

AS UNIT 1 STUDENT GUIDE

CCEA

Business Studies

Sample text

Introduction to business

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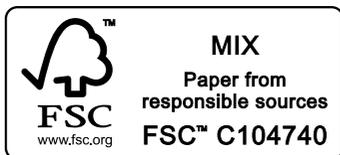
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Getting the most from this book

Exam tips

Advice on key points in the text to help you learn and recall content, avoid pitfalls, and polish your exam technique in order to boost your grade.

Knowledge check

Rapid-fire questions throughout the Content Guidance section to check your understanding.

Knowledge check answers

- 1 Turn to the back of the book for the Knowledge check answers.

Summaries

- Each core topic is rounded off by a bullet-list summary for quick-check reference of what you need to know.

Sample text

Exam-style questions

Commentary on the questions

Tips on what you need to do to gain full marks.

Sample student answers

Practise the questions, then look at the student answers that follow.

Case study 2: Farm Milk Supplies Ltd

ii Analyse two factors that may influence the supply of milk from Farm Milk Supplies Ltd to Dairy Farms Ltd. 6 marks

The 'analyse' command word means that you must analyse only two factors that influence the supply of milk from Farm Milk Supplies Ltd to Dairy Farms Ltd. This question is worth only 6 marks and does not require an in-depth analysis.

Student A answer

A factor that may have influenced Farm Milk Supplies' supply of milk to Dairy Farms Ltd is consumers' new healthy lifestyles. This is because many consumers now operate a healthy balanced diet, especially with the addition of low-fat milk in recent years. This may have led to the increase of 70,000 litres of milk produced by Farm Supplies and supplied to Dairy Farms from 2018 to 2019.

Another factor that may have influenced Dairy Farms could have been the response to changing economic circumstances. Due to increased demand, milk prices have increased by 1p per litre and Farm Milk Supplies Ltd will try and supply more milk to Dairy Farms Ltd to gain increased profits for both investment in solar farms and increased dividends.

A holistic level 3 answer overall, demonstrating a comprehensive knowledge and understanding, detailed use of relevant source material and well-focused and sound analysis.
6/6 marks awarded

Student B answer

One factor that may have influenced the supply of milk from 2.91 million litres in 2018 to 2.98 million litres in 2019 could be a positive change in milk production and efficiency. Farm Milk Supplies Ltd invested £20,000 in new milking machines and increased efficiency, resulting in the increased supply of milk being produced more cheaply than when using the older milking machines. Therefore, more milk was produced as a result, increasing Farm Milk's supply of milk to Dairy Farms to 2.98 million litres, increasing turnover to £830,000 and increasing net profits to £25,000.

Another factor could be due to external environmental changes and the response to the external economic situation. The family stated that it planned to continue a strategy of innovation to increase supply and cut costs. This strategy may have involved new technological changes, which may have been a factor influencing the supply of milk.

- New technology such as the new turbine and solar panels may improve efficiency in order to produce more milk.

(AD1) The student identifies two issues, healthy lifestyles and economic conditions, both mentioned in the case study, which may influence the supply of milk. This demonstrates excellent knowledge and understanding, meriting a level 3 mark.

(AO2) The student correctly discusses the two factors, including the key issues of increased demand for healthier products and milk price increases. This demonstrates a comprehensive standard of application, meriting a level 3 mark.

(AO3) The student analyses the two factors, showing cause and effect of both. This demonstrates well-focused and sound analysis, meriting a level 3 mark.

(AD1) The student gives an accurate explanation of two factors — milk production efficiency and economic conditions — that influenced the supply of milk. This demonstrates an excellent standard of knowledge and understanding, meriting a mark within the level 3 mark band.

(AO2) The student correctly references one factor that influences the supply of milk — that is, the new milking equipment, but incorrectly states that innovation such as the turbine and solar panels will help increase the supply of milk. This demonstrates a mostly appropriate standard of application, meriting a level 2 mark since the extent of application is limited.

(AO3) The student's first point of analysis (increased efficiency of the milking machines) is correct while the second point (innovation) will only cut the farm's costs. Only one factor leads to increased supply; therefore, this would merit a mark within the level 1 mark band.

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Commentary on sample student answers

Read the comments showing how many marks each answer would be awarded in the exam and exactly where marks are gained or lost.

About this book

This book (Student Guide 1) has been written with one objective in mind: to provide you with the ideal resource for your revision of the CCEA AS Unit 1 Business Studies A-level.

In your study of the subject you will examine business in a variety of contexts, including small and large, national and international, service and manufacturing. This book covers Unit AS1: Introduction to business.

The **Content Guidance** section offers concise coverage of Unit 1, combining an overview of key terms and concepts with identification of opportunities for you to demonstrate higher-level skills of analysis and evaluation.

The **Questions & Answers** section provides examples of stimulus material and the various types of questions that you are likely to face: both short-answer and data-response questions. The questions cover the CCEA AS A-level Business specification. There are also explanations of command words, which can be applied to any question with the same word. The answers are also explained in detail, including the proposed mark awarded.

A common problem for students and teachers is the lack of resources and in particular exam-style questions that cover individual areas of study. The questions in this guide are tailored so that you can apply your knowledge while the topic is still fresh in your mind, throughout your course, and when you have revised a topic in preparation for the examinations. Along with the sample answers, this should provide you with a sound basis for sitting your Business Studies exams.

Sample text

Pre-existing knowledge

AS and A-level Business presumes you have no specific previous experience of the subject and its key terms. The good news is that everyone starts at the very beginning regarding key terms and knowledge. Business is a subject that requires you to apply key terms of real businesses, so an interest in current news affairs relating to businesses, for example Apple, Google and Kentucky Fried Chicken, will help you to put theory into context. It is the most rewarding part of the subject, and allows you ultimately to score highly in the exam.

Content Guidance

Enterprise and entrepreneurship

Key resources of a business enterprise

All businesses have as their main aim profit maximisation. To achieve this aim a business requires resources in order to trade profitably. Resources are the **inputs** used to produce **outputs** and these inputs are called **factors of production**. Factors of production include land, labour, capital and enterprise:

- **Land:** used for the production of **goods** and **services**, e.g. farmland for growing crops or land used in mining or quarrying operations.
- **Labour:** human resources and any human input involved in the production of a good or service.
- **Capital:** used to produce goods and services, e.g. machinery, tools, equipment, buildings and technology.
- **Entrepreneurship:** a special form of labour provided by an entrepreneur. An entrepreneur is someone who is willing to risk their time and capital to start and run a business with the vision of earning maximised profits in return for their time and investment. Entrepreneurs organise the other three factors of production and transform them into a business.

Sample text

Motivation to set up in business

Entrepreneurial motives are the reasons that drive entrepreneurs to set up in business. Reasons include financial and non-financial motives. The financial motive is for the entrepreneur to make **satisfactory profit** levels or **maximised profits** through the business.

Range of financial motives

Make money

An entrepreneur's primary objective in setting up a business is to maximise profits. By taking the risk to invest in the business, the successful entrepreneur is rewarded with maximised profits.

Increase capital

An entrepreneur wants to increase the capital invested in the business in order to make the business more valuable.

Range of non-financial motives

Take advantage of opportunities

Entrepreneurs identify a gap in the market and develop the ambition to come up with innovative ways to manufacture and market their chosen product.

Good A physical product such as a computer or mobile phone.

Service An intangible product you cannot touch such as transport, including taxi, bus and rail journeys and flights.

Knowledge check 1

Define two factors of production and explain their purpose in an organisation, e.g. Marks & Spencer Group plc.

Exam tip

The specification requires an analysis of the range of motives an individual may have to become an entrepreneur, which includes both financial and non-financial motives.

Satisfactory profit

The level of profit that the entrepreneur believes is acceptable to him/her.

Maximised profits

The level of profit that the entrepreneur strives to achieve.

Create his/her own job

Some entrepreneurs wish to be in control of their working hours and want the opportunity to develop their own ideas and fulfil their own visions in managing their own business.

Ethical, eco-friendly and green motives

There are increasing numbers of entrepreneurs who start businesses with a view to providing ethical, eco-friendly and green products.

Entrepreneurial characteristics

An entrepreneur is an individual with the capacity to come up with ideas and the ability to see them through, by way of trading in business. An entrepreneur also has the ability to identify an unaddressed need. Entrepreneurs want to work for themselves and are willing to take risks in order for their ideas or products/services to succeed.

Entrepreneurial characteristics are the personality traits and skills that entrepreneurs must possess in order to manage a successful business as efficiently as possible. They include:

- **Vision:** the entrepreneur has an overall vision for the company as a whole and he/she engages with staff to embark on a journey in order to achieve the stated vision.
- **Hard work and determination:** without the entrepreneur's hard work and commitment to the business it may not survive. Constant improvements to the business will ensure its success.
- **Self-motivation:** the entrepreneur is self-motivated with a strong desire to fulfil their vision for the business. Success depends on their ability to identify and overcome problems in the business. To succeed, entrepreneurs need to be able to push themselves and remain dedicated to their visionary plans.
- **Risk taking:** in an ever-changing trading environment the entrepreneur is always willing to take calculated risks to continue trading for additional profits. Successful entrepreneurs know that to succeed, it is important to take risks. To play it safe almost never leads to success. Understanding calculated risks that are more likely to pay off is an important part of being an entrepreneur.
- **Initiative:** entrepreneurs spot gaps in the marketplace. They envisage opportunities and they seize upon them to increase profits.
- **Commitment:** entrepreneurs are 100% committed to the vision for their business. A committed leader drives the business to succeed.
- **Passion:** successful entrepreneurs are passionate. They feel deeply about their product, service or vision.

Summary

After studying this topic you should be able to:

- demonstrate and apply knowledge and understanding of what a business enterprise is and the factors of production associated with it
- analyse the range of motives an individual may have to become an entrepreneur
- analyse the key characteristics of the successful entrepreneur

Knowledge check 2

Identify and explain two motives for a successful entrepreneur, e.g. Bill Gates, to set up a business (Microsoft).

Sample text

Knowledge check 3

State and explain one characteristic of a successful entrepreneur, e.g. Rory McIlroy (Northern Irish golfer).

Exam tip

Do not confuse entrepreneurial motives with an entrepreneur's characteristics.

Central purpose of business activity

The purpose of business activity is to provide consumers with goods and services that meet their needs and wants. By providing similar goods and services for the marketplace, a business must compete with its competitors to make profits and survive. To do this a business must add value and be competitive.

Adding value

'Adding value' has two possible definitions:

- 1 The value of the finished good is greater than the cost of the inputs:** for example, a furniture maker has raw material, such as wood, which costs £40. Once the piece is finished (cut, carved, formed), the furniture maker can set a selling price of £100. This is because during the manufacturing process the wood is transformed into a table, i.e. value is added.
- 2 The product/service is more desirable to consumers:** this could include, for example, a USP (see page 10), the offer of loyalty cards, speedy service, design features, excellent customer service or a brand name. All of these features make a product more desirable in the mind of a consumer compared with rival products/service providers.

Adding value allows firms to charge a premium price. In his book *Thriving on Chaos* (1987), Tom Peters states that consumers' perception of the quality of a product or service is the most important factor in determining its success, even more important than price. Consumers will pay extra for the best quality products/services.

Businesses can introduce completely new products or remodel existing ones. Products can be redesigned to make them stand out from the competitive crowd. Value is added to cars by creating desirable features, such as eco- and economic fuel consumption, alarms, cameras, satnav route finders and hands-free mobile phone devices.

Competitive advantage

Competitive advantage is the advantage that businesses have over their competitors, by having an edge over rival products. This could be low costs, competitive pricing, innovative functional design features, quality and reliability of products, and good customer service.

The two types of competitive advantage are cost advantage and differentiation advantage.

Cost advantage

Cost advantage refers to a business's ability to produce goods and services at a lower cost than its competitors without reducing its quality standards.

A lower cost base enables the business to:

- sell at a cheaper price and therefore sell more and gain a greater share of the market
- sell at a price similar to competition and make greater profit margins on each sale

Knowledge check 4

Explain the central purpose of business.

Knowledge check 5

Explain one way in which a business, e.g. Ulster Carpet Mills Ltd, could add value to its products.

Exam tip

Ensure that you can explain both approaches to adding value that a business can adopt. The case study should provide you with supporting evidence.

There are many factors that can help in reducing the costs of a firm. They include:

- utilising economies of scale and economies of experience
- using cheaper social media methods for marketing
- investing in up-to-date superior technologies
- investing in labour-saving robotic technology
- sourcing cheaper suppliers without reducing quality
- research and development (R&D) into new products/services
- innovative products

Ryanair is considered a low-cost carrier and is single-mindedly focused on cost minimisation. It employs the following tactics in order to cut costs.

- Flights operate throughout the day and night with twice as many flights as some competitors on their routes. This increases the use of their aeroplanes, which are very expensive assets, making them more cost effective.
- The company buys one type of plane, the Boeing 737. This reduces training costs for pilots and maintenance engineers.
- It leases much cheaper airports, close to major airports, but offering cheaper landing fees.
- It removes business class seats from its planes, so increasing the number of seats available for sale.
- It provides online booking and greater use of technology for security and boarding purposes.

Ryanair's successful cost advantage strategy in being the low-cost carrier means that it is able to control its pricing strategy to ensure it makes the maximum profit. Cost advantage tends to be held by the largest firms in the industry and therefore the key for smaller firms is to seek differentiation advantage.

Benefits of a cost advantage strategy

The benefits of adopting a cost advantage strategy include:

- There is an increased sales and market share since the sales price is lower.
- It is possible to charge the same price as the competition and maintain higher profit margins.

Drawbacks of a cost advantage strategy

The drawbacks of adopting a cost advantage strategy include:

- Customers may doubt the quality of the product at such a low price.
- 'Me too' products tempt customers away from established brand names.
- It can be hard to make profit while keeping prices low.

Differentiation advantage

With differentiation advantage, the business creates the perception in consumers' minds that its product or service is better than its rivals'. The two most common ways a business differentiates itself and its products/services are by creating a unique selling point (USP) and a strong brand.

Exam tip

Identify the main areas in the stimulus where the business identifies cost cutting strategies to achieve competitive advantage. There will be application marks for the use of figures in your answer.

Knowledge check 6

Explain one way in which a business, e.g. Enterprise Rent-A-Car, can achieve competitive advantage using a cost advantage strategy.

Unique selling point (USP)

A USP refers to the features or benefits of a product/service that set it apart from its competitors. A USP must be clear, distinctive and truthful, and attract customers to the products/services on offer.

For example:

- TOMS footwear: this company’s USP is its ethical approach — with every pair of shoes purchased, TOMS gives a new pair to a child in need.
- Fever Tree tonic water: this company’s USP is that it produces ‘premium tonic water’ (unlike its competitor Schweppes, which sells ‘tonic water’).

Branding

A brand is a name, symbol and/or logo that aims to make the product instantly recognisable and distinguishable from those of other firms.

When branding is used as the basis for differential advantage, the actual differences in the good/service may be very minor, as the key to the differentiation is to convince consumers that the product is different – usually through marketing/advertising, e.g. Lemsip Cold & Flu drink (produced by GlaxoSmithKline). Strong branding reduces the amount of direct competition because in the eyes of the consumer the rival product is not a direct substitute.

See Table 1, which shows the top five brands in Forbes’ World’s Most Valuable Brands list (2019) and the brands’ estimated values.

Table 1 Forbes’ World’s Most Valuable Brands list, 2019

Position	Brand	Brand value (est. US\$)
1	Apple	\$205.5 bn
2	Google	\$167.7 bn
3	Microsoft	\$125.3 bn
4	Amazon	\$97 bn
5	Facebook	\$88.9 bn

Source: www.forbes.com/powerful-brands/list

Benefits of a differentiation advantage strategy

The benefits of adopting a differentiation advantage strategy include:

- Firms can charge higher prices as customers are willing to pay more.
- If a USP arises, first-mover advantage may be possible.

Drawbacks of a differentiation advantage strategy

The drawbacks of adopting a differentiation advantage strategy include:

- The strategy can be costly and time-consuming to implement.
- There is a potential threat of competition from rival product ranges.

Advantages of a strong brand strategy

The advantages of adopting a strong brand strategy include:

- Greater appeal and differentiation — the brand serves as a magnet, and it stands out. Consumers see the differences between the brand’s products and those of its competitors, and therefore purchase the branded products.

Sample text

Knowledge check 7

Explain one way in which a business, e.g. Boots UK Ltd, can achieve competitive advantage using a differentiation advantage strategy.

- Improved loyalty and customer retention — the brand name binds its customers to the brand and encourages brand loyalty and growth of market share. It uses direct marketing activities to identify and target customers.
- Employee motivation — employees may feel more motivated in the workplace because of the prestige of the brand, and therefore work harder to ensure its success.

Disadvantages of a strong brand strategy

Disadvantages of adopting a strong brand strategy include:

- Cost — brand support and growth costs the business money throughout the product's lifecycle.
- Risk — branding a product/service does not guarantee automatic success for a business, and is therefore seen as a risk associated with business activity.

Summary

After studying this topic you should be able to:

- demonstrate and apply knowledge and understanding of the importance of adding value and how to achieve added value
- analyse and evaluate different approaches to added value
- demonstrate and apply knowledge of how businesses can achieve a competitive advantage through strategies including cost advantage and differentiation
- analyse and evaluate different approaches to achieving competitive advantage

Sample text

Knowledge check 8

Explain one way in which a business, e.g. Lidl GmbH, can achieve competitive advantage.

Forms of business ownership

All business organisations can be traced to different forms of ownership and legal structure. The choice of legal structure depends on a range of factors including:

- **Size:** small- to medium-size businesses suit trading as sole traders, partnerships or private limited companies while large businesses require public limited company (plc) status.
- **Type:** low-risk businesses usually consider sole traders or partnerships for their legal structure, while high-risk businesses opt for limited companies.
- **Initial investment:** sole traders may require small amounts of finance to commence start-up, while partnerships may require larger amounts of finance from all partners to start trading.

Sole trader

A sole trader is a business entity that is owned and controlled by one individual. Examples of sole traders include window cleaners, self-employed taxi drivers, labour intensive car wash personnel, nail salons and rent-a-chair barbers and hairdressers.

Table 2 shows the advantages of trading as a sole trader.

Table 2 Advantages of trading as a sole trader

Low start-up costs	Most sole trader start-ups are relatively inexpensive and, with few legal processes, can commence trading almost immediately.
Profits	All profits earned by the sole trader are wholly owned by the sole trader. There is no other entity with which to share profits.
Control	The sole trader makes all decisions in the business, whether correct or incorrect.
Finances are private	Sole traders are not required legally to publish their financial statements.
Flexibility	Sole traders face the least government regulation among business forms and are better equipped to adapt to shifts in changing economic conditions.

Table 3 covers some of the disadvantages of trading as a sole trader.

Table 3 Disadvantages of trading as a sole trader

Unlimited liability	Unlimited liability means that should a sole trader's business incur large debts and become bankrupt, the trader is personally responsible for those debts.
Raising capital	Most sole traders find it difficult to raise capital for their business, as banks are reluctant to lend money to individuals who have no credit rating and a high probability of insolvency.
Work long hours	Sole traders often work long hours to ensure their business is successful, as more often than not they are the only person working and are unable to refuse work at any time.
Lack of expertise	Sole traders often have a few basic skills, but for a business to run well it requires a wide range of skills. Lack of skills leads to most sole trader business failures.
Competitive	Sole traders normally charge higher prices, as small businesses are often unable to take advantage of discounted materials.

Knowledge check 9

Explain what is meant by the term 'unlimited liability'.

Knowledge check 10

Explain two advantages to a business of trading as a sole trader.