Exmouth Community College
Academy Trust

GCSE BUSINESS STUDIES THEME 1 – INVESTIGATING SMALL BUSINESS: KNOWLEDGE ORGANISER

Topic	Visual	Subject Content
1.1 Enterprise and entrepreneurship		➢ Understand why new ideas come about- due to changes in technology, changes in consumer wants, products being obsolete e.g. cassette player ➢ Understand how business ideas come about- adapting existing ideas, by invention, by innovation ➢ The impact of risk and reward- failure/ financial loss/, success/profit/independence ➢ The role of enterprise and the purpose of business activity- produce goods/services, meet customer needs, to add value
1.2 Spotting a business opportunity		➢ Meet customer needs- quality, price, choice, convenience ➢ Market research- identify and understand customer needs, identify gap in the market, reduce risk, inform business decisions ➢ Primary research- collected first hand e.g. survey, questionnaire, focus group ➢ Secondary research- collected second hand e.g. Internet, market reports ➢ Qualitative data- written data which gives opinions ➢ Quantitative data- numerical data which is easy to compare ➢ Market segmentation- breaking down market based on characteristics e.g. age, gender, income, location, interests
1.3 Putting a business idea into practice		➢ Objectives must be SMART (specific, measureable, achievable, realistic, time) ➢ Financial aims- survival, profit, sales, market share, ➢ Non-financial aims- personal satisfaction, challenge, independence, control Short-term Overdraft. trade credit Profit= Revenue-Costs Revenue= SP x Q Costs= FC + TVC Break-even point=FC/(SP-VC) Margin of safety=Actual sales – Break-even point Net cash flow= inflows – outflows O/B=C/B-NCF Long-term Personal savings, venture capital, share, loans, retained
1.4 Making the business effective		➢ Unlimited liability- liable for all debts of the business, high risk (Sole trader + Partnership) ➢ Limited liability- only liable for the money invested into the business, low risk (Limited companies- PLC/LTD) ➢ Franchise- a franchisee buys the rights to trade under the name of the franchisor in return for initial fee and royalties. ➢ Location factors- footfall, competition, availability of labour/resources, infrastructure, parking, costs. ➢ The marketing mix- the price of the product, the features of a product, the place it is sold and how it is promoted. ➢ Business plans- needed to obtain finance from an external source (market research, finance, aims, target market)
1.5 Understanding external influences on business		➢ Stakeholder- a group who has an interest in a business (owner, customer, employee, supplier, government, ➢ Legislation- the laws and regulations governing businesses. (Consumer- quality and consumer rights/ Employment law- recruitment, pay discrimination, health and safety) ➢ Economy- impact from the 2008 recession (unemployment, inflation, interest rates, exchange rates, EU) ➢ External environment (PEST)- political, economic, social, technological

Year 10 – Business / Investigating Small Business – HT2

1.3.1 Business Aims and Objectives

KEY TERMS:
Market Share: The proportion of sales in a market that are taken up by one business
Profit: The amount of revenue left once the costs have been deducted
***Social Objective*:** Likely to be non-financial, for example to reduce carbon emissions
Aim: Is a goal that the business wants to achieve
Objective: Tasks that a business will carry out to meet an aim

The main goal (could be long term) that the business wants to achieve)

SMART tasks that a business needs to carry out to meet its aim

S M A R T

Why do we set aims and objectives?

- Direction
- Focus for employees
- Planning
- Measurement of success

Don't forget social objectives:

Environment, Charity

OXFAM

Financial objectives – targets expressed in money terms, such as making a profit, earning income or building wealth.

Non-financial objectives – aims other than financial, why an individual runs their own business. Examples include personal satisfaction, challenge and to help others.

McDonald's

WWF

Will all businesses have the same aims and objectives?

1.3.2 Business Revenues, Costs and Profits

Key Terms:
Income stream: The source of regular income that a business receives (this could be from customers or investment).
Viable: Cable of working and succeeding
Revenue: The income that a business receives from sales
Fixed Costs: Costs that do not change
Variable Costs: Costs that change dependent on how many products or services a business sells
Income Statement: A financial statement showing the amount of money earnt and spent in a particular period and the resulting profit or loss
Interest: A % of an amount borrowed that is repaid in addition to the original amount
Break Even: The point in which a business's costs and revenue are equal

Formula

Total costs
TC (total cost) = TFC (total fixed costs) + TVC (total variable costs)

Geographic	Demographic	Behavioural	Psychographic
E.g. "Customers within 10 miles of the M25"	E.g. "A Level & University Students"	E.g. "Customers wanting a value for money impulse buy"	E.g. "Customers who prefer to buy organic food"

Revenue
Revenue = price × quantity

Income Streaming

- Rent and council tax
- Salaries
- Marketing, for example advertising, market research
- Insurance
- Interest repayments
- Leased equipment charges

FIXED

- Raw materials and bought-in stocks and components
- Wages based on hours worked or amount produced
- Marketing costs based on sales
- Agent and other commissions

Variable cost per unit x output

VARIABLE COSTS

PROFIT = TOTAL REVENUE - TOTAL COSTS

1.3.2 Business Revenues, Costs and Profits cont.

Formula

Net profit

Net profit = gross profit – other operating expenses and interest

Gross profit

Gross profit = sales revenue – cost of sales

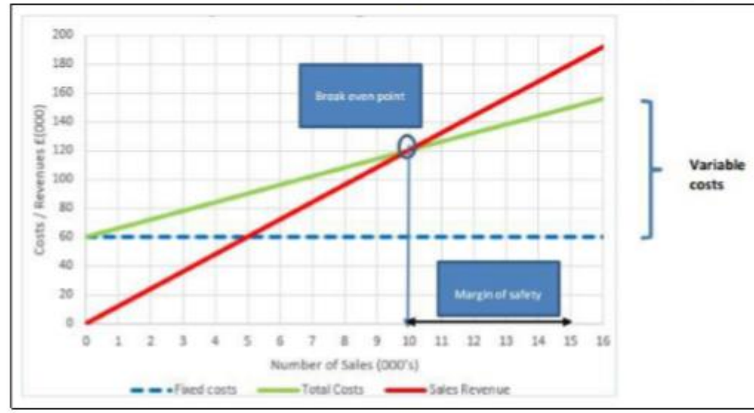
Sales	Costs	Profit or loss?
£100,000	£75,000	£25,000 profit
£100,000	£125,000	(£25,000) loss Note: negative figures are shown in brackets

- ☑ Total sales greater than total costs = PROFIT
- ☒ Total sales less than total costs = LOSS
- ➢ Total sales = total costs = BREAK EVEN

If a business borrows money from a bank they will be charged interest. Interest is calculated at the start of a loan agreement and is added on top of the loan amount.

Interest on loans (%) = $\frac{\text{total repayment – borrowed amount}}{\text{borrowed amount}} \times 100$

Break-even level of output



Using the contribution method

Break even output = $\frac{\text{fixed cost}}{\text{(sales price – variable cost)}}$

This will give you the number of units the business needs to produce and sell to break even

Break-even point in costs/revenue = break-even point in units x sales price

This formula can be used to calculate the revenue (or costs!) at the breakeven level of output

Important

When **revenue increases** it is likely to have **a positive impact** on the business **if costs remain the same.**

When **revenue decreases** it is likely to have **a negative impact** on the business **unless costs decrease at the same time.**

When **costs increase** the business will still have to pay them, unless the business also **increases revenue** then the profit of the business will become less. ***The increase in costs is quite often passed onto customers through a rise in prices.***

When costs decrease it can have an immediate benefit on the business. **They will be making more money per unit sold.** However, if customers are aware that costs have decreased then they may expect so see that saving passed on to them in the form of lower prices.

1.3.3 Cash and Cash Flow

Key Terms:

Credit: The amount of money that a financial institution or supplier will allow a business to borrow
Overheads: Fixed costs that come from running and office which are not affected by the number of specific products or services that are sold.
Positive cash flow: More money coming in than going out
Negative cash flow: More money going out than coming in
Insolvent: A business that is unable to pay its debts and owes more money that it is owed
Consumables: Items that get 'used up' such as pens, paper, staples
Opening balance: The amount of money in the business's bank at the start of any period
Closing balance: The amount of money in the business's bank at the end of the month
Cash flow forecast: An estimate of how much cash will come in to and leave the business over the course of a year.

Net cash-flow = cash inflows – cash outflows for a given time period

Cash inflows	Cash outflows
Cash sales	Payment of overheads, wages and salaries
Receipts from trade customers	Payment of suppliers, for example raw materials, inventories
Sale of spare assets	Buying equipment
Investment of share capital	Interest on bank loan or overdraft
Personal funds invested	Payment of dividends
Receipt of bank loan	Repayment of loans
Government grants	Income tax, VAT and corporation tax

The importance of cash to a business

The management of a business's cash flow is important. This is because a business must have enough money in the bank to pay all the money it owes. Even if a business is making a profit, if it does not have enough cash or a reliable cash flow it can still fail.

What causes problems?

- Low profits or (worse) losses
- Over-investment in capacity
- Too much stock
- Allowing customers too much credit
- Overtrading
- Seasonal demand

£'000	January	February	March	April	May	June
Cash inflows	200	250	200	150	100	250
Cash outflows	250	300	300	100	250	150
Net cash-flow *(cash inflows – cash outflows)*	(50)	(50)	(100)	50	(150)	100
Opening balance *(same figure as the closing balance for the previous month)*	250	200	150	50	100	(50)
Closing balance *(net cash-flow + opening balance)*	200	150	50	100	(50)	50

1.3.4 Sources of Finance

Key Terms:

Trade Credit: A credit arrangement that is offered to a business by its suppliers

Overdraft: A facility offered by a bank that allows an account holder to borrow more money at short notice

Credit Limit: The maximum a business can borrow with a company

Credit Period: The maximum amount of time a business can take to pay what it is owed

Retrospective Discount: A discount applied when a business has purchased a certain number of goods or spent a certain amount of money with a supplier

Venture Capital: Money that is invested in a business sourced from individuals or groups (dragons den)

Return on Investment: The amount of money that an investor will get back in return for investing in a business

Shareholders: Investors who are part-owners in a company

Share Capital: Money to invest in a business which is made from selling shares in the business

Credit Check: A check on the financial status of a business.

Security: When the lender asked the business owner to put up an asset to secure lending

Asset: An item of value (home, machinery, premises)

Guarantor: A names person who guarantees to pay repayment if the person who has the loan fails to pay

Retained Profit: Money that a business keeps rather than paying to share holders

Crowdfunding: A business obtains money from many people who each pay a small amount

Often the hardest part of starting a business is raising the money to get going.

Questions to ask before borrowing:

- How much finance is required?
- When and for how long the finance is needed?
- What security (if any) can be provided?
- Are you prepared to give up some control (ownership) of the start-up in return for investment?
- Whether the cost of the finance, for example the interest charged, is justified?

Internal sources: finance from within the business.

External sources: finance from outside the business.

INTERNAL SOURCES OF FINANCE

- Sale of Assets – Long Term
- Personal Savings – Long Term
- Retained Profit – Long Term
- Venture Capital – Long Term

EXTERNAL SOURCES OF FINANCE

- Share Capital – Long Term
- Bank Loan – Long Term
- Crowd Funding – Long Term
- Trade Credit – Short Term
- Overdraft – Short Term