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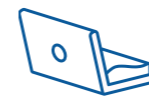
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Illustrated revision and practice

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PREFACE

Absolute clarity! That's the aim.

This is everything you need to ace the examined component in this course and beam with pride. Each topic is laid out in a beautifully illustrated format that is clear, approachable and as concise and simple as possible.

Each section of the specification is clearly indicated to help you cross-reference your revision. The checklist on the contents pages will help you keep track of what you have already worked through and what's left before the big day.

We have included worked exam-style questions with answers for almost every topic. This helps you understand where marks are coming from and to see the theory at work for yourself in an exam situation. There is also a set of exam-style questions at the end of each section for you to practise writing answers for. You can check your answers against those given at the end of the book.

LEVELS OF LEARNING

Based on the degree to which you are able to truly understand a new topic, we recommend that you work in stages. Start by reading a short explanation of something, then try and recall what you've just read. This has limited effect if you stop there but it aids the next stage. Question everything. Write down your own summary and then complete and mark a related exam-style question. Cover up the answers if necessary but learn from them once you've seen them. Lastly, teach someone else. Explain the topic in a way that they can understand. Have a go at the different practice questions – they offer an insight into how and where marks are awarded.

ACKNOWLEDGEMENTS

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THE SCIENCE OF REVISION

Illustrations and words

Research has shown that revising with words and pictures doubles the quality of responses by students.¹ This is known as 'dual-coding' because it provides two ways of fetching the information from our brain. The improvement in responses is particularly apparent in students when asked to apply their knowledge to different problems. Recall, application and judgement are all specifically and carefully assessed in public examination questions.

Retrieval of information

Retrieval practice encourages students to come up with answers to questions.² The closer the question is to one you might see in a real examination, the better. Also, the closer the environment in which a student revises is to the 'examination environment', the better. Students who had a test 2–7 days away did 30% better using retrieval practice than students who simply read, or repeatedly reread material. Students who were expected to teach the content to someone else after their revision period did better still.³ What was found to be most interesting in other studies is that students using retrieval methods and testing for revision were also more resilient to the introduction of stress.⁴

Ebbinghaus' forgetting curve and spaced learning

Ebbinghaus' 140-year-old study examined the rate in which we forget things over time. The findings still hold power. However, the act of forgetting things and relearning them is what cements things into the brain.⁵ Spacing out revision is more effective than cramming – we know that, but students should also know that the space between revisiting material should vary depending on how far away the examination is. A cyclical approach is required. An examination 12 months away necessitates revisiting covered material about once a month. A test in 30 days should have topics revisited every 3 days – intervals of roughly a tenth of the time available.⁶

Summary

Students: the more tests and past questions you do, in an environment as close to examination conditions as possible, the better you are likely to perform on the day. If you prefer to listen to music while you revise, tunes without lyrics will be far less detrimental to your memory and retention. Silence is most effective.⁵ If you choose to study with friends, choose carefully – effort is contagious.⁷

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2. Roediger III, H. L., & Karpicke, J.D. (2006). Test-enhanced learning: Taking memory tests improves long-term retention. *Psychological Science*, 17(3), 249–255.
3. Nestojko, J., Bui, D., Kornell, N. & Bjork, E. (2014). Expecting to teach enhances learning and organisation of knowledge in free recall of text passages. *Memory and Cognition*, 42(7), 1038–1048.
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5. Perham, N., & Currie, H. (2014). Does listening to preferred music improve comprehension performance? *Applied Cognitive Psychology*, 28(2), 279–284.
6. Cepeda, N. J., Vul, E., Rohrer, D., Wixted, J. T. & Pashler, H. (2008). Spacing effects in learning a temporal ridgeline of optimal retention. *Psychological Science*, 19(11), 1095–1102.
7. Busch, B. & Watson, E. (2019), *The Science of Learning*, 1st ed. Routledge.

CONTENTS

Theme 1 Investigating small business

Section 1.1 Enterprise and entrepreneurship

Specification point		<input checked="" type="checkbox"/>
1.1.1 The dynamic nature of business	2	<input type="checkbox"/>
1.1.2 Risk and reward	3	<input type="checkbox"/>
1.1.3 The role of business enterprise	4	<input type="checkbox"/>
1.1.3 The role of entrepreneurship	5	<input type="checkbox"/>
<i>Case study: The Blue Ribbon Dance School</i>	6	<input type="checkbox"/>
Examination practice	7	<input type="checkbox"/>

Section 1.2 Spotting a business opportunity

		<input checked="" type="checkbox"/>
1.2.1 Customer needs	8	<input type="checkbox"/>
1.2.2 Market research	9	<input type="checkbox"/>
1.2.2 Market research methods	10	<input type="checkbox"/>
1.2.3 Market segmentation	12	<input type="checkbox"/>
1.2.3 Market map	13	<input type="checkbox"/>
1.2.4 The competitive environment	14	<input type="checkbox"/>
<i>Case study: Chedgrave landscaping</i>	15	<input type="checkbox"/>
Examination practice	16	<input type="checkbox"/>

Section 1.3 Putting a business idea into practice

		<input checked="" type="checkbox"/>
1.3.1 Business aims and objectives	17	<input type="checkbox"/>
1.3.2 Business revenues, costs and profits	18	<input type="checkbox"/>
1.3.2 Break even	20	<input type="checkbox"/>
1.3.3 Cash and cash-flow	22	<input type="checkbox"/>
1.3.4 Sources of business finance	24	<input type="checkbox"/>
<i>Case study: Gibbs Bakery</i>	25	<input type="checkbox"/>
Examination practice	26	<input type="checkbox"/>

Section 1.4 Making the business effective

		<input checked="" type="checkbox"/>
1.4.1 Liability and ownership	27	<input type="checkbox"/>
1.4.1 Franchising	28	<input type="checkbox"/>
1.4.2 Business location	29	<input type="checkbox"/>
1.4.3 The marketing mix	30	<input type="checkbox"/>
1.4.4 Business plans	31	<input type="checkbox"/>
<i>Case study: Woodkit</i>	32	<input type="checkbox"/>
Examination practice	33	<input type="checkbox"/>

Section 1.5 Understanding external influences on business



1.5.1	Business stakeholders.....	34	<input type="checkbox"/>
1.5.2	Technology and business.....	35	<input type="checkbox"/>
1.5.3	Legislation and business.....	36	<input type="checkbox"/>
1.5.4	The economy and business.....	38	<input type="checkbox"/>
1.5.5	External influences.....	40	<input type="checkbox"/>
	<i>Case study: The Waveney House Hotel.....</i>	41	<input type="checkbox"/>
	Examination practice.....	42	<input type="checkbox"/>

Theme 2 Building a business

Section 2.1 Growing the business

Specification point			<input checked="" type="checkbox"/>
2.1.1	Business growth.....	44	<input type="checkbox"/>
2.1.1	Financing growth.....	45	<input type="checkbox"/>
2.1.2	Changes in business aims and objectives.....	46	<input type="checkbox"/>
2.1.3	Business and globalisation.....	47	<input type="checkbox"/>
2.1.3	Barriers to international trade.....	48	<input type="checkbox"/>
2.1.4	Ethics, the environment and business.....	49	<input type="checkbox"/>
	<i>Case study: M&S.....</i>	50	<input type="checkbox"/>
	Examination practice.....	51	<input type="checkbox"/>

Section 2.2 Making marketing decisions



2.2.1	Product.....	52	<input type="checkbox"/>
2.2.1	The product life cycle.....	53	<input type="checkbox"/>
2.2.2	Price.....	54	<input type="checkbox"/>
2.2.3	Promotion.....	55	<input type="checkbox"/>
2.2.4	Place.....	56	<input type="checkbox"/>
2.2.5	Using the marketing mix to make business decisions.....	57	<input type="checkbox"/>
	<i>Case study: ASOS.....</i>	58	<input type="checkbox"/>
	Examination practice.....	59	<input type="checkbox"/>

Section 2.3 Making operational decisions



2.3.1	Business operations	60	<input type="checkbox"/>
2.3.2	Bar gate stock graphs	61	<input type="checkbox"/>
2.3.2	Working with suppliers	62	<input type="checkbox"/>
2.3.3	Managing quality	63	<input type="checkbox"/>
2.3.4	The sales process	64	<input type="checkbox"/>
	Case study: Toyota	65	<input type="checkbox"/>
	Examination practice	66	<input type="checkbox"/>

Section 2.4 Making financial decisions



2.4.1	Gross and net profit	67	<input type="checkbox"/>
2.4.1	Average rate of return	68	<input type="checkbox"/>
2.4.2	Understanding business performance	69	<input type="checkbox"/>
	Case study: Wagamama	70	<input type="checkbox"/>
	Examination practice	71	<input type="checkbox"/>

Section 2.5 Making human resource decisions



2.5.1	Organisational structures	72	<input type="checkbox"/>
2.5.1	Different ways of working	74	<input type="checkbox"/>
2.5.2	Effective recruitment	75	<input type="checkbox"/>
2.5.3	Effective training and development	76	<input type="checkbox"/>
2.5.4	Motivation	78	<input type="checkbox"/>
	Case study: GrantTree	80	<input type="checkbox"/>
	Examination practice	81	<input type="checkbox"/>

Examination practice answers	82
Levels based mark schemes for extended response questions	90
Index	91
Formulae	94
Examination tips	95

MARK ALLOCATIONS

Green mark allocations^[1] on answers to in-text questions throughout this guide help to indicate where marks are gained within the answers. A bracketed '1' e.g. ^[1] = one valid point worthy of a mark. In longer answer questions, a mark is given based on the whole response. In these answers, a tick mark^[✓] indicates that a valid point has been made. There are often many more points to make than there are marks available so you have more opportunity to max out your answers than you may think.

COMMAND VERBS

Points-based questions

Give

This question type will only appear in Section C of Paper 2. They require you to recall knowledge and will always be worth 1 mark.

Identify

This question type requires you to find a piece of information from a chart, diagram, graph or other quantitative material. When answering these, you do not need to write in full sentences; just write down the correct piece of information. It will always be worth 1 mark and could appear in Sections B and C of either paper.

Define

This requires you to give an accurate definition of a key term. It will only appear in Paper 2, in Section C. It will be worth 1 mark and will be used interchangeably with 'Give' questions.

Calculate

Calculation questions will always be worth 2 marks. You do not get any marks for simply writing the formula. A correct answer will always score 2 marks, but ensure you show your working out. If your answer is incorrect you may get a mark for correct workings. If you provide multiple answers, the one on the answer line will be the one accepted by examiners. If the question asks for 2 decimal places, make sure you reflect this in your answer, or you will lose a mark.

State

This 1 mark question tests the skill of application. It will be linked to a case study, so will appear in Section B or C of either paper. Your response **must** be in the context of the business in the case study or you will not gain marks.

Explain

These questions are contextless so will only appear in Section A. They will ask you to explain an impact, benefit, drawback or method. You will need to make a valid point and then support it with two linked strands of development. To do this, you need to use clear connectives such as 'therefore', 'this leads to', 'because', 'so' and 'as a result'. Try to avoid the use of the word 'also' as this indicates you are moving onto a second point. Be careful of **Explain one method...** questions. Make sure you explain a method rather than a benefit or a drawback in this case. A benefit or drawback will not be answering the question.

Outline

These questions will only appear in Sections B and C as they test your application skills. You will need to offer a method, impact, benefit or drawback as directed. This needs to be supported by one linked strand of development. Your answer must also be specific to the business in the case study. These will be worth 2 marks.



Levels-based questions

Discuss and Analyse

There will be one Discuss question in each paper, and it will be the last question in Section A, worth 6 marks. As it is in Section A, it is not linked to a case study, so will be generic in nature. There will be two Analyse questions, both of which will be in Section B. You can answer these questions by making one or two points. If you make one point, you need to develop that point with a minimum of five linked strands of development. If you make two points, you need the minimum of five linked strands across the two points made. By doing so, you will score highly in terms of analysis. There are no marks for evaluation in these questions, so if the question asks you to Discuss or Analyse a benefit, you should only talk about one or two advantages. Mentioning a drawback would be an invalid response (unless the question asks about an impact). The only difference between these question types is that Analyse questions test application instead of knowledge and therefore require you to make your response specific to the business in the case study.

Justify

These questions involve making a choice between two options. You can score full marks by only discussing one of the options. When answering a justify question, you could adopt a three-paragraph approach, all of which should be applied to the business in the case study:

Paragraph 1:

Select the option you think is best and state the benefit of that option. You should analyse the point you have made by developing it using connectives. Aim to have at least three linked strands of development.

Paragraph 2:

Give a counter argument by recognising a drawback of the option you have chosen. Again, support your point with at least three linked strands of development.

Paragraph 3:

This should be your conclusion and should be in the context of the business. Why is this option the best? What are the key points that have led you to that decision? One way you can show high level evaluative skills is to use the 'it depends on...' rule. What might your final decision depend on?

Evaluation

Similar to a Justify question, you should adopt a three-paragraph approach. However, this time you will not have two options to select from. You must provide an argument in support of the statement in the question, again developed with at least three linked strands. The second paragraph should be a counter argument to the statement, in order to provide balance. This should be as developed as the first. In the conclusion, you should decide why one argument is stronger than the other. In doing so, what is the key point that has determined this and what might it depend on? It is important to ensure your response is applied throughout and that you use business terms to show your understanding.



TOPICS FOR THEME 1

INVESTIGATING SMALL BUSINESS 1BS0/01

Information about Paper 1

Written exam: 1 hour 30 minutes

90 marks

All questions are mandatory

50% of qualification grade

Calculators are permitted in this examination.

Specification coverage

Enterprise and entrepreneurship, spotting a business opportunity, putting a business idea into practice, making a business effective, understanding external influences on business.

The content for this assessment will be drawn from topics 1.1 to 1.5 in the specification.

Assessment overview

The paper is divided into three sections:

Section A: 35 marks

Section B: 30 marks

Section C: 25 marks.

The paper will consist of calculations, multiple-choice, short-answer and extended-writing questions. Questions in Sections B and C will be based on business contexts given in the paper.

THE DYNAMIC NATURE OF BUSINESS

Businesses operate in dynamic markets, meaning that they have to cope with an ever-changing environment. These changes occur because customer wants are constantly evolving, often driven by changes in technology.

To be successful, businesses must have an appreciation of these changes and develop or adapt products to meet these needs. This can lead to new business ideas and opportunities.

Why new business ideas come about

Original ideas

Some successful businesses emerge because the entrepreneur comes up with an original product that meets a need that is not serviced by any existing business.

Obsolete products and services

A product becomes **obsolete** when it ceases to meet customers' needs. Needs can change for many reasons, but very often it can be due to advancements in technology. Keeping a product up to date with customer needs is important if a business wants to continue to be successful.

Changes in technology

As technology develops, new opportunities arise that businesses can take advantage of.

A forward-thinking business that embraces change, and is willing to try out new ideas, can gain a competitive advantage as more technologically advanced products will be sought after by the consumers. Technological advancements can also help a business to become more efficient in terms of production, allowing products to be manufactured more safely, more quickly and for less cost.

Changes in what consumers want

The needs of customers are constantly changing. Businesses must adapt their products in line with demand to ensure they are meeting these needs and to prevent customers going to competitors. By doing so, new business opportunities arise through changes in fashion, the economy or in the lifestyle of society.

Explain **one** benefit to a business of understanding changes in what consumers want.

[3]

Understanding change will allow a business to adapt their products so the needs of customers are met.^[1] This will help to maintain, or increase, sales levels^[1], which may lead to increased revenue for the business^[1].



RISK AND REWARD

When deciding whether to go ahead with a business venture, or when making business decisions, an entrepreneur considers the risks and rewards associated with it.

Some businesses may be deemed riskier than others. Common examples of such business are those that face seasonal demand or operate in highly competitive markets.

Risk

Business failure

The ultimate risk that an entrepreneur faces when starting a business, is failure. A lot of businesses will fail because they will run out of funds and therefore cannot pay for everything they need to.

Financial loss

Businesses risk losing any **capital investment** that the owner has put in personally if it were to fail. If the business has **unlimited liability**, the owner's personal assets would also be at risk if the business cannot pay all its debts.

Lack of security

When an individual sets up a business, they do not have a guaranteed regular income. These also will not benefit from sick, holiday or maternity pay. This could make paying their own bills, such as a mortgage, very difficult with severe consequences for missing payments.

Asra is thinking of setting up a fruit and veg stall at his local open-air market.

Outline **one** risk that Asra might face in setting up his market stall. [2]

Asra may have to pay for his fruit and veg upfront even though he may not sell it all.^[1] This means that he may make a financial loss.^[1]

Reward

Profit

A business will make a profit when its revenue exceeds the total costs over a period of time. This would be the financial reward that most entrepreneurs will seek in return for the risks they take.

Business success

Success comes in different ways for different entrepreneurs. For many it may be financial, however there are huge non-financial rewards such as having personal satisfaction in running a business that is performing well, doing good for society or gaining recognition through awards.

Independence

Many entrepreneurs will value working for themselves and benefiting from the freedoms that this may bring, rather than working for someone else who may dictate their working hours. Independence also allows the entrepreneur to make all the key decisions which can be very rewarding.



THE COMPETITIVE ENVIRONMENT

A **competitive environment** is one in which there are many businesses selling similar products, each trying to attract the same customers. When operating in a competitive environment, a business should look at the following features to assess just how strong each competitor is:

Quality

A business may choose to differentiate itself by producing products that are of a better quality. Therefore, customers will be attracted because they may seek a product that is superior in terms of function and durability.

Customer service

Making a customer feel valued, by a business that is genuinely interested in their needs, can encourage repeat purchase. Word of mouth will help to build a positive reputation that will also attract new customers.

Price

Some businesses will compete by being able to charge a low price for their product. This method relies on being able to produce the product cheaply so enough profit is made on each sale. It also means that a business must sell a larger quantity to make a large overall profit.

Location

A customer may choose a business because it is more easily accessible than others in the market. This can include being located online.

Product range

Having a wide product portfolio will give customers more choice. This may make them more likely to purchase from that business than from one that has a narrower product range.

Lyle has finished a mechanics apprenticeship. He is looking to set up his own car repair workshop but has identified that this is a very competitive market.

Outline **one** way in which operating in a competitive market will impact on his decision making. [2]

Lyle must differentiate his service from that of his rivals in order to be competitive.^[1] He could do this by offering a free MOT test with every full service of a car^[1]. Lyle will need to keep his costs of repairs low^[1] so that he can be competitively priced when compared with other garages^[1]. This means he may decide to use a cheaper supplier for parts and supplies.^[1]



CASE STUDY



Micah has a passion for the outdoors and recently finished studying at agricultural college, gaining qualifications in landscaping. Wanting to work for himself, he is thinking about setting up a garden and landscaping business in his home village of Chedgrave.

Micah is looking to provide a complete range of hard and soft landscaping services, from the construction of walls, paths, fencing, roads, drives and tennis courts to ground clearance, turfing, tree planting, trimming and pruning. As a keen gardener himself, he is also looking to offer everyday gardening services, including mowing and lawncare. He has a detailed knowledge of plants and hopes to be able to offer horticultural services in time.

Before deciding whether to start, Micah has carried out some market research. To begin with, Micah looked on the Internet to see who his rival businesses would be. He found that there were several others already set up. To help him understand these competitors better, he plotted them on a market map based on his knowledge of these businesses. One of the competitors is Green Gardens Ltd, who offer all services at a competitive price. After creating the map, he concluded that there was a gap in the market for an upmarket service. As a result, he has decided that he must differentiate his service in some way in order to attract enough custom to make his business a success.

As part of his secondary research he also looked at population data from the most recent census. From that, he discovered that the village had a large proportion of elderly people. He believed that this proves that there would be a sufficient demand for his services.

He also surveyed his friends and family, as to their thoughts on him setting up this business. The results were very positive and encouraged him further that he could make this a successful business.



BREAK EVEN

A firm will **break even** when it sells enough products to generate sufficient revenue to cover its total costs.

Calculating breakeven

A new business must know how much it needs to sell so that it can ensure that the business is viable. A **break even analysis** is used to aid a business in making decisions about what price to charge, how much to produce and to help in managing costs.

The break even level of output is the number of products that a business needs to sell in order for revenue to equal total costs. It can be calculated using this formula:

$$\text{Break even} = \text{Fixed costs} \div (\text{Selling price} - \text{Variable cost per unit})$$

1. Reanna runs a mobile dog grooming business. She has provided the following information:

- Average amount paid per customer – £25
- Fixed costs of running the business per year – £7,500
- Variable cost of materials used for each dog grooming session – £10

Calculate the number of dog grooming sessions per year that Reanna will have to do in order to break even.

[2]

$$\text{Break even} = \text{fixed costs} \div (\text{selling price} - \text{variable cost per unit})$$

$$£7,500 \div (£25 - £10)$$

$$= 500 \text{ dog grooming sessions per year}^{[2]}$$

Usefulness of break even

Break even analysis is particularly useful for new start-up businesses as it will allow them to see if their business is viable. This is because they will know how many products or services they need to sell to cover their costs. They can then decide whether that is an achievable amount.

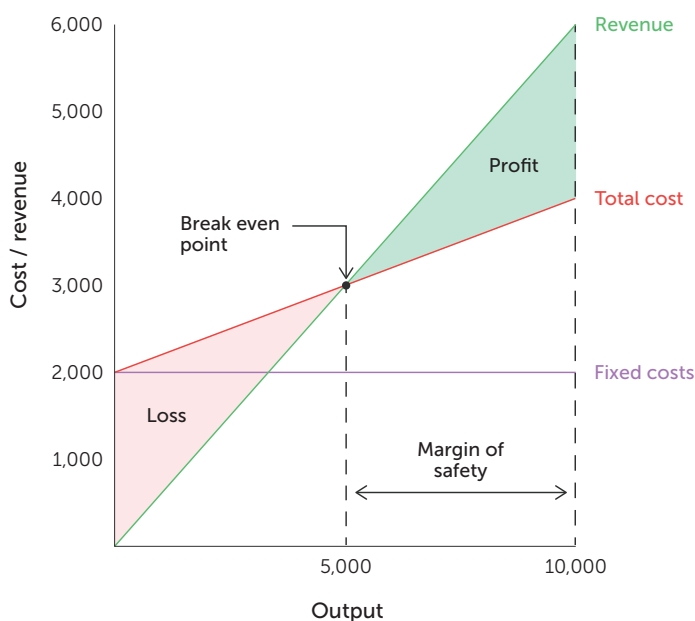
Break even is used for 'what-if' analysis. A business can change the variables, such as the selling price and variable cost per unit, to see what impact that has on the level of break even. This will also tell the business what might happen to profit levels, so it can make important decisions related to price, production levels and costs.



Break even charts

Break even can also be shown diagrammatically with the use of a **break even chart**. In this chart, a business will plot its costs and revenues at different output levels in order to find out the break even level of output.

When constructing a break even chart, revenue, total costs and fixed costs must each be plotted.



Break even point: This is also known as the **break even level of output**. As you can see, this particular business needs to sell 5,000 products in order to receive enough revenue to cover its total costs. At this point, profit would be £0; neither a profit nor a loss is made.

Profit/loss: Beyond the break even point, revenue exceeds total costs. Therefore, the business is making a profit at any output level above 5,000. Below the break even level of output, total costs are greater than revenue so the business is making a loss.

Margin of safety: The **margin of safety** is the difference between the actual output of a business and the break even level of output. If the business in the chart is producing 10,000 units then the margin of safety will be 5,000 units (10,000 – 5,000). This means that sales can drop by 5,000 units before a loss is made.

2. Explain **one** method a business could use to reduce its break even level of output.

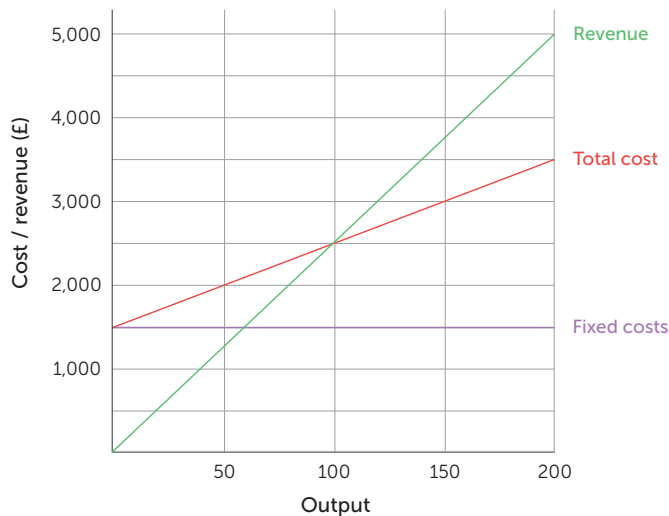
[3]

Using cheaper raw materials in production of the product^[1] will mean that variable costs per unit are lower^[1]. This increases the difference between the selling price and the cost of making the product^[1]. This will lower the amount needed to be sold to break even.

A business can reduce its break even by increasing the selling price^[1]. Therefore, the difference between price and variable costs will be greater^[1], meaning they need to sell fewer products or services to cover the fixed costs^[1].

EXAMINATION PRACTICE

1. Which **one** of the following would be classed as a variable cost for a business? [1]
A – Advertising B – Insurance C – Raw materials D – Salaries
2. Which **two** of the following are classed as non-financial objectives of a business? [2]
A – Challenge B – Personal satisfaction C – Profit D – Sales E – Survival
3. Explain **one** reason why survival is a particularly important objective for new start-up businesses. [3]
4. Explain **one** reason why cash is important to a business. [3]
5. The graph below shows a monthly break even diagram for a business. Using this information, calculate the break even level if fixed costs were to increase to £2,250 per month. [2]



For the following questions you must refer to the case study on the previous page.

6. State **one** financial objective that Robert might have for *Gibbs Bakery*. [1]
7. Calculate the profit that *Gibbs Bakery* makes each day. [2]
8. Calculate the margin of safety for *Gibbs Bakery*. [2]
9. To finance the investment, Robert is considering two options:
 - Option 1: Using retained profit.
 - Option 2: Using a bank loan.
 Justify which of the two options *Gibbs Bakery* should choose. [9]
10. Evaluate the most effective method that *Gibbs Bakery* could use to increase profits. You should use the information provided as well as your knowledge of business. [12]

FRANCHISING

An entrepreneur has the option to set up as an independent business or set up as a **franchise**. A **franchisee** is licensed to sell the products or services of an already established business, known as the **franchisor**.

Franchise

The license given by the franchisor allows the new owner to trade using the name, products and equipment of the franchisor, whilst remaining independent. However, the franchisor will charge a fee in return, as well as taking a share of the business' revenues, known as a **royalty**.

Why start as a franchise?

By setting up as a franchise rather than an independent business, the new owner is hoping to reduce the risks faced when starting a business. Risk is reduced because of the following reasons:

- **Brand name is already established:** This will mean that customers will recognise the business name and its products, so may be more likely to purchase products. The business will already have an established customer base.
- **Access to established products and processes:** Not only will the franchisee be able to sell products that customers already know about, they will also gain access to the franchisor's processes and equipment.
- **Franchisor provides training:** The franchisor will provide ongoing support for the franchisee. This is because it is in their interest that the business is successful too.
- **Franchisor undertakes advertising and promotion:** This means that there is one less thing for franchisee to do. The franchisor can afford to undertake expensive advertising that the individual owner may not be able to pay for if they were completely independent.

Discuss the drawback to an owner of setting up a business as a franchisee.

[6]

One drawback is that a franchisee cannot choose where to get supplies from^[1]. This means that they have no room to shop around to find a cheaper supplier^[1], meaning that they are unable to reduce their variable cost by finding someone selling supplies for less^[1]. Therefore, they may be unable to change the price that the product is sold for^[1], which could make them uncompetitive against other local independent competitors^[1]. This could have a negative impact on sales levels^[1], causing the business not to sell enough products to break even^[1].

Other drawbacks include expensive initial start-up fees, royalty fees to the franchisor regardless of profits made and other restrictions placed on the franchisee such as choice of location.



TOPICS FOR THEME 2

BUILDING A BUSINESS 1BS0/02

Information about Paper 2

Written exam: 1 hour 30 minutes

90 marks

All questions are mandatory

50% of qualification grade

Calculators are permitted in this examination.

Specification coverage

Growing the business, making marketing decisions,
making operational decisions, making financial decisions,
making human resource decisions.

The content for this assessment will be drawn from topics 2.1 to 2.5 in the specification.

Assessment overview

The paper is divided into three sections:

Section A: 35 marks

Section B: 30 marks

Section C: 25 marks.

The paper will consist of calculations, multiple-choice, short-answer and extended-writing questions. Questions in Sections B and C will be based on business contexts given in the paper.

BUSINESS AND GLOBALISATION

Globalisation is the expansion of trade by businesses to operate internationally across many different countries. It is having an increasing impact on how businesses operate as more compete internationally. Governments take action to ensure that domestic firms are protected.

The impact of globalisation on businesses

Imports: The goods and services brought into one country from another. The rise of globalisation has meant that consumers can now buy goods from foreign companies more easily. This means that UK firms will face more competition, making it harder to survive.

Exports: The goods and services produced in one country and sold to another. The rise of globalisation has opened up new markets for UK businesses to sell their products to. This has given businesses opportunities to grow and potentially increase their profits.

Business location: Globalisation has allowed businesses to more easily locate overseas. By doing so, they may be able to benefit from cheaper labour, allowing them to reduce their costs. This would make them more competitive.

Multinationals: A business that operates in multiple countries. These large businesses benefit from lower costs of production and from the fact that they have physical locations near their customers in the countries that they operate in. Other businesses must adapt in order to compete with a multinational.

1. Explain **one** benefit to UK businesses from the rise in the number of imports entering the UK. [3]

One benefit is that UK manufacturers can import cheaper raw materials from abroad^[1]. This reduces the total cost of production^[1], allowing the business to sell the products at a lower price or to have an increased profit margin^[1].

UK businesses may now be able to import products for resale that they may not have been able to get a hold of before^[1]. This could cause more customers to be attracted to the business^[1]. This could lead to increased revenues and profits^[1].

2. Explain **one** drawback to a multinational of setting up a location in a foreign country. [3]

One drawback is that a business may not fully understand the needs of the customers in the country where they are choosing to set up^[1]. As a result, the product may not be suitable if they do not adapt it^[1], meaning that customers may not buy the product and the business could get into financial trouble^[1].

One drawback is that health and safety regulations may be different^[1]. This could mean that the business' product needs to be adapted to fit with the country's regulations^[1]. As a result, costs could increase^[1] making the products less competitive in the new market^[1].

CASE STUDY



Marks & Spencer (M&S) plc is a multinational retailer with strong roots and headquarters in the UK. They sell quality home, clothing and food products, the majority of which is M&S's own brand. They employ 78,000 people and have more than 1,500 stores across 57 countries. This is an area for further potential growth for the business as they look to increase their international offering. Their objective is to create a much more competitive, localised version of M&S in those selected markets where they can attain a sustainable market share.

M&S have a reputation of being an ethical and environmentally conscious organisation, having previously been named in Forbes' list of the world's most ethical companies. They achieved this through the implementation of their Plan A. Plan A is a multi-year sustainability transformation plan that is regularly updated to reflect the risks and opportunities that social and environmental issues pose for the business. By committing to this plan, they have achieved the following:

- Reduced carrier bag usage by 90%
- They were the world's first retailer to become carbon neutral
- They use 100% responsibly sourced wood in their furniture

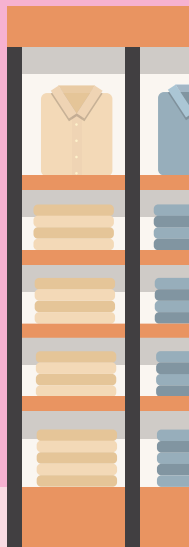
In a recent report on Plan A, M&S is focusing on three areas:

People: M&S want all the people working in their business and in their supply chain to have a voice and to receive a fair wage for their work.

Product: They state that they source their products responsibly, working closely with suppliers to ensure high standards. They also ensure that no food or clothing goes to waste.

Planet: As a business, M&S are driving down their gas emissions. They are engaging with the campaign against single use plastic, stating that they have a commitment to reduce waste whilst also reusing and recycling packaging. They are committed to becoming a zero-waste business.

M&S have been recognised by various bodies for their efforts in being ethical and sustainable, receiving a number of awards. They received an award from The Climate Change Coalition (2019 Large Business Award) and the Corporate Human Rights Benchmark Award (2019 second retailer in Apparel & Agriculture). Despite all this, M&S reported a fall in profit before tax by 20.2% from £84.2m (30th March 2019) to £67.2m in the year ended 28th March 2020.



USING THE MARKETING MIX TO MAKE BUSINESS DECISIONS

For a business to be successful, it needs to develop an integrated marketing mix as this will have an influence on a business' competitive advantage. Each of the elements is inter-related and must complement each other.

Influence of the elements

All the elements of the marketing mix will influence each other. If a business decides to produce a new, high-quality, luxury and innovative product utilising the latest technology, the product will influence the other factors in the following ways:

Price: The product is likely to cost a lot to manufacture and the price will need to be set high to reflect this and provide a satisfactory margin.

Promotion: The promotion strategies used must be appropriate given the product is of a high quality and likely to be targeted at the premium market.

Place: To uphold the product's superior image it must be sold in suitable establishments that enhance this image. Distribution is not likely to be extensive in order to protect the luxury image.

Explain **one** way that promotion may impact on the price element of the marketing mix. [3]

A business may decide to conduct free promotion using regular posts on social media rather than using TV advertising^[1]. This will mean that the overall costs of the business are lower^[1]. This will mean that the business can charge a lower price for its product^[1].

A promotional campaign may be trying to portray an image of luxury^[1] and the price of the product needs to reflect this^[1]. Consequently, the business may use a price skimming strategy^[1].

The marketing mix and competitive advantage

Competitive advantage is a gain that a business has over its rivals in the market. Each of the elements of the marketing mix can help to build that competitive advantage and give a reason for a customer to buy the product of one business over another.

- A product can have unique features and be of a superior quality when compared to similar competitor products.
- A business may be able to produce their product for a lower cost than any of their rivals. Therefore, they can sell it to customers for less.
- A business may have a very eye-catching advertising campaign that could become viral and is seen by a wide audience, leading to the business building a strong brand.
- A business may have a wide distribution network meaning that their products are sold in more outlets than competitor products, allowing a business to gain more exposure.



WORKING WITH SUPPLIERS

Procurement

Procurement is the term used to describe the process a business goes through in finding and obtaining the right materials and supplies to be used in the production process. If a business can find the right supplier then the process can become more efficient. Effective procurement will result in finding a supplier that:

- Will supply the best **quality** materials at the best possible price.
- Will be **flexible**, **quick** and **reliable** in delivery so that the business gets the right supplies at the right time, avoiding stoppages in production or sales.
- Has the materials that a business needs in **stock**.
- Will negotiate prices so that the business can make **cost** savings, particularly when buying in bulk, or for having a long-standing relationship the business can **trust**.

Just in time (JIT)

Just in time stock control is used by businesses that hold no stock. Raw materials are ordered as they are needed and are used straight away on the production line once they arrive. For this system to work, the business must have a good relationship with its supplier, and a well organised production system so it knows precisely when and what to order.

Benefits

- + The cost of holding stock is reduced.
- + Good cash-flow as money is not tied up in stock.
- + Less chance of stock being damaged, spoiled, stolen or becoming obsolete whilst in storage.

Drawbacks

- Will not receive bulk-buying discounts.
- Any delay in delivery may halt production.
- The business is less able to meet sudden surges in demand or large one-off orders.

Discuss the impact on a business of choosing the wrong raw material suppliers. [6]

The services provided by the supplier can directly influence the reputation of a business^[1]. If materials supplied are not of a sufficient quality, it can impact on the quality of the business' products^[1]. This could then lead to dissatisfied customers^[1] who may in turn, give the business negative reviews^[1]. This could lead to the business gaining a poor reputation^[1]. This may adversely affect future sales^[1].

There could also be an impact on a business' costs^[1]. This is because a reputable supplier may deliver quality materials, but they may be more expensive than other options^[1]. This would mean that variable costs would increase^[1], meaning that the business would have to increase the price that they charge the customers^[1] in order to maintain profit margins^[1].

MANAGING QUALITY

A business' products and services must be of a sufficient quality to satisfy the customer's needs and wants. If quality falls short of these expectations, then the business could suffer as a result. A business can either use a **quality control** or **quality assurance** system.

Quality control

Quality control involves checking the quality of a product at the end of the production line by a team of quality controllers and inspectors. Their job is to ensure that each product or batch meets a specific set of standards before being sold to the customers.

Benefits

- + Defective products will not make it to market.
- + The system is not disruptive to workers as quality is inspected at the end of production.

Drawbacks

- There can be a lot of waste as defects are only found at the end of the production process.
- This process can be costly, not only in terms of waste, but inspectors have to be paid.

Quality assurance

Quality assurance requires each individual worker to be responsible for the quality of their own work.

Quality is a focus at every stage of the production process. As such it aims to prevent errors from being made in the first place.

Benefits

- + Can be motivating to staff as they have more responsibility.
- + In theory there should be no wastage as errors are rectified immediately before the products move along the production line.

Drawbacks

- Production may be more time consuming as each worker checks their own quality.
- Staff may need training to take on the extra responsibility.

Discuss the benefit to a business of producing a high-quality product.

[6]

One benefit is that it can provide a competitive advantage^[1]. This is because customers may see the product as superior compared to competitor products^[1]. As a result, they may be more likely to purchase the product from the business^[1], possibly for a higher price too, leading to increased revenue and potentially profit^[1].

A second benefit is that controlling quality can reduce costs^[1]. This is because there will be fewer defect products^[1], meaning that the business will have less wastage^[1]. This leads to the business being more efficient^[1].



THE SALES PROCESS

Offering good customer service is one way that a business can gain an advantage over competitors. By looking after customers, a business will gain a good reputation that will help them to be successful.

Good service throughout the sales process involves the following:

Product knowledge

Being able to answer customer questions will help them determine which product or service is most suitable for fulfilling their needs. It will make a customer feel more confident when purchasing from a business that really understands what it offers.

Responses to customer feedback

Receiving feedback is a good way for a business to interact with customers, as long as they act upon any feedback received, whether it is positive or negative. If it is negative, this needs to be handled with sensitivity so that the situation can be resolved. That way the business may retain the custom in the future.

Customer engagement

Any interaction between the customer and the business needs to be positive in order to make them want to engage with the business more. Making the customer feel valued will enhance their experience and ensure that they know that the business cares about them.

Speed and efficiency of service

Dealing with customers promptly and shipping the product to them in a timely fashion will help a business make customers happy. A customer is more likely to make a purchase if the sales process is quick and easy.

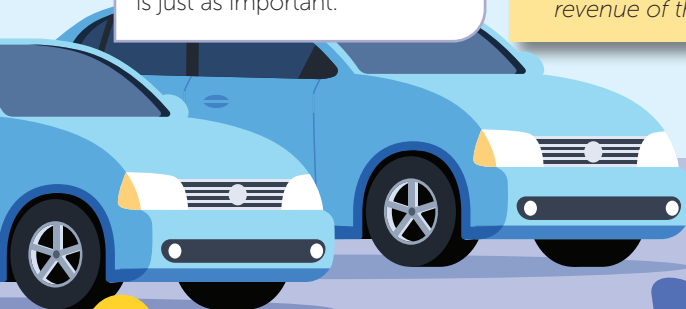
Post-sales service

The customer's experience with a business does not finish when they purchase the product. For some businesses, the service the customer receives afterwards is just as important.

Explain **one** benefit to a business of providing good customer service.

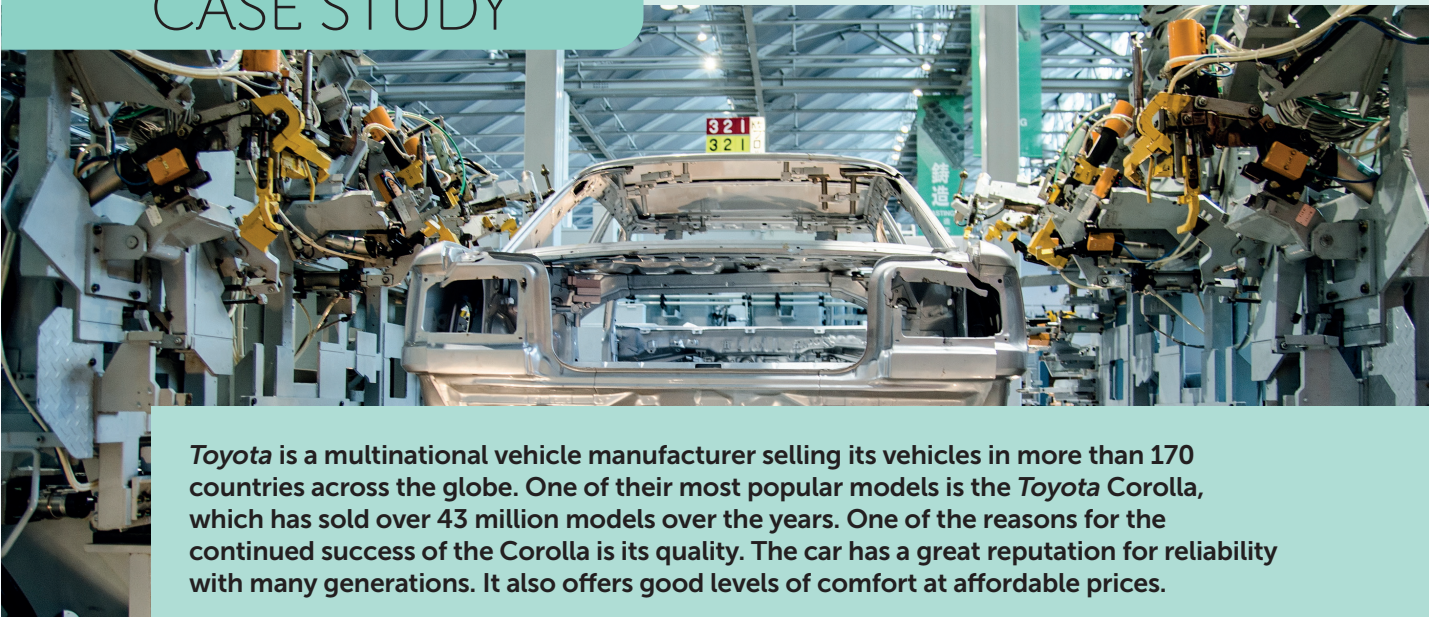
[3]

Good customer service will lead to satisfied and loyal customers as they feel that the business really values them^[1]. As a result, they are more likely to undertake repeat purchases^[1], or leave favourable online reviews of their experience^[1], which could lead to an increase in reputation^[1], and potentially sales and revenue of the business^[1].



Using clear connectives is crucial in all question types. Using phrases like 'as a result', 'which leads to' and 'this means that' will clearly show the examiner that you are explaining your points further.

CASE STUDY



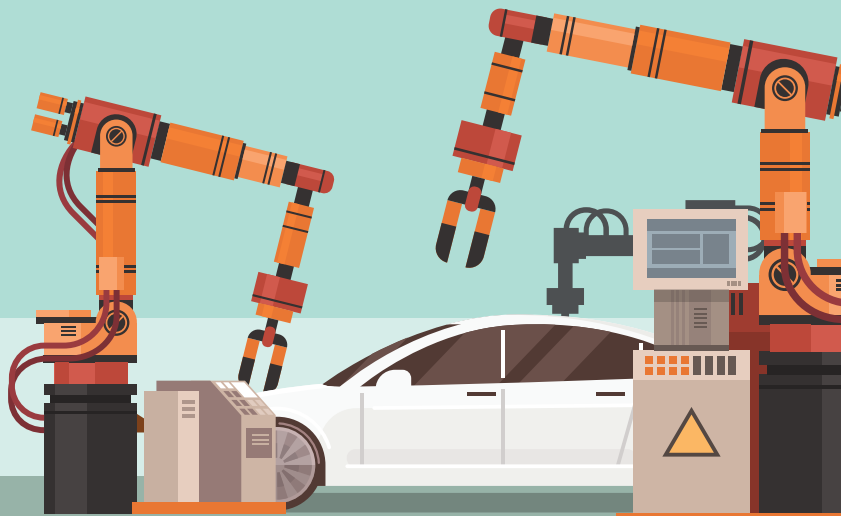
Toyota is a multinational vehicle manufacturer selling its vehicles in more than 170 countries across the globe. One of their most popular models is the *Toyota Corolla*, which has sold over 43 million models over the years. One of the reasons for the continued success of the *Corolla* is its quality. The car has a great reputation for reliability with many generations. It also offers good levels of comfort at affordable prices.

For many years, *Toyota* has taken the lead in efficient manufacturing techniques. Their objective is to manufacture vehicles in the quickest and most efficient way so that they can deliver them to the customer as swiftly as possible.

In order to improve efficiencies, *Toyota* adopts a just in time approach to stock control. The assembly line is only stocked with the required number of necessary materials that will be used in immediate production. The management of *Toyota* recognise that storing large quantities of stock can lead to a lot of waste and storage costs, which will have a negative impact on the vehicle manufacturer's efficiency.

Toyota utilises a flow production technique in its factories, making use of large amounts of automation, although the process is overseen by employees. In the production process, the business utilises a system of quality assurance. If there is a problem in the production process that is affecting quality, the machine will come to an immediate halt and the problem will be rectified so that the quality of production is reliable.

These production systems have given *Toyota* a competitive advantage against its rivals such as *Volkswagen*, *Hyundai* and *General Motors*. They have enabled it to become one of the biggest vehicle manufacturers in the world, selling nearly 9 million vehicles in the last year.



EXAMINATION PRACTICE ANSWERS

Section 1.1

1. D [1]
2. C, D [2]
3. A business may add value by having a better design for their product. This may mean that the product is more aesthetically pleasing than others in the market. As a result, it will grab the attention of customers when they see it on the shelves.
A business may add value by having a strong brand name. This allows the business to charge more for their products because customers would be willing to pay higher prices in order to obtain branded goods. This may enable the business to generate more profit.
A unique selling point may also add value. This makes a product different compared to its competitors. This, therefore allows a business to charge more as customers would be willing to pay to get a unique product. [3]
4. An entrepreneur may employ people. People are classed as human resources, who need to be kept happy. By doing this, the entrepreneur will get the best out of their workers. As a result, more work will be completed. [3]
5. By running their own business, an entrepreneur will have independence. This is because the entrepreneur is their own boss and they don't have to answer to anyone else. This allows them freedom to make the decisions they want to. [3]
6. Khadija taught dance at a local school. Therefore, she was able to see a gap in the market for this kind of activity for children. [1]
7. Khadija faces the risk of running out of cash. This is because she keeps the price of her dance lessons low, therefore, she does not receive a large amount of cash inflows. As a result, she could face the risk of not being able to pay her dance teachers, which may cause them to stop working in the dance school.
Khadija also risks her security. This is because her dance school may not bring in regular cash inflows. Her income is dependent on a number of people attending her dance lessons. Should they not turn up, the business may not have enough funds to be able to give her a sufficient income, meaning that she may not be able to pay for all her monthly outgoings. [6]
8. Khadija will seek a financial reward for taking on the risk of running the dance school. If she can earn more revenue than she has to pay out in costs (such as the wages for her dance teachers), then she will be able to make profit. She could choose to retain the profit and reinvest the money into growing the dance school, by investing in more studios and hiring more teachers so that she can offer more disciplines, such as ballet. This could cause her future sales to grow even more, leading to even more studios and greater profit.
Profit may not be the main reward that Khadija may seek. Her main reward may be personal satisfaction. She may want the dance school to be successful through her pupils earning awards and medals from performing at local dance shows. This would give her recognition, helping her to develop a good reputation for producing top level dancers. This may lead to more children wanting to join her classes and musical productions.
Overall, seeing her pupils succeed at shows and being involved in dance will be more important to Khadija than making as much profit as possible. We know that she wants to involve as many people in the community as possible in her shows, so I think that this is her main reason. However, this will depend on the dance school making sufficient revenue to cover costs. Without being financially stable, the dance school would not exist, but personal satisfaction comes before profit. [12]

Section 1.2

1. B [1]
2. A [1]
3. A focus group provides detailed feedback from potential customers. This will allow them to make the desired alterations in order to ensure the product meets their needs, which could potentially lead to greater sales for the business. [3]
4. A business can more easily collect large amounts of quantitative data. This is because it is expressed in numerical form, allowing the business to show data on a chart or graph, which can then be more easily analysed. [3]
5. One drawback is that the data might be out of date. This is because it has been collected by someone else at a previous point in time. As a result, a business may make a bad decision based on inaccurate data. [3]
6. He could offer garden waste removal / planting / pruning services. (There are many other valid responses.) [1]
7. Micah could segment the market by age. As he found out, Chedgrave has a high proportion of elderly people, so he can tailor his services to this age category. [2]
8. One impact is that Micah will have to monitor the services of the other gardening and landscaping businesses to see what they are offering. This is so he can differentiate his gardening service by utilising his expertise in horticulture. If he just offers the same

LEVELS BASED MARK SCHEME FOR EXTENDED RESPONSE QUESTIONS

Questions that require extended writing use mark bands. The whole answer will be marked together to determine which mark band it fits into and which mark should be awarded within the mark band.

Discuss	Analysis	Justify	Evaluate	
5–6 marks	5–6 marks	7–9 marks	9–12 marks	<p>Response demonstrates accurate knowledge and understanding of business concepts and issues throughout, including appropriate use of business terminology (AO1b).</p> <p>Knowledge and understanding of business concepts and issues is applied, in detail, to the business context throughout (AO2).</p> <p>Business information and/or issues are deconstructed, finding detailed interconnected points with logical chains of reasoning (AO3a).</p> <p>Response draws a valid and well-reasoned conclusion based on a thorough evaluation of business information and issues (AO3b).</p>
3–4 marks	3–4 marks	4–6 marks	5–8 marks	<p>Response demonstrates mostly accurate knowledge and understanding of business concepts and issues, including appropriate use of business terminology in places (AO1b).</p> <p>Knowledge and understanding of business concepts and issues are applied to the business context, although there may be some inconsistencies (AO2).</p> <p>Response shows deconstruction of business information and/or issues, finding interconnected points with chains of reasoning, although there may be some logical inconsistencies (AO3a).</p> <p>Response draws a conclusion based on sound evaluation of business information and issues (AO3b).</p>
1–2 marks	1–2 marks	1–3 marks	1–4 marks	<p>Response demonstrates elements of knowledge and understanding of business concepts and issues, with limited business terminology used (AO1b).</p> <p>Limited application of knowledge and understanding of business concepts to the business context (AO2).</p> <p>Response attempts to deconstruct business information and/or issues, finding limited connections between points (AO3a).</p> <p>Response draws a conclusion, supported by generic assertions from a limited evaluation of business information and issues (AO3b).</p>
0 marks	0 marks	0 marks	0 marks	Response is missing or not worthy of credit.

Discuss questions – purple and green assessment objectives.

Analyse questions – blue and green assessment objectives.

Justify questions – blue, green and red assessment objectives.

Evaluation questions – all assessment objectives.

INDEX

Symbols

4Ps 30, 35

A

added value 4
advertising 55
aesthetics 52
aims 17
 changes in... 46
ASOS 58
assets 45
authority 72
autonomy 79
average rate of return (ARR) 68

B

balances 23
bar gate stock graphs 61
batch production 60
Blue Ribbon Dance School 6
bonus 78
branding 4, 55
break even 20
buffer stock 61
business
 activity 29
 aims and objectives 17
 growth 44
 operations 60
 performance 69
 plan 31
 stakeholders 34
 success 3

C

capital 45
capital investment 3
carbon footprint 49
cash 22
 inflows and outflows 23
cash-flow 22
centralised structure 72
chain of command 72
Chedgrave gardens 15
choice 8
closing balance 23

commission 78
communication 73
competition 54
competitive
 advantage 57
 environment 14, 30
Computer Aided Design 60
Computer Aided Manufacture
 (CAM) 60
consumer income 38
consumer law 36
consumers 2
convenience 4, 8
cost 52
cost of living 39
cost of sales 67
costs 18
credit 24
crowd funding 24
curriculum vitae (CV) 75
customer
 feedback 64
 needs 8
 service 14, 64

D

data 69
decentralised structure 72
decline 53
delegation 72
demand 38
demographics 12
design mix 52
development 76
differentiation 52
digital communication 35
director 75
discrimination 36
disposable income 38
distribution 56
dual-coding iii

E

e-commerce 29, 35, 48
economic climate
 changes in... 40
economy 38

electronic payment systems 35
employment 74
 law 36
e-newsletters 55
entrepreneur 5, 28
entrepreneurship 5
environment 49
e-tailer 56
ethics 49
exchange rate 39
exports 47
extension strategy 53
external growth 44
external influences 40

F

finance 24
 sources of... 45
financial aims 17
financial data 69
financing growth 45
fixed costs 18
flat structure 72
flotation 45
flow production 60
focus groups 10
formulae 94
four Ps 30, 35
franchise 28
freelance 74
fringe benefits 78
full-time contract 74
function 52

G

gap in the market 9, 13
Gibbs Bakery 25
globalisation 47
government 34
 taxes 38, 48
GrantTree 80
gross profit 67
growth 44, 53

H

health and safety 36
hierarchical structure 72
human resources 5

I

ideas 2
imports 47
incorporation 27
inflation 39
inorganic growth 44
insolvency 22
interest 24
interest rates 19, 39
internal growth 44
international trade 48
Internet 11, 48

J

jargon 73
job
 description 75
 enrichment 79
 production 60
 rotation 79
just in time (JIT) 62

L

lead time 61
legislation 36, 46
 changes in... 40
liability 27
 limited 27
loan capital 45
location 12, 14, 29, 47

M

margin of safety 21
margins 67
mark allocations vi
market
 conditions 46
 data 69
 map 13
 narrowing 12
 research 9, 10
 segments 54
 segmentation 12

marketing
 data 69
 mix 30, 44, 57
Marks & Spencer (M&S) 50
maturity 53
merger 44
motivation 78
multinationals 47

N

narrowing the market 12
narrow span of control 72
net cash flow 23
net profit 67
non-financial aims 17

O

objectives 17, 46
obsolete 2
offers 55
ongoing training 76
opening balance 23
operating expenses 67
operational staff 75
operations 60
organic growth 44
organisational structure 72
original ideas 2
overdraft 24
overseas markets 44
ownership 27

P

partnership 27
part-time contract 74
performance reviews 76
permanent contract 74
person specification 75
place 30, 48, 56
pressure groups 34, 49
price 4, 8, 14, 30, 48, 54
 penetration 54
 skimming 54
primary research 10
private limited company (ltd) 27
procurement 62
product 30, 48, 52
 miles 49
 range 14
 trials 55

production 60
productivity 78
product life cycle 53, 54
professional development 76
profit 3, 18, 21, 67
 retained 24
promotion 30, 48, 55
proximity (location) 29
public limited company 45
purchasing power 39

Q

qualitative data 11
quality 8, 14
 assurance 63
 control 63
quantitative data 11, 69
questionnaire 10

R

recruitment 75
remuneration 78
renewable energy 49
re-order level 61
repayment 19
reports 11
research and development 44
retailer 56
retained profit 24, 45
retention 78
retrieval practice iii
revenue 18
reward 3
risk 3, 5, 31
royalty 28

S

sales 64
savings 24
secondary research 11
security
 financial 17
 lack of... 3
segmentation 12
senior managers 75
share capital 24, 45
shareholders 27, 34
social media 11, 35, 55
sole trader 27
special offers 55

sponsorship 55
staff turnover 78
stakeholders 34
stock 61
structure 72
supervisors 75
suppliers 34, 62
support staff 75
sustainability 49

T

takeover 44
target setting 76
tariff 48
taxation 38
technology 30, 35, 40, 46, 54,
60, 74
changes in... 2

temporary contract 74
total costs 18
Toyota 65
trade
 barrier 48
 bloc 48
 credit 24
 unions 34
training 76
turnover 18

U

unemployment 38
unincorporated 27
unique selling point (USP) 4
unlimited liability 3, 27

V

variable costs 4, 18
venture capital 24

W

Wagamama 70
Waveney House Hotel 41
ways of working 74
Woodkit 32

Z

zero-hours contract 74, 76

FORMULAE

Revenue = Selling price \times Number of units sold

Total variable costs = Variable cost per unit \times Number of units sold

Total costs = Fixed costs + Variable costs

Profit = Revenue – Total costs

Interest = (Total repayment – Borrowed amount) \div Borrowed amount \times 100

Break even = Fixed costs \div (Selling price – Variable cost per unit)

Margin of safety = Actual output – Break even output

Net cash flow = Total receipts – Total payments

Closing balance = Opening balance + Net cash flow

Lead time = Delivery date – Date stock re-ordered

Gross profit = Revenue – Cost of sales

Net profit = Gross profit – Other operating expenses and interest

Gross profit margin = (Gross profit \div Revenue) \times 100

Net profit margin = (Net profit \div Revenue) \times 100

ARR = (Average annual profit \div cost of investment) \times 100

Percentage change = (Difference in figures \div Original figure) \times 100

Average = Total of all the individual values \div The number of values in the set



You may have to demonstrate your basic quantitative skills as well as potentially being asked to use business calculations. This could include calculating the percentage change between two figures or calculating the average of a set of data.



EXAMINATION TIPS

With your examination practice, apply a boundary approximation using the following table. Be aware that boundaries are usually a few percentage points either side of this. (These figures have been taken from the 2019 examination series.)

Grade	9	8	7	6	5	4	3	2	1
Boundary	75%	70%	64%	57%	50%	43%	32%	21%	10%

1. Read each question carefully as some students give answers to questions they think are appearing rather than the actual question.
2. In calculation questions, one mark may be awarded for workings out if the final answer is incorrect. Make sure to show your working in case you make a mistake and the answer is incorrect. Workings also help you check through your own answers more quickly at the end of an exam.
3. Calculation questions total eight marks on each paper; make sure you have learned the formulae.
4. Try to not repeat the question in the first line of your response. It will not score you any marks, but simply wastes your time. Avoid losing marks by not finishing the paper.
5. When explaining your points, you need to use clear connectives to show that you are developing the point you have made and not moving onto a separate point. These connectives include; 'thus', 'therefore', 'this means that', 'this leads to', 'because' and 'as a consequence'. This demonstrates your skills of analysis which are assessed in all longer written questions.
6. Ensure that you include the context in 'State' and 'Outline' questions. Many students forget this and throw away easy marks that could be the difference between grades.
7. In 'Justify' questions, you are presented with two options. You do not need to consider both options to score full marks.
8. All questions are marked according to their Assessment Objectives. Each question starts with a command word. Make sure you fully understand what each command word requires you to do. Reading the command verbs at the start of this guide will help you with this.

Good luck!

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