Lesson 5: Location and business planning

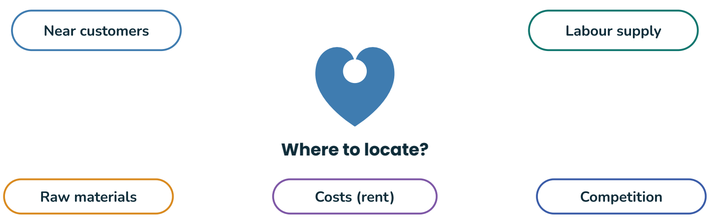
🎯 Learning goals

- ✓ 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.