Lesson 1: The purpose and nature of business

🎯 Learning goals

- ✓ Explain what a business is and why people start one
- ✓ Explain goods vs services, needs vs wants, and the factors of production
- ✓ Explain opportunity cost, the three sectors, and enterprise
- ✓ Describe an entrepreneur and why business is dynamic

🔑 Key words

Business An organisation that produces goods or provides services to meet needs and wants.

Factors of production The resources used to make goods/services: land, labour, capital, enterprise.

Opportunity cost The next best alternative given up when a choice is made.

Enterprise The willingness to take risks and organise resources to start a business.

Entrepreneur A person who sets up and runs a business, taking financial risks.

📘 What you need to know

Businesses sit in one of three sectors: primary, secondary or tertiary.

1. What a business is, and why people start one

A **business** is an organisation that produces **goods** or provides **services** to meet customer **needs and wants**, usually in return for profit. **Goods** are physical products you can touch (a smoothie, trainers); **services** are non-physical activities done for you (a haircut, a bus ride). **Needs** are essentials for living (food, shelter); **wants** are non-essential desires (a branded smoothie).

People start businesses for several reasons:

- to make a profit
- to be their own boss
- to pursue an interest
- to fill a gap in the market

spotting a need no one is meeting. Maya started FreshBowl because she spotted that her town had no quick, healthy lunch option near the station

> *"A business exists to meet customer needs and wants — and a smart entrepreneur spots a gap others have missed."*

2. Factors of production and opportunity cost

To make anything, a business combines the four **factors of production**:

- **land** (natural resources and premises)
- **labour** (workers)
- **capital** (money, equipment and machinery)
- **enterprise** (the entrepreneur who brings it all together and takes the risk)

Because money and time are limited, every choice has an opportunity cost — the next best alternative given up. If Maya spends her savings on a new blender, the opportunity cost might be the advertising she could have bought instead

3. The three sectors of industry

Businesses sit in one of three **sectors**: the **primary** sector extracts or grows raw materials (farming, mining); the **secondary** sector manufactures or processes them (a factory bottling drinks); and the **tertiary** sector provides services (shops, cafés, banks). FreshBowl is a **tertiary** business, but it relies on primary-sector farmers for fruit and secondary-sector factories for its cups.

4. Enterprise, entrepreneurs and the dynamic nature of business

Enterprise is the willingness to take risks and organise resources to start a business. An **entrepreneur** is the person who does this, taking the financial risk. Useful characteristics include being **hard-working, innovative, organised and willing to take risks**. Their objectives often include earning more money, flexible hours and job satisfaction.

Finally, business is described as **dynamic** because it is **constantly changing** — due to new technology, the economy, new laws, and environmental expectations. A business that stands still can quickly fall behind.

✅ Test yourself

Cover the answers below, answer Q1–Q12, then check.

Q1 What is a business?

Q2 Give four reasons for starting a business.

Q3 What is the difference between goods and services?

Q4 What is the difference between needs and wants?

Q5 What are the four factors of production?

Q6 What is opportunity cost?

Q7 What are the three sectors of industry?

Q8 What is enterprise?

Q9 Who is an entrepreneur?

Q10 Give four characteristics of an entrepreneur.

Q11 Give three objectives of an entrepreneur.

Q12 Why is business described as dynamic?

ANSWERS

A1 An organisation that produces goods or provides services to meet customer needs and wants, usually in return for profit.

A2 To make a profit; to be their own boss; to pursue an interest; to identify a gap in the market.

A3 Goods are physical products; services are non-physical activities provided to customers.

A4 Needs are essentials for living; wants are non-essential desires.

A5 Land, labour, capital, and enterprise.

A6 The next best alternative that is given up when a choice is made.

A7 Primary (raw materials), secondary (manufacturing), tertiary (services).

A8 The willingness to take risks and organise resources to start a business.

A9 A person who sets up and runs a business, taking financial risks.

A10 Hard-working; innovative; organised; willing to take risks.

A11 To earn more money; flexible working hours; job satisfaction.

A12 Because it is constantly changing due to technology, the economy, laws, and environmental expectations.

3.1 · BUSINESS IN THE REAL WORLD

Lesson 2: Business ownership

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🎯 Learning goals

- ✓ Describe sole traders, partnerships, Ltds and Plcs
- ✓ Explain the benefits and drawbacks of each structure
- ✓ Explain limited liability and who benefits from it
- ✓ Recommend a suitable structure for a business, with reasons

🔑 Key words

Sole trader A business owned and run by one person.

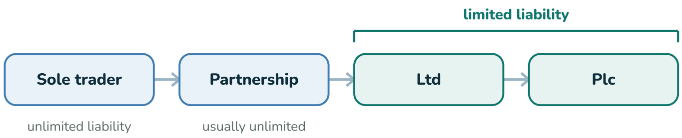
Partnership A business owned by two or more people who share responsibility.

Limited company A business owned by shareholders, with limited liability.

Limited liability Owners only risk the money they invested, not personal possessions.

Not-for-profit An organisation that reinvests surplus to achieve social aims.

📘 What you need to know



Ownership types: only Ltd and Plc companies have limited liability.

1. Unincorporated businesses: sole traders and partnerships

A sole trader is owned and run by one person — the simplest, cheapest way to start. The owner has **full control** and keeps all the profit, but faces unlimited liability: if the business cannot pay its debts, the owner's personal possessions (savings, even their home) are at risk. A partnership is owned by two or more people who share responsibility. Partners bring **shared skills and finance**, but they also share the profits and can **disagree**, and they usually still have unlimited liability.

2. Incorporated businesses: Ltd and Plc

A private limited company (Ltd) is owned by **shareholders** and has limited liability — owners only risk the money they invested, not their personal possessions. Its shares are **not** sold to the public. A public limited company (Plc) is bigger and sells shares to the **public** through the stock market, raising large amounts of money but giving up some control.

> *“Becoming a limited company protects the owners' personal possessions, but means more rules and shared control.”*

3. Limited liability and not-for-profits

Only **Ltd and Plc** companies have limited liability — this is the key advantage of ‘incorporating’. A not-for-profit organisation (such as a charity or social enterprise) reinvests any surplus to achieve **social or charitable objectives** rather than to enrich owners.

Sole trader

- ✓ Full control, keeps all profit.
- ✓ Quick and cheap to set up.
- ✗ Unlimited liability.
- ✗ Harder to raise finance.

Private limited company (Ltd)

- ✓ Limited liability protects owners.
- ✓ Easier to raise finance.
- ✗ More rules and paperwork.
- ✗ Profits and control shared.

✅ Test yourself

Cover the answers below, answer Q13–Q21, then check.

Q13 What is a sole trader?

Q14 One advantage and one disadvantage of a sole trader.

Q15 What is a partnership?

Q16 One advantage and one disadvantage of a partnership.

Q17 What is a private limited company (Ltd)?

Q18 What is a public limited company (Plc)?

Q19 What is limited liability?

Q20 Which business types benefit from limited liability?

Q21 What is a not-for-profit organisation?

ANSWERS

A13 A business owned and run by one person.

A14 Advantage: full control. Disadvantage: unlimited liability.

A15 A business owned by two or more people who share responsibility.

A16 Advantage: shared skills and finance. Disadvantage: shared profits and potential conflict.

A17 A business owned by shareholders, with limited liability, whose shares are not sold to the public.

A18 A business that sells shares to the public through the stock market.

A19 Owners are only responsible for business debts up to the amount they invested.

A20 Ltd and Plc companies.

A21 An organisation that reinvests surplus funds to achieve social or charitable objectives.

3.1 · BUSINESS IN THE REAL WORLD

Lesson 3: Business aims and objectives

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3.1 journey 1 2 3 4 5 6 Lesson 3 of 6

🎯 Learning goals

- ✓ Explain the difference between an aim and an objective
- ✓ Describe common business objectives and why they are set
- ✓ Explain why objectives differ and change between businesses
- ✓ Explain how success can be measured other than by profit

🔑 Key words

Aim A long-term goal for the business.

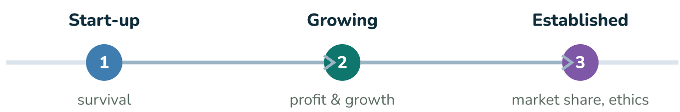
Objective A specific, measurable target that helps reach an aim.

Profit maximisation Making as much profit as possible.

Market share A business's portion of total sales in its market.

Survival Staying in business — often the first objective of a start-up.

📘 What you need to know



A business's objectives often change as it grows.

1. Aims vs objectives

An aim is a **long-term goal** — the big picture, such as "become the town's favourite healthy café". An objective is a **specific, measurable target** that helps reach the aim, such as "increase sales by 10% this year". Objectives turn a vague aim into something a business can actually plan for and measure.

> *"An aim is where the business wants to get to; an objective is a measurable step that gets it there."*

2. Common objectives and why they are set

Common business objectives include **survival, profit maximisation, growth** (at home and abroad), **market share, customer satisfaction**, and **social and ethical** objectives. Businesses set objectives to **give direction, measure success and motivate staff** — everyone knows what they are working towards.

3. Why objectives differ and change

Objectives **differ** between businesses because of their **size, the competition they face, their ownership type**, and whether they are for profit. A brand-new stall focuses on **survival**; a large chain may chase **market share** or **shareholder value**; a charity pursues **social** aims. Objectives also **change over time**: as a business grows, faces competition, or responds to social and environmental pressures, its targets shift — FreshBowl moved from simply surviving year one to growing and going greener.

4. Measuring success beyond profit

Profit is not the only measure of success. A business can also judge itself on **market share, customer satisfaction, growth**, and **social and ethical performance** — for example, how sustainable it is, or how well it treats staff.

✅ Test yourself

Cover the answers below, answer Q22–Q27, then check.

Q22 What is the difference between an aim and an objective?

Q23 Give four common business objectives.

Q24 Why do businesses set objectives?

Q25 Why do objectives differ between businesses?

Q26 Why might objectives change over time?

Q27 How can success be measured other than profit?

ANSWERS

A22 An aim is a long-term goal; an objective is a specific, measurable target.

A23 Survival; profit maximisation; growth; customer satisfaction.

A24 To give direction, measure success, and motivate staff.

A25 Because of size, competition, ownership type, and whether the business is for profit.

A26 As businesses grow, face competition, or respond to social and environmental pressures.

A27 Market share; customer satisfaction; growth; social and ethical performance.

Lesson 4: Stakeholders

🎯 Learning goals

- ✓ Explain what a stakeholder is and name the main stakeholders
- ✓ Describe the objectives of different stakeholders
- ✓ Explain how stakeholders influence a business
- ✓ Explain why conflict can arise between stakeholders

🔑 Key words

Stakeholder Any individual or group with an interest in a business.

S **Shareholder/owner** Someone who owns part of the business and wants profit/dividends.

D **Dividend** A share of profit paid to owners/shareholders.

I **Industrial action** Action by workers, such as a strike, to influence a business.

Conflict When stakeholders' objectives clash.

📘 What you need to know

A business must balance the needs of all its stakeholders.

1. Who the stakeholders are

A **stakeholder** is any individual or group with an interest in a business. The main stakeholders are **owners, employees, customers, suppliers** and the **local community**. Each is affected by what the business does, and each has its own objectives.

2. What stakeholders want

Different stakeholders want different things:

- owners want profit and dividends
- employees want job security and fair pay
- customers want good quality at a fair price
- suppliers want to be paid on time

and the local community wants jobs and a minimal environmental impact

> *"Every business decision affects several stakeholders — and they don't always want the same thing."*

3. Influence and conflict

Stakeholders can **influence** a business through their actions:

- **employees through industrial action** (such as a strike)
- **customers through their choices** (buying or boycotting)
- suppliers through their pricing

Because objectives differ, conflict can arise. For example, if Maya cuts wages to raise profit, owners gain but employees lose — so what helps one stakeholder can harm another

✅ Test yourself

Cover the answers below, answer Q28–Q33, then check.

Q28 What is a stakeholder?

Q29 Name five key stakeholders.

Q30 Give one objective of employees.

Q31 Give one objective of owners.

Q32 How can stakeholders influence a business?

Q33 Why can conflict arise between stakeholders?

ANSWERS

A28 Any individual or group with an interest in a business.

A29 Owners; employees; customers; suppliers; local community.

A30 Job security and fair pay.

A31 Profit and dividends.

A32 Through actions such as industrial action, consumer choice, or supplier pricing.

A33 Because their objectives may differ or conflict.

Lesson 5: Location and business planning

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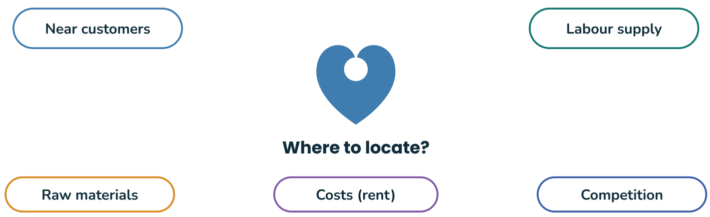
🎯 Learning goals

- ✓ Explain the factors that influence business location
- ✓ Explain why businesses plan, and the main sections of a plan
- ✓ Define fixed, variable and total costs, revenue, profit and loss
- ✓ Calculate total cost and profit for a business

🔑 Key words

- **Business plan** A document setting out a business idea, market, operations and finances.
- **Fixed cost** A cost that does not change with output (e.g. rent).
- **Variable cost** A cost that changes with output (e.g. ingredients).
- **Total cost** Fixed costs plus variable costs.
- **Revenue** Income from sales (price × quantity).
- **Profit** Revenue minus total costs.

📘 What you need to know



Several factors influence where a business chooses to locate.

1. Choosing a location

Where a business locates affects its costs and sales, so it is a big decision. Key factors include **proximity to the market** (being near customers), **availability of labour**, **availability of raw materials**, the level of **competition** nearby, and **costs** such as rent. For FreshBowl, being near busy footfall (a station or high street) matters most, because it sells to passing customers.

> *"Location matters because it affects costs, access to customers and how competitive a business can be."*

2. Why businesses plan

A **business plan** sets out the idea and how it will work. Businesses plan to **set objectives, organise resources and raise finance** — banks and investors usually demand a plan before lending. The main sections are the **business idea, market research, operations** and **finance**. Planning **reduces risk**, but it is **time-consuming** and forecasts **may be inaccurate**.

3. Costs, revenue and profit

To plan finances, you must know the cost terms. A **fixed cost** does **not** change with output (rent stays the same whether you sell 10 or 100 smoothies). A **variable cost changes** with output (more smoothies need more fruit). **Total cost** = fixed + variable costs. **Revenue** is income from sales (price × quantity). **Profit** = revenue – total costs; if costs are greater than revenue, the business makes a **loss**.

✅ Test yourself

Cover the answers below, answer Q34–Q44, then check.

Q34 Give four factors influencing business location.

Q35 Why is location important for a business?

Q36 Why do businesses create plans?

Q37 Name four sections of a business plan.

Q38 One benefit and one drawback of business planning.

Q39 What is a fixed cost?

Q40 What is a variable cost?

Q41 What is total cost?

Q42 What is revenue?

Q43 What is profit?

Q44 What is a loss?

ANSWERS

A34 Proximity to market; labour availability; raw materials; costs.

A35 It affects costs, access to customers, and competitiveness.

A36 To set objectives, organise resources, and raise finance.

A37 Business idea; market research; operations; finance.

A38 Benefit: reduces risk. Drawback: time-consuming and forecasts may be inaccurate.

A39 A cost that does not change with output.

A40 A cost that changes with output.

A41 Fixed costs plus variable costs.

A42 Income from sales.

A43 Revenue minus costs.

A44 When costs are greater than revenue.

Lesson 6: Expanding a business

🎯 Learning goals

- ✓ Explain organic and external growth and their methods
- ✓ Explain economies and diseconomies of scale
- ✓ Describe purchasing and technical economies of scale
- ✓ Calculate and interpret average unit cost

🔑 Key words

Organic growth Expansion using the business's own resources.

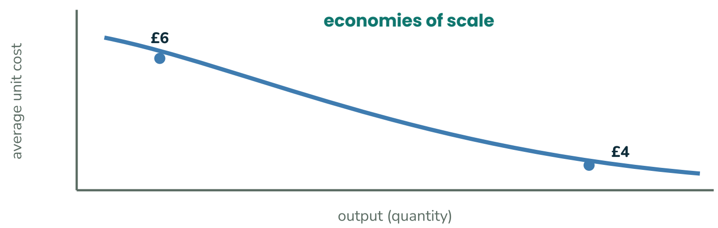
External growth Expansion by merging with or taking over another business.

Economies of scale Cost advantages from increasing output.

Diseconomies of scale Higher costs from being too big (poor communication, coordination, motivation).

Average unit cost Total cost ÷ quantity produced.

📘 What you need to know



As output rises, average unit cost can fall — economies of scale.

1. Organic and external growth

Organic growth means expanding using the business's **own resources** — for example **opening new stores, e-commerce** or franchising. It is slower but lower-risk. External growth means expanding by **merging** with, or **taking over**, another business. It is faster but riskier and more expensive.

> *"Organic growth is steady and lower-risk; external growth is fast but expensive and risky."*

2. Economies of scale

As a business grows and produces more, its **average unit cost** (cost per item) often **falls** — these savings are economies of scale. Two types you must know: purchasing economies (lower unit costs from **buying in bulk**) and technical economies (lower costs from using **specialised machinery**). To measure this, average unit cost = total cost ÷ quantity produced.

3. Diseconomies of scale

Growth is not always good. If a business gets **too big**, average unit cost can start to **rise** again — these are diseconomies of scale, caused by **poor communication, coordination problems and reduced staff motivation**. So growth has an **advantage** (economies of scale) and a **drawback** (diseconomies of scale).

✅ Test yourself

Cover the answers below, answer Q45–Q53, then check.

Q45 What is organic growth?

Q46 Give two methods of organic growth.

Q47 What is external growth?

Q48 One advantage and one disadvantage of growth.

Q49 What are economies of scale?

Q50 What are purchasing economies of scale?

Q51 What are technical economies of scale?

Q52 What are diseconomies of scale?

Q53 How do you calculate average unit cost?

ANSWERS

A45 Expansion using the business's own resources.

A46 Opening new stores; e-commerce.

A47 Expansion by merging with or taking over another business.

A48 Advantage: economies of scale. Disadvantage: diseconomies of scale.

A49 Cost advantages from increasing output.

A50 Lower unit costs from buying in bulk.

A51 Lower costs from using specialised machinery.

A52 Increased costs due to poor communication, coordination, or motivation.

A53 Total cost ÷ quantity produced.