Year 10

Edexcel GCSE Business

Knowledge Organiser

AUTUMN Term

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.1.1 Dynamic Nature of Business

Key Vocabulary

Business – an organisation that seeks to satisfy the needs and wants and wants of consumers through the production of goods and services

Dynamic – continual change

Consumer – the end user of the product or service

Obsolete – outdated; a product that has declining sales or come to an end

Entrepreneur – an individual who comes up with a business idea and is willing to take a risk to develop it

Core Knowledge

The world changes constantly, and therefore so do consumer needs, and so businesses must therefore be dynamic to respond to these changes, or they risk failure.

Business ideas come about because of:

1. Changes in technology
2. Changes in what consumers want
3. Products and services becoming obsolete

Business ideas come about because

1. An entrepreneur has a completely original idea – this is invention
2. Adapting an existing idea – this is innovation

Adaptions to products can be:

- New flavours
- Different colours / pack sizes
- Online access to a product or service
- Offering personalisation

Don't be a "man on the street"

- Innovation and inventions are not the same thing
- Avoid statements like "ALL customer have....”; "NOBODY uses...."
- Don't assume that all products that have declining sales will become totally obsolete – some see revivals, e.g. vinyl records
- Don't assume that all ideas will be successful – unfortunately a lot do not succeed

Wider Business World

Apple – great example of business that continually adapts products

Iceland – changed from frozen only foods to non-frozen and non-food goods because this is what consumers want when they shop

Synoptic Links

Marketing – the product life cycle states that all products eventually need to be removed from sale

Technology – changes in technology have led to obsolete products and changes in consumer tastes

Role of enterprise – entrepreneurs are the individuals who develop new ideas

BUSINESS: *Creating informed, discerning employees, consumers and future leaders*

Topic 1.1.2 Risk and Reward

Key Vocabulary

Risk – something bad / negative that could happen

Reward – something good / a positive effect

Financial – related to money

Non-financial – non-money related

Profit – what a business has left from its income after paying all of its costs

Core Knowledge

Starting and running a business are risky activities. A large percentage of start-up businesses fail in the first five years.

Risks are things that can go wrong. These include:

- Business failure
- Financial loss
- Lack of security due to not having a regular income

Business can fail because:

- An entrepreneur does not know the market well
- Not having enough capital to start the business
- Poor decision making
- Competition from other businesses
- Not meeting the needs of customers

Rewards are what can be achieved through business success. These include:

- Profit
- Personal independence

Don't be a "man on the street"

- Although risks can cause a business to fail, careful planning and research can reduce risks
- Don't confuse the term 'security'. It is not about prevention from theft, but about regular income

Wider Business World

Thomas Cook, BHS – businesses that have failed. Find out why

Richard Branson – an entrepreneur worth billions, but he still takes risks when starting new ventures. Why would this be?

Synoptic Links

Role of enterprise – entrepreneurs are the individuals who take risks

Ownership – different types of ownership have different levels of risk for the owner

Customer needs – knowing what these are helps to reduce risk

Market research – doing this helps to reduce risk

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.1.3 Role of Enterprise

Key Vocabulary

Goods – physical items that a business can produce or sell

Services – non-physical products; things that you can experience, e.g. a haircut

Needs – the essential products that consumers need to survive: food, water, shelter, clothing, warmth

Wants – anything that is not a basic need. Often referred to as luxuries

Customer – the person who buys the product

Consumer – the person who is the eventual user of the product

Adding value – adapting a product so that the selling price is higher that the cost of creating the product

USP – Unique Selling Point

Factors of production – resources needed to produce goods and service: land, labour, capital, enterprise

Core Knowledge

A business will produce goods or services

Goods or services must meet the customer needs, or they will not sell

The entrepreneur is the uses and organises the four factors of production in order to produce goods or services.

A business can sell its product at a higher price than the cost of the manufacturing by adding value. This can be through:

- **Branding** – creating an image for a product that sets it apart, e.g. Apple logo
- **Quality** – for example using better cuts of meat in a pie
- **Design** – unique features and designs can lead to consumers paying higher prices
- **Convenience** – when something saves a customer time, this can lead to them paying a higher price, e.g. pre-prepared vegetables
- **USPs** – a characteristic or feature of a product that can not be replicated by an alternative

A business will be likely to use a combination of the above

Don't be a "man on the street"

- Not all businesses produce goods; some produce services
- WiFi is not a need
- Don't confuse the terms consumer and customer
- Customers will not always want the cheapest product
- Adding value does not meet making the price higher

Wider Business World

Gap, Nike, Gucci – examples of brands that cost a lot more than the actual cost of the materials

McCain – produce a lot of ready-meals and pre-prepared items that cost more than the ingredients

Synoptic Links

Customer needs – knowing what these are helps to ensure that that the business is satisfying them

Risk and reward – the entrepreneur takes risks, in order to achieve rewards

Marketing – the use of branding and USPs

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.2.1 Customer Needs

Key Vocabulary

Customer needs – the specific things that a buyer wants about goods and services

Customer reviews – feedback from customers, which can be online

Word of mouth – when a customer tells another person about a business

Repeat purchase – when a customer returns to the same business

Core Knowledge

Customer needs are the specific wants or needs that buyers have when purchasing goods

Different customers have different needs

If a business knows and understands its customers' needs it is in a better position to produce the products that customers want, in the way that they want them, leading to increasing sales, and so contributing to long term survival

Customer needs are:

- **Price** that reflects the quality of the product, and is low enough to match consumer incomes
- **Quality –** usually more important for those with higher income levels
- **Choice –** consumers like to select from a range of options, e.g. different flavours, colours or packet sizes
- **Convenience –** making life easier for customers
- **Efficient and reliable service –** such as having enough stock, or longevity of a product
- **Design –** how good a product looks

Don't be a "man on the street"

- Don't assume consumers always go for the cheapest option – they have other needs that may override price depending on the circumstances

Wider Business World

Aldi & Lidl versus Tesco – meet different need though the price level and choice available

Banks – a variety of ways to access your funds is convenience

Takeaways – offer convenience so we pay more than the cost of the ingredients

Synoptic Links

Market research – this is how a business finds out customer needs

Market segmentation – how we divide up customers into smaller groups with similar needs

Added value – meeting customer needs can allow a business to charge higher prices, i.e. add value to a product

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.2.2 Market research

Key Vocabulary

Market research – the process of gathering, processing and interpreting information about consumers' behaviour

Secondary research – using research that has already been carried out for another purpose

Primary research – collecting new information

Qualitative data – research into opinions and views

Quantitative data – data that is numerical

Focus group – a small number of consumers who have a discussion

Market trends – an overall pattern related to products

Market gap – where demand is not being met by the existing products available

Bias – a one-sided view

Sample-size – the number of consumers that are involved in market research

Core Knowledge

The purpose of market research is:

- To identify and understand customer needs
- Identify market gaps
- Reduce risk
- Inform business decisions

Methods of research are:

- **Primary** – collecting brand new data to meet the specific needs of the business
- **Secondary** – using research that has already been gathered

	Benefits	Limitations
Primary	• Up-to-date information • Information secret from competitors	• Can be expensive • Can be time consuming • Results may be inaccurate
Secondary	• Easy to find • Cheap or free to obtain • Good overview of whole market	• May be inaccurate • Can be out-of-date • Likely to be unrelated to business needs

Social media has made it easier to collect data using comments, reviews, surveys, and online focus groups
Trends can be identified from tracking hashtags

Don't be a "man on the street"

- Don't assume that a market gap will guarantee success
- Remember that research can be unreliable if the sample size is too small, the wrong target market are questioned or the sample is biased

Wider Business World

Innocent Smoothies – conducted initial market research at a festival using two bins – Yes or No to launching their business

Survey monkey – a free online survey platform making it easier to conduct research

Synoptic Links

Market segmentation – how we divide up customers into smaller groups with similar needs

Customer needs – market research aims to find out what these are, if they are being met, and what else is wanted

Risk and reward – market research can reduce the risk

BUSINESS: *Creating informed, discerning employees, consumers and future leaders*

Topic 1.2.3 Market segmentation and market mapping

Key Vocabulary

Market segmentation – splitting up all consumers into different groups that have similar needs or characteristics

Target market – the specific market segment a business aims to sell to

Demographics – customers based on statistical data relating to the population, e.g. resident or marital status

Market map – a diagram that positions all products within a market using two features, e.g. price and quality

Socio-economic group – a method of segmenting that uses income and class / occupation to classify people

Core Knowledge

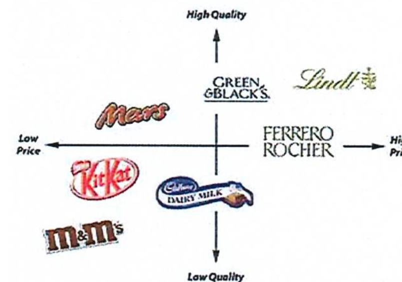
Markets can be segmented by

- **Location**, i.e. where you live
- **Demographics**, e.g. targeting families rather than single people; home owners rather than renters
- **Lifestyle**, i.e. the choices made about how to spend free time and hobbies consumers have
- **Income**, i.e. by how much you earn, the job you do or your social class
- **Age,** i.e. by how old you are

A market map can be used to position and compare products in a market

Allows a business to identify the competition the business faces and any potential gaps in the market

BUT….this may be simplistic and is based on subjective opinion so may not be reliable



Don't be a "man on the street"

- Don't assume that a gap on a market map indicates a gap to be filled – it could be there because there is no demand for that type of product
- Be careful not to say ALL or WILL – adapt to MOST, MORE LIKELY, e.g. *Most* women are *more likely* to buy make-up than men

Wider Business World

Hotel market – consider the target market of the Savoy compared to a Premier Inn

Ford cars – products lots of products to target different segments

Taylor Wimpey – a house builder. They produce lots of varieties of new homes to target different groups in terms of income, location and family size

Synoptic Links

Market research – information gathered can help a business to identify which segments to target

Marketing mix – the elements of marketing. These will be different for different target markets

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.2.4 Competitive environment

Key Vocabulary

Market – the potential buyers for one product; where goods and services are exchanged

Competition – where there is more than one business attempting to attract the same customers

Monopoly – a market where there is only one business

Oligopoly market – a market where there are a few firms that dominate the market

Competitive market – where there are lots of small firms offering very similar products

Differentiation – strategies and techniques that a business uses to make their product stand out

Market share – the percentage of sales within the market that one business has

Competitive advantage – where one business has 'the edge' over the others in a market

Core Knowledge

A business will need to compete in different ways depending on how competitive the market is. Some firms will choose to use differentiation to stand out from the others, e.g. through the use of branding or offering a USP.

Ways to compete:

- **Price** – offering lower prices can increase demand, but reduces profit margins, and can increase costs. Other businesses may do the same and result in a price war
- **Quality** – improving the quality of raw materials or ingredients, but this increases costs, although customers may be willing to pay higher prices
- **Location** – can attract customers if it is easy to access, has parking, or has a lot of passing trade. However, good premises cost more
- **Product range** – offering lots of choice to the consumer or specialising to provide a better service
- **Customer service** – through great staff, although this costs to train them, or excellent after-sales service

A business may be able to gain a competitive advantage though one of these methods to order to encourage repeat custom and great reviews

Don't be a "man on the street"

- Don't confuse the term 'market' in a business sense with an actual street market
- Don't assume that a new business can simply compete by offering lower prices – larger firms can negotiate better prices from suppliers
- Remember than improving quality will increase costs

Wider Business World

Holiday market – very few firms now, especially following the collapse of Thomas Cook. An example of an oligopoly

London Underground – a monopoly market because there is only one tube firm

Hairdressers – very competitive market

Synoptic Links

Customer needs – many of the ways businesses compete are the same as customer needs

Marketing mix – this will need to be adapted depending on the level of competition

Market mapping – what are your competitors offering? Knowing this can help a business decide on how to compete

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.3.1 Business Aims & Objectives

Key Vocabulary

Aims – a long term goal a business wants to achieve

Objectives – more specific measurable steps

Financial aims – goals related to money, e.g. survival, profit levels

Non-financial aims – goals related to non-monetary aspects, e.g. ethical or environmental issues

Survival – having enough sales to cover costs and still be trading

Profit – when revenue is greater than costs

Sales volume – the number of products sold

Market Share – the percentage of total sales that one business has

Ethical – morally correct

Shareholder – an individual who owns part (a share) of company

Dividend – the percentage of profit that is paid to shareholders of a company each year

Core Knowledge

What is an Aim?

Aims are long term goals. Objectives are more specific measurable, time constrained steps. The best objectives are **SMART**.

SMART – **S**pecific, **M**easurable, **A**chievable, **R**ealistic, **T**ime-framed

Examples of Aims:

- **Financial** Aims: Survival, maximise or increase profit, growth, increase dividends to shareholders
- **Non-financial** aims: ethical, e.g. no animal testing, achieve customer satisfaction, achieve a personal challenge or independence

Why set objectives?

Objectives help a business to have a focus, allow them to monitor progress, and to set individual objectives for employees to motivate them

Don't be a "man on the street"

- All businesses aim to make a profit – not true! Social objectives can be important and so can personal objectives
- Businesses will change their objectives over time – don't assume that they always are aiming for the same thing

Wider Business World

Tesco – used to aim to have more than 50% of its revenue from non-food. Changed after Aldi and Lidl gained 10% market share between them

M&S – aims are about environment and sustainability not profit

Dyson – James Dyson had a personal objective: to be successful rather than profitable

Synoptic Links

Enterprise – the non-financial rewards for entrepreneurs are similar to non-financial objectives

Financial data – understanding the difference between survival (break-even) and profit

Ownership – only companies will have shareholders; smaller businesses are more likely to have personal objectives

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.3.2a Revenue, Costs and Profit

Key Vocabulary

Revenue – Also called **Turnover**, **Income** and **Sales**. This is the money generated from selling your products

Demand – a business term for the quantity of products sold

Fixed costs – costs that do not change as the level of production changes. They must be paid even if output/sales are zero, e.g. rent, rates

Variable costs – costs that change in direct relation to the amount sold or produced by a business, e.g. raw materials, packaging

Total costs – All costs added together

Profit – when revenue is greater than costs

Loss – when revenue is lower than costs

Interest – a percentage charge on borrowed money / percentage reward for saving money

Core Knowledge

Fixed costs	Variable costs
Rent Rates Electricity / heating / phone bills Salaries	Raw materials Packaging Delivery costs

Revenue = Number of items sold x Selling price per unit

Total Variable cost = variable cost per item x number sold

Total costs = Total variable cost + fixed costs

Interest charged = amount borrowed x (interest rate ÷ 100)

Total amount repaid = amount borrowed + interest charged

Monthly payments = Total amount repaid ÷ (years of loan x 12)

% interest charged = (total repayment – borrowed amount) ÷ borrowed amount x 100

Don't be a "man on the street"

- Interest is not about how much people like your product!
- Revenue and profit are VERY different
- Loans are not paid at the end of the term – they are paid in instalments each month
- Borrowing money is debt. Debt is *not* a bad thing unless, the business can not pay it back

Wider Business World

Amazon – has no high street retailers so has fixed costs than a lot of other businesses

Bank of England – sets the base rate for interest that other lenders then use

Synoptic Links

External factors – changing interest rates can have an impact on consumer spending

Breakeven – when total costs are exactly the same as total revenue

Cash flow – unpredictable or inconstant revenue can impact on cash flow

Sources of finance – interest is charged on borrowing

BUSINESS: *Creating informed, discerning employees, consumers and future leaders*

Topic 1.3.2b break even

Key Vocabulary

Revenue – Also called **Turnover**, **Income** and **Sales**. This is the money generated from selling your products

Output – quantity of products produced

Fixed costs – costs that do not change as the level of production changes. They must be paid even if output/sales are zero, e.g. rent, rates

Variable costs – costs that change in direct relation to the amount sold or produced by a business, e.g. raw materials, packaging

Total costs – All costs added together

Profit – when revenue is greater than costs

Loss – when revenue is lower than costs

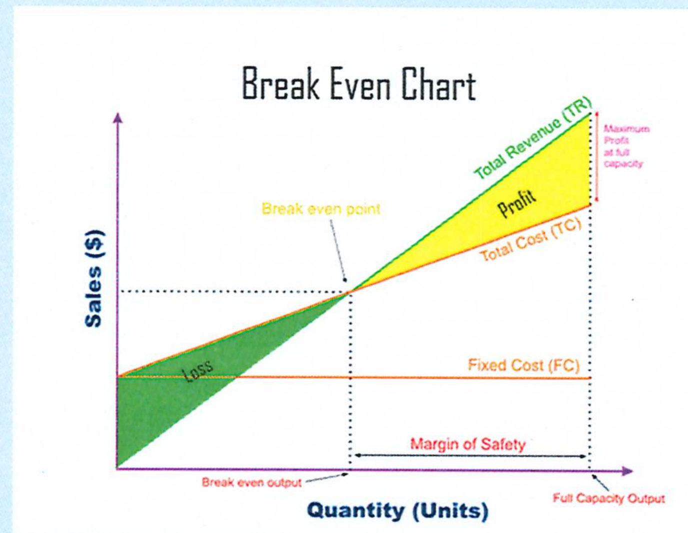
Breakeven point – when total revenue = total costs

Breakeven output – the number of products needed to break-even

Margin of safety – number of products produced above breakeven

Core Knowledge

Calculating breakeven allows a business to use all its costs to calculate how many products it must sell to cover ALL costs.



The contribution method is a quicker, more accurate way to calculate breakeven:

Break-even = Fixed costs ÷ (Selling price – variable cost)

Don't be a "man on the street"

- A business can easily lower the breakeven point by reducing costs - this may not be true. Fixed costs are out of the control of the business, and buying lower cost materials can affect quality
- Increasing price will make more profit for a business – not always! Increasing the price, will lower the breakeven point, BUT may lead to lower sales

Wider Business World

Gordon Ramsey – watch any of his 'Nightmare' shows to see how he talks about knowing the break-even number of meals, and the importance of costing each meal

High street retailers – consider the impact of COVID19 on the breakeven point of most retailers: what were their costs and revenue during this period

Synoptic Links

Costs – knowing the difference between fixed and variable costs and being able to calculate costs and revenue

Aims – breakeven (survival) is an aim for a start-up business, or one in a struggling market

Business plans – this information is needed in the plan to present to investors

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.3.3 Cash flow forecasting

Key Vocabulary

Cash – the money a business holds in notes and coins and in its bank accounts

Cashflow – the movement of money in and out of a bank account

Insolvency – when a business lacks the cash to pay its debts

Overdraft – the amount of an agreed overdraft facility that a business uses; when a business has a negative bank balance

Overdraft facility – the maximum amount that a business is allowed to into negative balance on its bank account

Cash inflows – money entering the bank account, e.g. from sales

Cash outflows – money leaving the bank account, e.g. bills for supplies

Net cash flow – inflows minus outflows

Opening balance – the amount of money at the start of the month

Closing balance – the amount of money at the end of the month; Opening balance ADD net cash flow

Core Knowledge

A business will **predict** the amount of money that will enter and leave the business each month.

This allows the business to identify any periods of shortfall, to plan how to deal with this.

Businesses need cash to pay suppliers, employees and all the overheads.

Difficulty can arise if businesses allow customers to pay on **credit**.

Cash needs to be managed by arranging an overdraft, keeping costs down, keeping inflows up

Improve cash flow by cutting stock levels, increase credit from suppliers, reduce credit to customers

	Aug	Sept
Cash inflows	0	85
Cash outflows	185	75
(A) Net cash flow	-185	10
(C) Opening Balance	250	65
(B) Closing balance	65	75

(A) **Net cash flow** = inflows - outflows

(C) **Closing Balance** = Opening + Net Cash flow

(B) **Opening Balance** = last month's closing balance

Don't be a "man on the street"

- Do not confuse cash & profit – they are very different things
- A cash flow forecast is a prediction not what has happened
- An overdraft does not mean the business will fail – it simply means that in that month outflows exceeded more than inflows. Debt is not always a bad thing!
- Lots of cash in the bank is not always a good thing – this could be invested to improve the business

Wider Business World

Retailers – they often have seasonal or unsteady cash flow as they need to buy stock before they can sell it

Hotels / restaurants - may have seasonal business, so it will be important to build up a balance to support them through periods of low sales

Synoptic Links

Costs & Revenue – know which items are revenue (inflows) and which are costs (outflows)

Sources of finance – if outflows are greater than inflows, short term finance is needed

BUSINESS: *Creating informed, discerning employees, consumers and future leaders*

Topic 1.3.4 Sources of finance

Key Vocabulary

Interest – the charge on borrowing money

Share capital - the investment raised from selling shares (part of the company) to investors

Dividends – the part of the profit that is paid to shareholders as a reward for their investment

Loan – borrowing an amount of money from the bank which is paid back in monthly instalments at a fixed rate of interest

Mortgage – a type of loan that is secured on property. Interest can be fixed or variable

Venture capital – a combination of share and loan capital providing by an investor willing to take a risk

Retained profit – profit kept by the business from previous years

Crowdfunding – raising capital online from lots of small investors

Overdraft – having a negative bank balance

Trade credit – buying goods and paying for them at a later date

Core Knowledge

A business will need finance at three key times:

- At start-up to help fund start-up costs, e.g. initial stock
- During periods of expansion to fund new buildings, legal costs, etc
- During periods when cash flow is poor

Short term finance (trade credit and overdraft) are for small amounts and short periods of time. Long term sources are for longer periods and larger amounts.

	Benefit	Limitation
Overdraft	Flexible – only use what you need when you need	High interest rates
Trade Credit	Free; helps cash flow	Might not be granted
Personal savings	No interest to repay	Might not have enough
Retained profits	No interest to repay	New businesses won't have any
Venture capital	Advise and support provided	Have to share profit
Share capital	No need to repay	Have to share profit
Loan	Fixed monthly payments helps cash flow	Time to arrange and may not be granted
Crowdfunding	Risk is shared among many people	May not raise enough

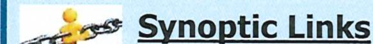
Don't be a "man on the street"

- Being in debt is not a bad thing and won't always lead to business failure
- The interest rate, is not to do with the number of people who want to buy, but the charge you pay on borrowing money
- Remember you pay back loans and mortgages each month, not at the end of the time period

Wider Business World

Dragon's Den – the Dragons are venture capitalists

Go Fund Me – an example of a crowdfunding website



Synoptic Links

Interest – calculating and understanding the interest rate will help to understand which sources are cheaper

External factors – influences on businesses include the interest rates

Ownership – remember that only LTDs can sell shares

Costs & breakeven – interest and loan payments are fixed costs