

1 What is business?

- 1 Three reasons why business exist include:
 - i to provide goods and services
 - ii to develop a good idea (enterprise)
 - iii to provide help and support to others
- 2 The mission statement sets out the vision of the business and its core purpose and focus. Overall corporate and strategic planning can then be set and measured against the core purpose.
- 3 A mission statement paints the broad picture. The objectives of a business are more specific — they are targets or goals that will enable a business to achieve its overall mission.
- 4 Five business objectives are:
 - i growth
 - ii survival
 - iii profit
 - iv customer service
 - v corporate social responsibility

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Type of organisation	Objectives
Public limited company	Profit, growth
Public sector organisation	Service, social and economic benefits for community
Charity	Fundraising and support for charity

- 6 SMART means specific, measurable, achievable, realistic and time based. By having SMART objectives it is possible to evaluate the success in achieving them.
- 7 profit = total revenue – total costs
 profit = £50,000 – £5,000 = £30,000
 profit = £15,000
- 8 Advantages might include the following:

Stakeholder	Advantage
Shareholders	Higher dividends
Employees	Wages may increase if profitability increases
Government	Higher tax revenue from corporation tax

Disadvantages might include the following:

Stakeholder	Disadvantage
Consumers	May see higher prices
Society	Firm may neglect ethical responsibilities
Consumers	Lower quality as firms cut costs

- 9 Corporate businesses have limited liability, unlike non-corporate businesses; corporate businesses can sell shares and have shareholders; corporate

businesses (especially plcs) are generally much larger.

- 10 A sole trader is a business owned by a single person. A partnership comprises between 2 and 20 people.
- 11 To help the local community, possibly by providing essential services (e.g. food bank); to help people to acquire job-related skills to assist them into employment (e.g. free school); to buy products from overseas under fair-trading schemes, offering benefits to producers in less developed countries (e.g. Divine Chocolate).
- 12 Mutuals are owned collectively by a business's clients or members, whereas incorporated businesses are owned by their shareholders.
- 13 Private sector organisations are those businesses that are owned by (private) individuals and do not come under government control, e.g. Starbucks, Nike and Cadbury.
- 14 Public sector organisations are those that belong to the part of the economy owned and controlled by the government or local authorities, e.g. the NHS, fire services and rubbish collection.
- 15 Private sector organisations are much more likely to be profit maximisers (in the short run, they might care more about market penetration or sales maximising), whereas public sector organisations are generally set up for the benefit of society as a whole.
- 16 Most new businesses are set up as sole traders because they are usually small, mostly local businesses, and a sole trader is the simplest and easiest type of business to form.
- 17 To bring in a wider range of skills to the business; to raise greater amounts of capital; to reduce pressure on the owners, as cover for holidays will become available.
- 18 Changing circumstances such as growth of the business; capital — it may be easier to raise capital as a plc; takeover may cause a change of legal structure.
- 19 To earn income resulting from a share of the profit of the business in the form of a dividend; for capital growth — if the business does well, the share price is likely to increase, resulting in an increase in the value of an investment.
- 20 Stock Exchange quotation offers access to large amounts of capital; positive publicity (which may lead to increased demand or more favourable terms for credit).
- 21 Increased profit; expectancy of increased profit; changes in the market; world uncertainty.
- 22 market capitalisation = share price × number of shares issued
 = 57p × 2,100m
 = £1,197m

- 23 If sales are to be achieved in a competitive market, a business must make its product or service stand out from the rest. It must make it different, i.e. differentiate it from the rest. If it can do this successfully, it is likely to gain a competitive advantage and therefore increased sales and potentially profit.
- 24 High sunk costs; scarce resources, such as the skilled labour available
- 25 Few government regulations; low sunk costs
- 26 A rise in interest rates is likely to result in lower disposable income for consumers. This is due to the fact that many will be making higher interest payments on loans and overdrafts, while others may be inclined to save more. If spending is reduced, manufacturers of luxury products are likely to be the ones that suffer most.
- 27 Sales for some products actually increase when incomes fall (i.e. in a recession). For example, Primark clothing or Tesco Value baked beans (inferior goods) may actually see an increase in demand.
- 28 A study of demographics is important as population affects the level of demand; the make-up of the population (age, income, occupation etc.) affects the nature of goods bought; an understanding of the structure of the working population will have implications for employment.
- 29 Fair trade is a movement that strives for fair treatment of farmers and workers in less developed countries.
- 30 One example might be BP and the Deepwater Horizon oil spill of 2010.