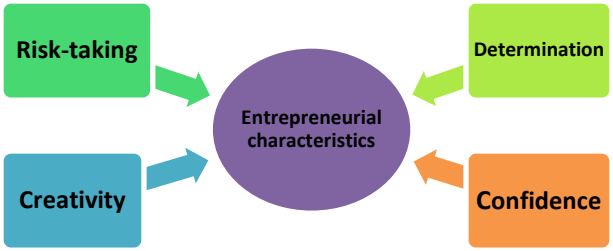
Knowledge Organiser

Unit 1: Business Activity

# 1:1 Role of Business Enterprise and Entrepreneurship

**Enterprise is:** seeing an opportunity to provide a product or service that people are willing to buy




| Risk | Reward |
|---|---|
| ▪ **Financial** Possibility of losing money<br>▪ **Health** The strain of being in charge can affect health<br>▪ **Strained relationships** Starting a business is time consuming | ▪ **Financial** Some successful entrepreneurs can make a lot of money<br>▪ **Independence** Some people like to be their own boss<br>▪ **Self-satisfaction** Some people like to see and idea work |

**Entrepreneur**
*A person who takes the risk of starting and running a business*

**Enterprising characteristics**
*Features of an entrepreneur*

# 1:2 Business Planning

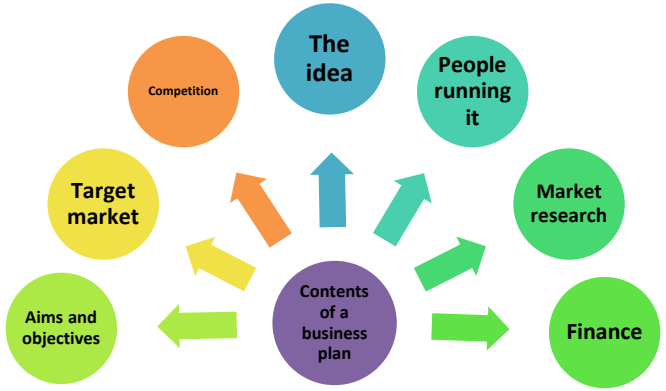
**Purpose of a business plan:**

- To reduce the risk of starting a business
- To help a business succeed

**A business plan:** details how a business aims to achieve its objectives

**Role of a business plan:**

- Identify markets
- Helping with finance
- Identifying resources needed
- Achieving aims and objectives




**Business plan**
*A simple plan which sets out the details of the business*

**Finance**
*The money needed to start the business*

# 1:3 Business Ownership

## Sole trader

| Advantages | Disadvantages |
|---|---|
| ▪ Easy to set up<br>▪ Little finance required<br>▪ Full control<br>▪ Keep all the profits<br>▪ Financial information is private | ▪ Unlimited liability<br>▪ Business stops if ill or on holiday<br>▪ Long working hours<br>▪ Shortage of capital<br>▪ Skills shortage<br>▪ No continuity |

## Partnership

| Advantages | Disadvantages |
|---|---|
| ▪ More capital available<br>▪ Easy to set up<br>▪ More skills available<br>▪ Shared workload<br>▪ Financial information is private | ▪ Shared profit<br>▪ Unlimited liability<br>▪ Shortage of capital<br>▪ Slower decision making<br>▪ No continuity |

## Private Limited Company (LTD)

| Advantages | Disadvantages |
|---|---|
| ▪ Limited liability<br>▪ Continuity<br>▪ Can raise capital more easily<br>▪ Control over share sale | ▪ Financial information available to the public<br>▪ Complex and expensive to set up<br>▪ Sale of shares is restricted<br>▪ Dividends to be paid |

## Public Limited Company (PLC)

| Advantages | Disadvantages |
|---|---|
| ▪ Can raise large amounts of capital<br>▪ Easier to borrow money<br>▪ Limited liability for shareholders | ▪ Possibility of a takeover<br>▪ Complex and expensive to set up<br>▪ Hard to manage as so large<br>▪ Financial information available to the public |

**Unlimited liability**
*Responsibility for the debts of the business rests with the owners*

**Capital**
*Money raised to start or develop a business*

**Deed of partnership**
*A document setting out the operations of the partnership*

**Sleeping partner**
*Someone who only invests in a partnership*

**Limited liability**
*Responsibility for the debts of the business is limited to the amount invested*

**Shareholders**
*Owners of a limited company*

**Dividend**
*Money paid to shareholders from business profits*

Knowledge Organiser

Unit 1: Business Activity

## 1:4 Business Aims and Objectives

**Business objectives:** are what the business wants to achieve




**Survival**
*The business can pay its costs but has nothing left*
**Profit**
*The difference between revenue and costs*
**Market share**
*The share of the total market for a product*
**Growth**
*The business becomes larger*

As businesses evolve their objectives may change

**Initially:** the aim may be to simply survive
**Later**: the aim may be to increase profit or market share

The objectives will also depend on the type of business ownership i.e. sole trader or limited company

## 1:5 Stakeholders in Business

**Stakeholders are:** groups of people or individuals who have an interest in a business

**Internal stakeholders**
*People with an interest in and who work in the business*

**External stakeholders**
*People with an interest in but who are outside of the business*

| Stakeholder | Internal or external | Effects |
|---|---|---|
| Owners | Internal | See profit as their main aim so will want to run the business cost effectively |
| Employees | Internal | Employees want to be treated well and receive a fair wage. Without this they could go on strike |
| Customers | External | Customers want to receive a good service and pay a fair price. Without this they could go to competitors |
| Suppliers | External | Suppliers want to be paid on time. Delayed payments could mean the supplier refuses orders |
| Government | External | The government wants businesses to succeed however an increase in income tax means less money for customers |
| Local community | External | The local community will want jobs in their area however they could protest against a new business development |

**Organic growth**
*Internal growth using own resources i.e. opening more shops*
**Merger**
*Two or more businesses agreeing to join together*
**Takeover**
*One business takes control of another*
**Horizontal growth**
*Two businesses in the same production sector joining together*
**Vertical growth**
*Two businesses in different production sectors joining together*

## 1:6 Business Growth

There are two methods of business growth:

**Organic growth**

- **Increasing output**
  Selling more products
- **Gaining new customers**
  Reduce the price, open more shops
- **Developing new products**
  To target a wider range of customers
- **Increasing market share**
  Selling more than competitors

**External growth**

Merger | Takeover

**Horizontal**
Two businesses in the same production sector

**Vertical**
Two businesses in different production sectors

**Diversification**
Two businesses coming together with no connection

## Assessment Information

Your assessment will take place during a normal timetabled lesson but you should be revising at home.

Number of marks available: 40
Time allowed: 50 minutes

Answer **ALL** of the questions

The first 10 questions will be multiple choice - you must only select **ONE** answer, selecting two will score 0 marks.

The other questions will include a range of 2, 3, 4, 6, 7, & 9 mark questions

**Possible questions**

1. State two aims of a new start up business.
2. Define the term 'entrepreneur'.
3. Explain how a business' objectives may have changed since first starting out.
4. Analyse how a business decision may impact on two stakeholders.
5. Analyse two benefits of being a public limited company.
6. Evaluate the effectiveness of a business plan.

**State** **Explain** **Analyse** **Recommend** **Evaluate**