independence, a good reputation and loyal customers.
- Businesses often have aims to act ethically and sustainably.



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A football club can measure its progress by its position in the league

- Acting ethically means doing the right thing or being moral: for example, not using child labour or exploiting poorer countries.
- Acting sustainably is an environmental aim that means that the business should take no more out of the environment than it puts back in.
- This is achieved through green energy, recycling, creating less waste and using sustainable resources.
- The steps on the way to achieving an aim will be marked by shorter-term objectives.
- Objectives will be more clearly defined than aims — setting them helps the business move forward.
- Progress can be measured by seeing how well objectives have been met.
- ‘SMART’ is the term used to remember what objectives should be in order to be useful to a business.
- SMART objectives are Specific, Measurable, Achievable, Realistic and Time-related.

Speak the language



aims — long-term goals towards which a business can work

ethical aims and objectives — aiming to ‘do the right thing’

mission statement — a statement of the values and ambitions of a business that defines how it operates

objectives — shorter-term targets that can be measured

sustainable aims and objectives — aiming to be environmentally friendly

In a nutshell

- * Aims are long-term ‘wishes’.
- * Objectives are shorter term and more precise.
- * The main aim of a start-up business will be survival.
- * Further aims include profit, growth and bigger market share.
- * Some aims involve ethics and the environment.
- * Objectives can be used to help manage a business and measure its progress.



Test yourself

Try this exam-style question.

Rachel has started a business called Kidzstuff selling children’s clothes. She designs and makes the clothes herself. She has decided to rent a shop in her village for 6 months to build up trade.

- 1 State a suitable aim for Kidzstuff. (1 mark)
- 2 Explain why this is a relevant aim for Rachel’s business. (2 marks)
- 3 Explain how Rachel could use objectives to help reach her aim. (2 marks)

Boost your grade

AO1 to AO2: to reach AO2 marks you may need to explain the difference between aims and objectives. You may need to give relevant examples from the business that you are given. Always put your answer in the context of this business.