# **GCSE Business Studies**

# Unit 1: Business Activity Revision Guide



Name:	Target grade:
1 tallici	rarget grader

Page 3: Unit overview

Page 4: Personalised learning checklist

Page 6: Glossary/Key terms

Page 9: Exam top tips

Page 10: Exam structures

Page 11: 1.1 Business Activity

Page 13: 1.2 Business Planning

Page 15: 1.3 Business Ownership

Page 20: 1.4 Business Aims and Objectives

Page 22: 1.5 Stakeholders in Business

Page 26: 1.6 Business Growth

Page 30: Blank Revision clocks

Page 32: Possible/Practice exam questions

Page 35: Self-review of topic

Page 36: Additional support resources

## Unit 1: Business Activity - An overview

Paper 1: Business Activity, Marketing and People					
Content overview	Assessment overview				
Business Activity  Marketing  People	Business 1 80 marks 1 hour 30 minute paper	50% of total GCSE			

Topic	Content
1.1 The role of business enterprise and entrepreneurship	<ul> <li>The purpose of business activity and enterprise</li> <li>Characteristics of an entrepreneur</li> <li>The concept of risk and reward</li> </ul>
1.2 Business planning	<ul> <li>The purpose of planning business activity</li> <li>The role, importance and usefulness of a business plan</li> </ul>
1.3 Business ownership	<ul> <li>The features of different types of business ownership</li> <li>The concept of limited liability</li> <li>The suitability of differing types of ownership in different business contexts</li> </ul>
1.4 Business aims and objectives	<ul> <li>The aims and objectives of business</li> <li>How and why objectives might change as businesses evolve</li> <li>Why different businesses may have different objectives</li> </ul>
1.5 Stakeholders in business	<ul> <li>The roles and objectives of internal and external stakeholder groups</li> <li>The effect business activity has on stakeholders</li> <li>The effect stakeholders have on business</li> </ul>
1.6 Business growth	<ul><li>Organic growth</li><li>External growth</li></ul>

### **Personalised Learning Checklist**

Complete the checklist below to rate your understanding of each of the topics in Unit 1: Business Activity

Tick the relevant column to identify your learning and understanding of each of the areas studied.

		Unit 1: Business Activity			
1.1	The Ro	le of Business Enterprise and Entrepreneurship			
	The pu	rpose of business activity			
	0	Spotting an opportunity			
	0	Developing an idea for a business			
	0	Satisfying the needs of customers			
	Charac	teristics of an entrepreneur			
	0	Creativity			
	0	Risk taking			
	0	Determination			
	0	Confidence			
	The concept of risk and reward				

1.2	Business Planning		
	The purpose of planning business activity		
	<ul> <li>Reducing risk</li> </ul>		
	<ul> <li>Helping a business to succeed</li> </ul>		
	The role, importance and usefulness of a business plan		
	<ul> <li>Identifying markets</li> </ul>		
	<ul> <li>Help with obtaining finance</li> </ul>		
	<ul> <li>Identifying resources a business needs to operate</li> </ul>		
	<ul> <li>Achieving business aims and objectives</li> </ul>		

1.3	Business Ownership		
	The features of different types of business ownership		
	<ul> <li>Sole-traders</li> </ul>		
	<ul> <li>Partnerships</li> </ul>		
	<ul> <li>Private and public limited companies</li> </ul>		
	The concept of limited liability		
	The suitability of differing types of ownership in different business		
	contexts		
	<ul> <li>Start-ups and established businesses</li> </ul>		

1.4	Busine	ss Aims and Objectives			
	The aims and objectives of businesses				
	0	Profit			
	0	Survival			
	0	Growth			
	0	Providing a service			
	0	Market share			
	How and why objectives might change as businesses evolve				
	Why di	fferent businesses may have different objectives			

1.5	Stakeh	olders in Business			
	The ro	es and objectives of internal and external stakeholder groups			
	0	Owners			
	0	Employees			
	0	Customers			
	0	Suppliers			
	0	Government			
	0	Local community			
	The effect business activity has on stakeholders				·
	The eff	ect stakeholders have on business			

1.6	Busine	ss Growth			
	Organic growth				
	0	Increasing output			
	0	Gaining new customers			
	0	Developing new products			
	0	Increasing market share			
External growth					
	0	Mergers			
	0	Takeovers - including horizontal, vertical, diversification			

#### **Glossary/Key Terms**

In your exam you will be required to explain the meaning of a range of key terms.

In most cases 2 marks are available for demonstrating full understanding of the key term and 1 mark for providing a relevant example.

Complete the glossary below so that you have a full set of key term definitions with examples.

Key Term	Explanation	Example
Backwards vertical growth		
Business objectives		
Business plan		
Capital		
Deed of partnership		
Diversification		
Dividend		
Enterprising characteristics		
Entrepreneur		
External growth		
External stakeholders		

Finance	
Forwards vertical growth	
Growth	
Horizontal growth	
Internal stakeholders	
Limited liability	
Market share	
Markets	
Merger	
Organic growth	
Partnership	
Private limited company	
Profit	
Providing a service	
Public limited company	

Satisfaction	
Shareholders	
Sleeping Partner	
Sole trader	
Spotting an opportunity	
Stakeholder group	
Survival	
Takeover	
Unlimited liability	

#### Exam 'Top Tips'

## Multiple Choice Test Taking Tip

Come up with the answer in your head before looking at the possible answers, this way the choices given on the test won't throw you off or trick you.



Read the question carefully and decide on the answer.

Check the possible options and cross out the ones that are **definitely wrong!** 

cific alout what the product or service actually is. Use actual competitor names too"

Read the question and the information very carefully. Some of your answers will come directly from the text!

Highlight/underline key information in the text

"Follow the correct structures, you have been given them for a reason"

DO YOUR BEST TO BEAT THE TEST Test Taking Strategies



Three is key! READ the passage, READ the questions, REREAD the passage to find your answer.



Look back and highlight or underline evidence from the text that proves or supports your answer.

"Where the question asks for TWO reasons/example/benefits, make sure you include TWO"

"If the question doesn't tell you how many to include, look at the number of marks available"



Use all your time.

If you happen
to finish the test
before time is up, go back
over the questions,
especially the
ones that seemed hard,
and check your work.

If you finish your paper before the 90 minutes are up:

Check, check and check again!
Ask yourself: So? Why? How? If?

#### **Exam Structures**

Follow each of the structures below when answering your exam questions

#### Explain [2 marks]

Point

Explain

2 strands of information using a connective

#### Explain [4 marks]

Point

**Explain** 

2 strands of information using a connective

Point

Explain

2 strands of information using a connective

#### Analyse [3 marks]

Point

**Explain** 

2 strands of information using a connective

**Impact** 

#### Analyse [6 marks]

Point

Explain

2 strands of information using a connective

**Impact** 

Point

Explain

2 strands of information using a connective

**Impact** 

#### Recommend [3 marks]

Point

Explain

2 strands of information using a connective

**Impact** 

However

#### **Evaluate/Discuss [7/9 marks]**

Point 1

**Explain** positive

2 strands of information using a connective

**Impact** 

However

Explain negative 2 strands of information using a

connective

**Impact** 

Point 2

**Explain** positive

2 strands of information using a connective

**Impact** 

However

**Explain** negative

2 strands of information using a

connective

**Impact** 

In conclusion the business should....

The most important reason for this

is.....because.....

While they do need to consider.....

I would still recommend.....for the

business because.....

#### 1.1 The role of business, enterprise and entrepreneurs

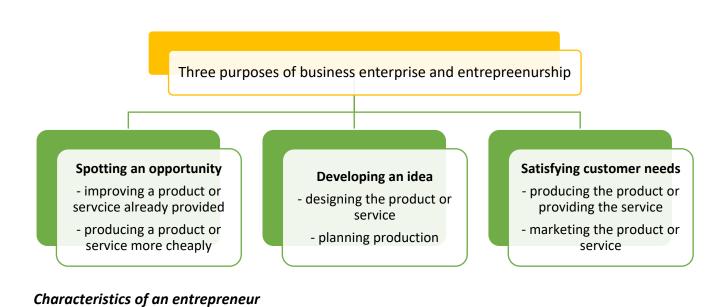
Specification content	What you should know
The purpose of business activity and enterprise	✓ Spotting an opportunity, developing an idea for a business, satisfying the needs of customers
Characteristics of the entrepreneur	✓ Creativity, risk taking, determination, confidence, keen, persistent
The concept of risk and reward	<ul> <li>✓ Potential risks to the entrepreneur such as financial, pressure, stress, health issues</li> <li>✓ Potential rewards to the entrepreneur such as making a profit, being your own boss, satisfaction of developing you own ideas for others to use</li> </ul>

#### Why do businesses exist?

Businesses exist to satisfy the needs and wants of customers. They provide goods and services that people want and at a price they are willing to pay. In return for this the business should make a profit.

The diagram below shows the main purposes of business, enterprise and entrepreneurs.

An entrepreneur may see an existing product and spot an opportunity to develop and improve it.



**Characteristics** refers to the qualities, skills or abilities that a person must have to be a successful entrepreneur. There are four main **characteristics** that you should know.



Think of successful entrepreneurs such as Richard Branson or Mark Zuckerberg, what **characteristics** do they possess and how did they help them to become so successful?

Can you match the explanation up with the correct **characteristic**?

Being prepared to put their own or other people's money at risk.

Being positive, believing in their own ability to make things happen.

Thinking up ideas and solving problems i.e. thinking of new products to meet consumer needs.

Not being put off when difficulties or problems arise, but working hard to solve them.

#### Risks and rewards in business

When an entrepreneur starts a business they hope for **rewards** however, they have to take **risks** in order to receive these **rewards**.

Complete the table to explain the risks and rewards of being an entrepreneur

Risks	Rewards

**Independence** 

Health

**Self-satisfaction** 

**Strained relationships** 

Financial loss

**12** | Page

Making a profit

#### 1.2 Business planning

Specification content	What you should know
The purpose of planning business activity	✓ Reducing risk, helping a business to succeed
The role, importance and usefulness of a business plan	✓ Identifying markets, help with obtaining finance, identifying resources a business needs to operate, achieving business aims and objectives

#### The purpose of planning business activity

A business must **plan** its activities in order to:

- Reduce the risk of failure
- To be as successful as possible

The diagram below shoes the steps involved in developing a business idea



- Identifying what the business will produce and sell and what resources it will need
- Identifying the aims and objectives of the business and how these will be met

The people

- Identifying who will be invovled
- Identifying the human resource requirements the business will need to operate, including the number of people needed and the skills and experience they should have

Market reserch

- Identifying the markets that the business will target
- Identifying marketing activities to make the business successful
- Identifying the marketing resources needed

Finance

- Identifying how much finance is needed, for what and how it will be raised
- A good **business plan** is necessary to present to investors if a business hopes to obtain external finance

Competitors

- Identifying the competitors
- Identifying how the product or service will be different to those of competitors better, cheaper?

Complete the spider diagram to identify the contents of a business plan



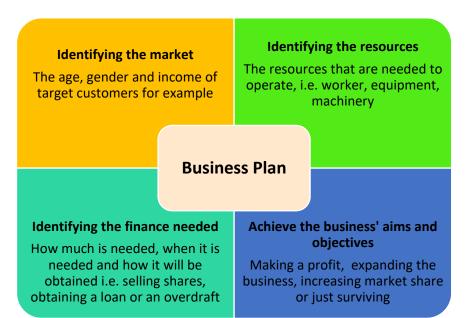
#### The Role, importance and usefulness of a business plan

A business plan explains how a business intends to achieve its objectives. It may be written before the business starts, or when planning a major change to the way an existing business operates.

A good **business plan** will include the following:

Planning is a vital part in the successful start-up and development of a business.

A business plan is useful when someone is simply trying to see if a business idea will really work, before actually starting in the business.



Should the following be included in a **business plan**? Tick the correct box, true or false.

Statement	True	False	Statement	True	False
Information about the owners			What finance is needed		
Information about the hobbies of the owners			A list of favourite school subjects of the business owners		
What marketing is planned			Analysis of the competitors		
A description of the target market			Titles of business textbooks		

#### 1.3 Business Ownership

Specification content	What you should know
The features of different types of business ownership	✓ Sole traders, partnerships, private limited companies, public limited companies
The concept of limited liability	<ul> <li>✓ The difference between limited and unlimited liability</li> <li>✓ Which forms of business ownership has which type of liability</li> </ul>
The suitability of different types of ownership in different business contexts	✓ Which form of business structure should a new start up use as opposed to a well-established business

There are four types of business ownership that you need to know about; sole traders, partnerships, private limited companies and public limited companies. The table below shows the main features of each type along with their advantages (\*) and their disadvantages (\*)

Feature	Sole trader	Partnership	Private limited company	Public limited company
	✓ Few forms to	✓ Only needs a	★The Registrar of	♣The registrar of
	complete	deed of	Companies	Companies
		partnership	requires legal	requires legal
Easy to set up	✓ Cheap to set up		documents, which	documents, which
			take time to	take time to
			produce and cost	produce and cost
			money	money
	The business	The partnership	✓ The business	✓ The business
Continuity	stops when the	ends when one	continues even if	continues even if
Continuity	owner dies or	partner dies or	shareholders sell	shareholders sell
	retires	retires	their shares or die	their shares or die
✓ No information		✓ No information	The public can	The public can
Business	about profits must	about profits	see information	see information
information	be published	must be published	about the	amount the
can be kept			business -	business -
private			accounts must be	accounts must be
			published	published
	The owner has	The owners	<b>√</b> The	<b>√</b> The
Level of	unlimited liability	have unlimited	shareholders have	shareholders have
liability		liability	and benefit from	and benefit from
			limited liability	limited liability

	√The owner	✓ The	✓ Shareholders	*Anyone can buy
	makes all the	<b>partners</b> usually	can restrict who	shares meaning
	decisions	make the	can buy shares	there is a risk of a
	decisions.	decisions	can say snares	takeover
	✓The owner gets	between		tancorei
	to keep all of the	themselves		
	profits			
Easy for the		✗It is possible that		
owner(s) to		the <b>partners</b> may		
control		disagree which		
55.1.1.5.		would lead to		
		problems making		
		decisions		
		The profits will		
		have to be shared		
		between all		
		owners		
	This is limited	Usually there	✓ New	✓ New
	because there is	are only a few	shareholders can	shareholders can
	only one person to	partners to invest	invest and banks	invest and banks
	invest savings and	in the partnership	are willing to lend.	are willing to lend
	banks think they	and banks may		
	are risky to lend to	think they are	✓ Larger amounts	✓Large amounts
		risky to lend to.	can be raised than	of money can
Raising	The business		sole traders and	often be raised
finance	cannot sell shares	The partnership	partnerships	
imance	to raise finance	cannot sell shares		
		to raise finance		
		✓ There are more		
		partners to invest		
		so more initial		
		start up capital is		
		available		

#### Are the statements true or false? Tick the correct box.

Statement	True	False	Statement	True	False
A partnership has at least four			Sole traders often have difficulty		
partners			raising money for their business		
A sole trader has one owner			A sleeping partner is always		
A sole trader has one owner			sleeping		
A deed of partnership will state			Ordinary partners in a partnership		
how much capital partners			and sole traders have unlimited		
should contribute to the business			liability		
A partnership has shareholders			A sole trader can employ people		

#### Using the words below, fill in the gaps to complete the paragraph

Sole	have on	e owner, are very e	asy to set up and	can make	
(	quickly because there is _	owne	er. Like partnersh	ips, sole traders ha	ave
		_ liability, which me	ans that they are	responsible for all	of the
		of the business. Thi	s means that they	may have to sell	
_		possessions	a. A partnership w	ould normally hav	e a
	of partnership,	which sets out the		of the part	ners and the
	amount of		they put into th	e business.	
duti	es	decisions		traders	
	one		deed		debts
unlim	ited	capital		personal	

For each of the features below, identify whether they are features of a **private limited company**, a **public limited company** or both.

Feature	LTD	PLC	Both
Financial information is available to the public			
Shareholders have limited liability			
Shares are sold on the stock market			
Dividends are paid to shareholders			
Shares are usually sold to family and friends			
Can be taken over without the consent of original shareholders			
Can have any number of shareholders			
Share capital must be at least £50,000			
Has LTD after its name			
Can only be taken over with consent of existing shareholders			
Often a family owned company			

#### Concept of liability

When we talk about business **liability**, we are referring to the responsibility of the business' owners for debts incurred by the business. The owners of a sole trader or partnership have **unlimited liability**. This means that they are responsible for **all** of the debts of the business.

Shareholders who own private limited or public limited companies benefit from limited liability.

The table below shows the differences between limited and unlimited liability.

Issue	Unlimited liability	Limited liability
Effect on the owner(s)	<ul> <li>The owners must pay back all the debts of the business they own</li> <li>If the business goes bankrupt, the owners must sell any assets the business has</li> <li>If this sale does not raise enough to pay off the debts, the owner(s) can be ordered to use their savings or sell personal possessions to raise the money needed to pay off the debts</li> </ul>	■ The shareholders who own the company do not have to use their own savings or other personal possessions to pay off the debts of the company if the business fails
Effect on business	<ul> <li>People may be discouraged from setting up a business because of the risk to their savings and other personal possessions</li> <li>This can limit the creation and expansion of sole trader and partnership businesses</li> </ul>	It helps businesses to start up and raise extra finance to expand because people are prepared to invest, knowing that they are not risking their personal possessions
Other impacts	It is easier to start up as a sole trader or partnership because legal documents do not have to be sent to the Registrar of Companies	<ul> <li>Forming a business as a limited company can be complicated because various legal documents need to be prepared and sent to the Registrar of Companies</li> </ul>

#### Suitability of different types of ownership

The most appropriate type of **ownership** for a business will depend on the needs of that particular business. A start-up business and an established business will have very different finance requirements and their type of **ownership** will reflect that.

The figure below summarises the main points to consider when deciding on a type of ownership

#### Sole traders

Suitable for start-ups that:

- only need a small amount of finance
- require limited or non-specialist skills

#### **Partnerships**

Suitable for start ups or established businesses wanting to grow that:

- need larger amounts of finance
- have a fairly low financial risk
- need a wider range of skills
- have owners who want to keep control of the business

Suitability of different types of business

#### **Private limited company**

Suitable for start ups and established businesses wanting to grow that:

- need larger amounts of finance
- have an increased or high financial risk
  - have owners who wish to keep control of the business

#### **Public limited company**

Suitable for an established business that:

- wishes to grow
- needs very large amounts of finance
  - has a very high financial risk

#### 1.4 Business aims and objectives

Specification content	What you should know
The aims and objectives of business	✓ Profit, growth, survival, providing a service, market share
How and why objectives might change as businesses evolve	✓ As a business grows, as new competition emerges, if the business starts to fail
Why different businesses may have different objectives	✓ New businesses v well-established businesses, reason for starting the business i.e. some people start a business to provide a good service

All businesses have one or more **objectives** and they will vary according to the size and situation of the business. A large well-established public limited company will have very different **objectives** to a sole trader just starting out.

The figure below summarises the different business objectives.

#### Survival

Concerned with a business' ability to continue to trade in the long term

Businesses may survive for a short period without making a profit

#### **Profit**

The reward to owners for taking a risk by investing their money in the business

Many businesses seek to maximise profits for the benefit of the owners

#### **Business objectives**

#### Growth

Increasing sales or market share
A way of increasing profits

#### **Providing a service**

Some owners want the satisfaction of giving customers a good service

Can be seen as a way of making a profit as customers will return and new customers will use the business

For each of the businesses in the table below, match them with their objective.

Objective
Survival
Profit
Growth
Providing a service

#### **Business Description**

E.ON, the energy company, has raised its prices even though costs have not risen

Abdul has just opened a coffee shop in a small town where there are already four other coffee shops. He needs to establish the business in this competitive market by gaining sufficient customers to help it to stay in business in the longer term

The Co-Operative supermarket chain aims to act responsibility and respectfully to its customers

American business, Post Holdings, has bought the Weetabix brand from owners, China Bright Food

#### How and why objectives might change as businesses evolve

As businesses evolve they will have different **objectives** because:

- They are at different stages of their development
- Their owners have different motivations
- They are influenced by different market conditions
- They are experiencing different economic conditions

The figure below shows some of the reasons why businesses have different business objectives

#### Survival

This may be an objective for a new business so that it can become established and secure by gaining customers and then aim to make profit in the longer term

It may be an objective for a business during a downturn in economic activity or when a market is very competitive

#### Growth

New businesses may set objectives for the growth of sales or market share to help them survive

Established businesses may want to grow to gain more power in the market, reduce competition and increase profits

#### Profit

New businesses may seek a minimum level of profits to help them survive

Established businesses may want to earn profits to reinvest and to expand the business

Good profits encourage new investors to put money in the business, helping in grow

#### **Providing a service**

This will help the business to get a good reputation enabling it to attract new customers as well as retain its existing customers

Sometimes providing a good service can help a business survive or increase its profits

Some owners get satisfaction from running a business that is useful to its customers

#### 1.5 Stakeholders in business

Specification content	What you should know
The roles and objectives of internal and external stakeholder groups	✓ Owners, employees, customers, suppliers, government, local community
The effect business activity has on stakeholders	<ul> <li>✓ How does business activity affect the above stakeholders - this will depend on the context</li> </ul>
The effect stakeholders have on business	✓ Protests, boycotts, taxation from the government, laws from the government i.e. National Living Wage

A **stakeholder** can be an individual or group of people who have an interest in a business. They would be affected, either positively or negatively, by what the business does.

On the spider diagram below, make a list of stakeholders



Colour code them - one colour for internal, one colour for external

The table below gives the role and objectives of **stakeholders**. When we say 'role', we refer to what the **stakeholder** might do in connection with the business, while objective refers to what the **stakeholder** wants to achieve.

Stakeholder	Role	Objective
Owners	<ul> <li>Provide finance to start up and expand the business</li> <li>They may manage or run the business or they may employ managers to run it on their behalf</li> </ul>	<ul><li>Make profits</li></ul>
Employees	<ul> <li>Produce goods and services</li> </ul>	<ul> <li>Satisfaction of having a job and earning an income</li> <li>Be treated fairly by employers</li> <li>Enjoyment of social aspects of working with colleagues</li> </ul>
Customers	<ul><li>Buy goods and services</li></ul>	<ul><li>Enjoy the benefits provided by goods and service</li><li>Pay affordable prices</li></ul>
Suppliers	<ul> <li>Sell goods for resale or components and materials needed to manufacture goods or provide a service</li> </ul>	<ul><li>Make sales</li><li>Earn profits</li></ul>
Government	<ul> <li>Help businesses, workers and communities</li> </ul>	<ul> <li>Encourage businesses as this leads to high employment and prosperous communities</li> <li>Government wants to encourage businesses because this increases the taxes paid to government</li> </ul>
Local community	<ul><li>Provide workers</li><li>Monitor and influence business activity</li></ul>	<ul> <li>Have a local area which is prosperous, healthy and safe</li> </ul>

For each of the statements below identify whether it is true or false.

Statement	True	False	Statement	True	False
All stakeholders are owners of a			Stakeholders can influence		
business			business activity		
All businesses have stakeholders			Stakeholders are only interested		
All businesses have stakeholders			in the profits of a business		
All stakeholders have the same			Stakeholders generally want a		
interests			business to succeed		
All the employees of a business			All stakeholders work within the		
are stakeholders			business		

A business can affect **stakeholders** both positively and negatively. The figure below gives examples of the benefits and problems caused by business activity.

Owners	Employees	Customers	Suppliers	Government	Local community
Earn profits if the business is successful.	Employed in a job role within the business and able to earn an income from the business.	Obtain products and services at good prices that satisfy their needs and wants.	Sell their goods and services to another business and earn profits from doing this.	Receive tax revenue from the owners, workers and suppliers and customers of the business.	People in the community can earn money from jobs with the business or because workers in the area have money to spend in their business.
May lose money invested in the business if it fails.	May be made redundant if the business does not do well or if their job is replaced by automation such as a robot.	May be sold poor quality goods and services.  May be overcharged for goods or services.	May lose money if the business does not pay for goods supplied.	Very large companies can become 'too big to fail'. The governemnt may be criticised if the business fails and the governemnt does not help.	The community can be affected by negative externalities such as pollution and road congestion caused by the business.

**Stakeholders** can influence business success. The table below summarises ways in which each **stakeholder** can help a business to succeed or cause business failure.

Stakeholder	How the stakeholder can influence success	How the stakeholder can influence failure
Owners	<ul><li>Investing enough money</li><li>Using the investment in ways that will help the business to grow and succeed</li></ul>	<ul> <li>Not investing enough to make the business efficient</li> <li>Failing to change the business when the market changes</li> </ul>
Employees	<ul> <li>Working hard to produce good quality goods or services at competitive prices</li> </ul>	<ul> <li>Producing poor quality goods or services</li> <li>Demanding higher wages will lead to higher costs</li> <li>Disrupting production by industrial action</li> </ul>

Customers	<ul> <li>Purchasing goods and services</li> <li>Creating a good reputation for the business by recommending it to others</li> </ul>	<ul> <li>Deciding to buy from competitors</li> <li>Publicising instances of poor quality goods or bad service, leading to a poor reputation for the business</li> </ul>
Suppliers	<ul> <li>Providing supplies promptly and at competitive prices to help the business produce its goods and services cheaply and reliably</li> </ul>	<ul> <li>Supplying poor goods or services         which lead to quality problems</li> <li>Not supplying components or         materials on time which can cause         production delays</li> </ul>
Government	<ul> <li>Giving the business a grant to enable it to pay for investment or by giving it planning permission to develop or expand its facilities</li> <li>Government may also be a customer of the business, buying goods and services from it</li> </ul>	<ul> <li>Reducing the business' profits by increasing taxes or by raising the National Minimum Wage so that wage costs increase</li> <li>Preventing the expansion of the business by refusing planning permission</li> </ul>
Local community	<ul> <li>Providing the business with customers and supporting its plans for development</li> </ul>	<ul> <li>Opposing the business' plans for expansion or preventing production by not supporting its application for planning permissions</li> <li>This may lead to increased legal costs for the business as it fights for planning permission</li> </ul>

#### 1.6 Business growth

Specification content	What you should know
Organic growth	✓ Increasing output, gaining new customers, developing new products, increasing market share
External growth	✓ Mergers, takeovers - including horizontal, vertical and diversification
The suitability of different methods of growth	✓ Should the business use internal or external growth - this will depend on the context

#### **Organic growth**

**Organic growth** is concerned with increasing sales of products and services. It is internal as it grows by increasing its own size, using its own resources, rather than using someone else's and taking over another business.

The diagram below shows the common ways that a business can grow organically.

#### **Increasing output**

A business can increase the amount it produces by:

- using resources more efficiently
- using up spare storage/factory space
  - increasing the capacity of the business

#### **Developing new products**

A business can develop new products by:

- researching and developing
- copying or buying the ideas of other businesses

#### Increasing market share

A business can increase market share by:

- increasing its own sales
- taking business from other firms

#### Gaining new customers

A business can gain new customers by:

- reducing its prices
- opening new shops in different locations
  - better marketing

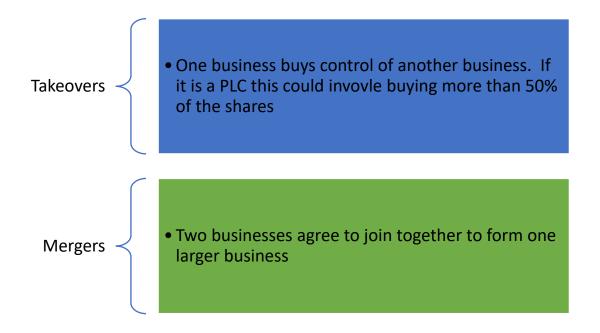
## Organic Growth

For each of the statements below identify whether it is true or false.

Statement	True	False	Statement	True	False
Organic growth in a business is about growing vegetables organically			It is important for technology based businesses to constantly bring out new products if they are to grow		
More effective marketing will help a business to grow			Reducing prices will help attract new customers to a business		
Market share is the share that a worker has in the business			With a 30% increase in the total market, a business that increases its sales by 20% will have increased its market share		

#### External growth

**External growth** is using other business' resources to expand. This can occur in one of two ways; **takeovers** or **mergers**. The diagram below shows the difference between **takeovers** and **mergers**.



Takeovers and mergers themselves can be divided into four different categories depending on the type of businesses involved. The diagram below illustrates these.

#### **Horizontal growth**

The two busineses are at the same stage of production

i.e. two secondary manufacturers

#### Diversification

The two businesses have no real connection in the chain of production

#### **Backwards vertical growth**

One business merges with or takes over a business which supplies it with goods or services.

(Behind them in the chain of production)

#### Forward vertical growth

One business takes over or merges with another business in which it supplies goods or services to

(In front of them in the chain of production)

The following diagram illustrates the benefits of each type of external growth to a furniture manufacturer.

# Horizontal growth - another furniture manufacturer

- Each factory can specialise in a particular type of furniture
- One factory could be closed if not needed, reducing costs

# Diversification - A perfume manufacturer

- Risk is spread, success does not rely only on furniture sales

# Backwards vertical growth - A timber merchant

- It guarantees a supply of wood to make the furniture
- The manufacturer can benefit from the timber merchant

# Forward vertical growth - Furniture retailer

- The manufacturer is guaranteed somwehere that will sell what it produces to consumers

Match each of the statements with the types of external growth in the table below.

An example of a horizontal
merger or takeover

An example of a backwards vertical merger

A definition of a merger

An example of a forwards vertical merger

A definition of a takeover

A maker of pottery takes over a
pottery shop

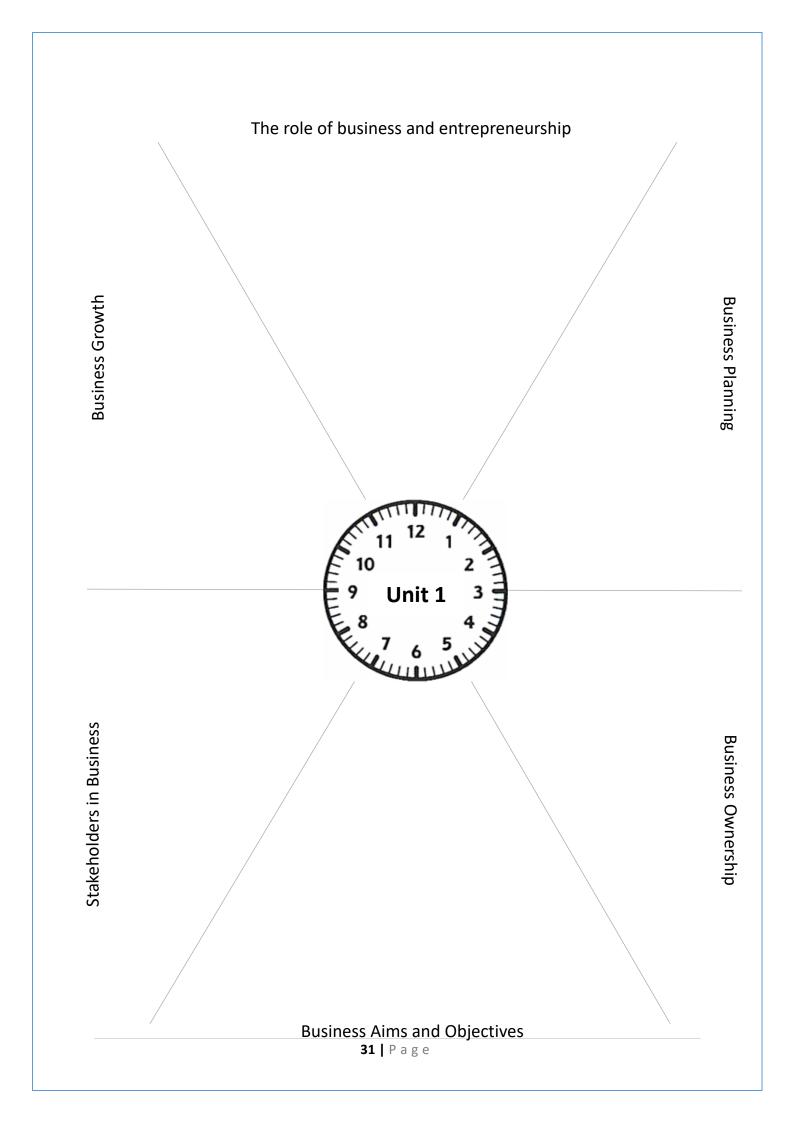
A business buys control of another business

A business making radios joins with a business making televisions

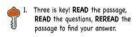
A business assembling computers merges with a microchip supplier

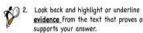
Two businesses agree to come together

# **Revision Clocks** The role of business and entrepreneurship **Business Growth Business Planning** Stakeholders in Business **Business Ownership** Business Asimps and Objectives



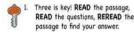
DO YOUR BEST TO BEAT THE TEST Test Taking Strategies

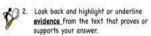




#### **Possible Practice Exam Questions**

DO YOUR BEST TO BEST THE TEST Test Taking Strategies





Answer each of the following exam style questions. Use the structures on p10 to help you.

#### **TD Tom Davis Ltd (TD)**

Tom Davis left university in 1996 with £200 in his pocket and boarded a plane to Hong Kong. After working in bars and restaurants he got a job in a Chinese factory designing glasses frames. Not knowing what he was doing, he started by drawing glasses on the models in Vogue magazine.

Tom left that job in 2000 and returned to the UK where he eventually set up TD Tom Davis in 2002, designing glasses in London but having them manufactured in Japan by another firm. Tom's frames are bespoke, handmade and sell for £5000 each, so a chance meeting in 2004 with a chief executive who ordered 30 pairs, gave Tom the £175,000 he needed to build a factory in China and 4 years later he opened a factory in the UK. With celebrity clients such as Ed Sheeran, Chef Heston Blumenthal and Hollywood actress Angelina Jolie, Tom has now been able to move all production to the UK with the money earnt through these sales.

Tom's cautious approach to growth and his desire to provide each customer with a great level of service means he can charge between £335 and £600 for standard frames and his unique designs can cost up to £10,000 each, which has led to him having an estimated turnover of £10m last year.

⊥.	State two characteristics of an entrepreneur.	[2]
2.	Analyse one risk Tom Davis took when starting TD.	[3]
3.	Explain one reason why Tom may have started TD as a private limited company.	[2]

	Explain one objective Tom may have had when he started TD and one objective he has now business is successful.
•	Identify two ways in which a firm may grow organically.
•	Discuss whether Tom's decisions to grow organically was better than using external growth

, <del></del>
·

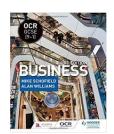
# **Self-Review of Unit 1: Business Activity** I have completed the following tasks (✓): ☐ Personalised Learning Checklist ☐ Glossary of key terms ☐ Read the exam 'top tips' ☐ Learnt the exam structures $\ \square$ Read the topic information and completed all tasks ☐ Completed at least two revision clocks ☐ Answered **all** of the possible exam questions using the exam structures The topics I need to improve on The topics I understand well are..... My targets to help me improve in this unit are..... 1. 2.

#### **Additional Support**

If you need any further support please speak to your teacher!

Course textbook: OCR GCSE (9-1) Business

https://www.amazon.co.uk/OCR-GCSE-9-1-BusinessThird/dp/1471899365/ref=sr\_1\_2?crid=3CWFI3AR0SAZ9&keywords=ocr+gcse+business+studies+91&qid=1556985885&s=gateway&sprefix=ocr+gcse+business%2Caps%2C185&sr=8-2



Revision guide: My Revision Notes OCR GCSE (9-1)

https://www.amazon.co.uk/My-Revision-Notes-GCSE-



 $\frac{Business/dp/1510423699/ref=sr~1~1?crid=3CWFI3AROSAZ9\&keywords=ocr+gcse+business+studies+9-18qid=1556986123\&s=gateway\&sprefix=ocr+gcse+business%2Caps%2C185\&sr=8-1$ 

You could also try the following websites:

http://www.bbc.co.uk/education/subjects/zpsvr82



http://www.businessed.co.uk/index.php/home/activities/gcse-act

https://www.tutor2u.net/

https://www.gcsepod.com

OCR BUSINESS BUSINESS ACTIVITY, MARKETING AND PEOPLE

