

Unit 1: Business and its environment

Introduction

This unit focuses on understanding the nature and purpose of business activity. It identifies and analyses the structures, functions and objectives of different business organisations. Central to an understanding of business and its internal and external environments is a recognition that the world in which businesses operate is in a constant state of change. This key concept can also be linked to the creation of value, as the most successful businesses are able to continue to create value despite the impact of political, economic, social, technological and environmental changes.

1

Enterprise

This chapter covers syllabus section AS Level 1.1.

On completing this chapter, you will be able to:

- understand what business activity involves
- recognise that making choices as a result of the 'economic problem' always results in opportunity cost
- analyse the meaning and importance of creating value
- recognise the key characteristics of successful entrepreneurs
- assess the importance of enterprise and entrepreneurs to a country's economy
- understand the meaning of social enterprise and the difference between this and other businesses.

Introducing the topic

DULIP STARTS HIS BUSINESS

Dulip lives in a large country with many natural resources, such as coal and timber. He plans to start a business growing and cutting trees to sell as timber. He wants to buy a forest from a farmer and cut down a fixed number of trees each year. As Dulip is concerned about his environment country's, he will plant two new trees for each one he cuts down. He has been planning this business venture for some time. He has visited a bank to arrange a loan. He has contacted suppliers of saws and other equipment to check on prices. Dulip has also visited several furniture companies to see if they would be interested in buying wood from the forest. In fact, he did a great deal of planning before he was able to start his business.

Dulip is prepared to take risks and will invest his own savings, as well as using the bank loan, to set up the business. He plans to employ three workers to help him to start with. If the business is a success, then he will also try to sell some of the timber abroad. He knows that timber prices are high in some foreign markets. After several months of planning, he was able to purchase the forest.

Points to think about:

- Why do you think Dulip decided to own and run his own business rather than work for another firm?
- Why was it important to Dulip that he should do so much planning before starting his business?
- Do you think Dulip will make a successful entrepreneur?
- Are new businesses such as Dulip's good for a country's economy?

Introduction

Many business managers are paid high salaries to take risks and make decisions that will influence the future success of their business. Much of this book is concerned with how these decisions are made, the information needed to make them and the techniques that can assist managers in this important task. However, no student of Business can hope to make much progress in the study of this subject unless they have a good understanding of the economic environment in which a business operates. Business activity does not take place in isolation from what is going on around it. The very structure and health of the economy will have a great impact on how successful business activity is. The central purpose of this whole unit, 'Business and its environment', is to introduce the inter-relationships between businesses, the world in which they operate and the limits that governments impose on business activity. This first chapter explains the nature of business activity and the role of enterprise in setting up and developing businesses.

The purpose of business activity

A business is any organisation that uses resources to meet the needs of customers by providing a product or service that they demand. There are several stages in the production of finished goods. Business activity at all stages involves creating and adding value to resources, such as raw materials and semi-finished goods, and making them more desirable to – and thus valued by – the final purchaser. Without business activity, we would all still be entirely dependent on the goods that we could make or grow ourselves – as some people in virtually undiscovered native communities still are. Business activity uses the scarce resources of our planet to produce goods and services that allow us all to enjoy a very much higher standard of living than would be possible if we remained entirely self-sufficient.

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What do businesses do?

Businesses identify the needs of consumers or other firms. They then purchase resources – or factors of production – in order to produce goods and services that satisfy these needs, usually with the aim of making a profit. Before we go on, it will be useful to explain some important business terms that have either already been used, or will be referred to soon, in this chapter. Business activity exists to produce **consumer goods** or **services** that meet the needs of customers. These goods and services can be classified in several ways.

KEY TERMS

Consumer goods: the physical and tangible goods sold to the general public – they include durable consumer goods, such as cars and washing machines, and non-durable consumer goods, such as food, drinks and sweets that can be used only once.

Consumer services: the non-tangible products sold to the general public – they include hotel accommodation, insurance services and train journeys.

What do businesses need to produce goods and services?

Factors of production

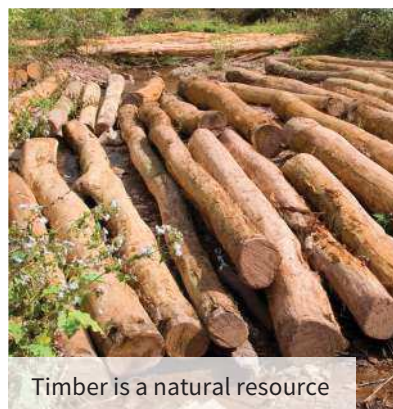
These are the resources needed by business to produce goods or services. They include:

- **Land** – this general term includes not only land itself but all of the renewable and non-renewable resources of nature, such as coal, crude oil and timber.
- **Labour** – manual and skilled labour make up the workforce of the business.
- **Capital** – this is not just the finance needed to set up a business and pay for its continuing operations, but also all of the man-made resources used in production. These include **capital goods**, such as computers, machines, factories, offices and vehicles.
- **Enterprise** – this is the driving force, provided by risk-taking individuals, that combines the other factors of production into a unit capable of producing goods and services. It provides a managing, decision-making and coordinating role.

KEY TERM

Capital goods: the physical goods used by industry to aid in the production of other goods and services, such as machines and commercial vehicles.

Businesses have many other needs before they can successfully produce the goods and services demanded by customers. Figure 1.1 shows the wide range of these needs.



Timber is a natural resource



Capital equipment can be very complex



All businesses need labour

The concept of creating or adding value

All businesses aim to create value by selling goods and services for a higher price than the cost of bought-in materials, this is called '**creating value**'. If a customer is prepared to pay a price that is greater than the cost of materials used in making or providing a good or service, then the business has been successful in creating value. This can also be referred to as '**adding value**'. The difference between the selling price of the products sold by a business and the cost of the materials that it bought in is called '**added value**'. Without creating value a business will not be able to survive as other costs have

KEY TERMS

Creating value: increasing the difference between the cost of purchasing bought-in materials and the price the finished goods are sold for.

Added value: the difference between the cost of purchasing bought-in materials and the price the finished goods are sold for.

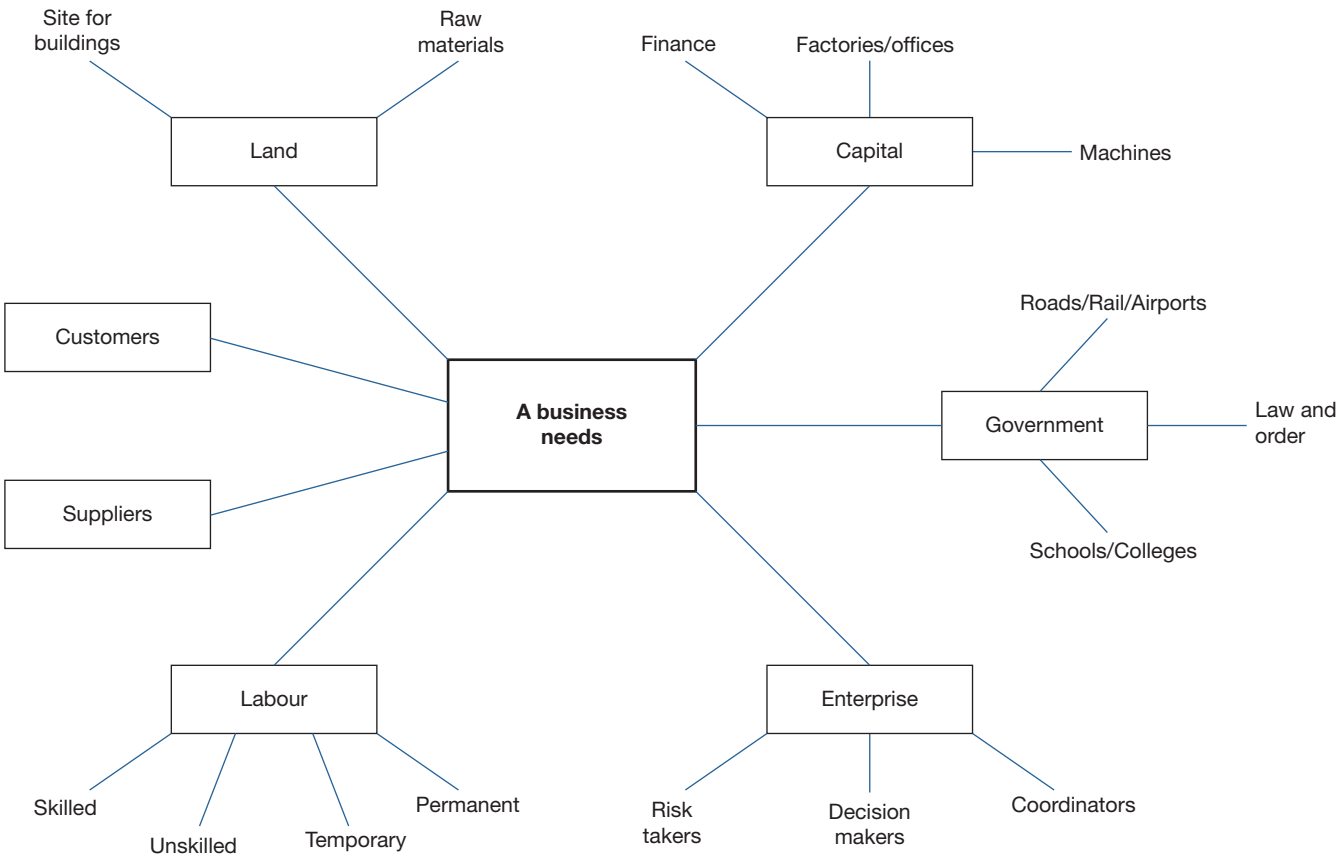


Figure 1.1 What businesses need

to be paid and, usually, a profit must be made to justify staying in operation.

The concept of creating added value can be illustrated by an example taken from the building industry – see Figure 1.2.

From the value created or added by the business, other costs have to be paid, such as labour and rent, so value created by a business is *not* the same as profit. However, if a business can create increased value without increasing its costs, then profit *will* increase.

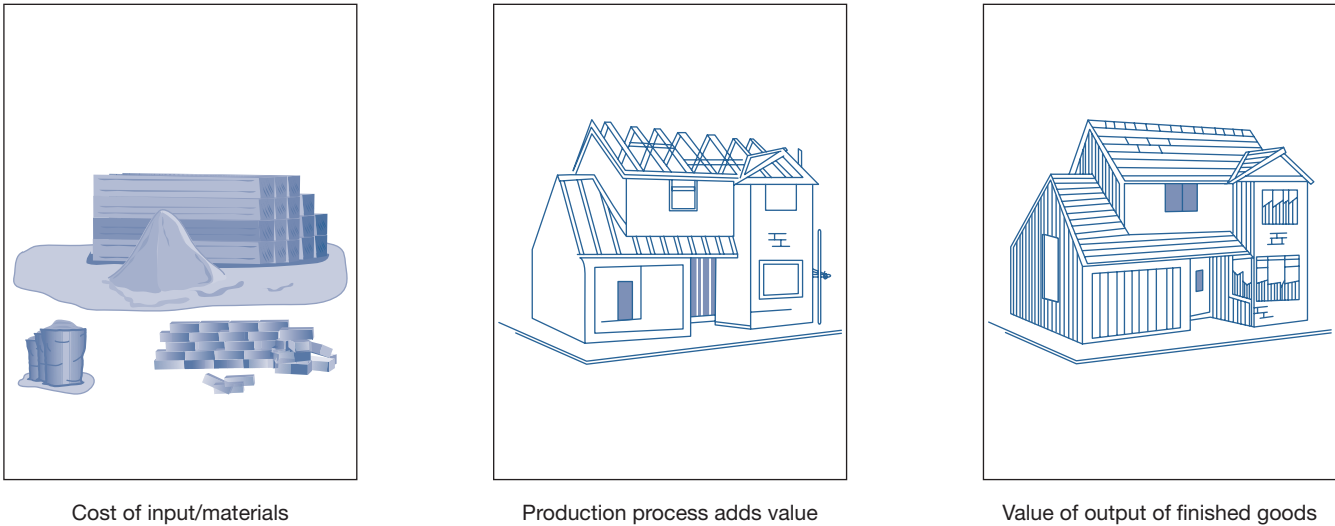


Figure 1.2 Creating value by building a house from bought-in materials

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Here are two examples of how different businesses could create added value to their products:

- 1 **Jewellers** – well-designed shop-window display, attractive shop fittings, well-dressed and knowledgeable shop assistants and beautiful boxes offered to customers to put new jewellery in. These features might allow an increase in jewellery prices above the additional costs involved.
- 2 **Sweet manufacturer** – extensive advertising of the brand of sweets to create an easily recognised name and brand identity, attractive packaging, selling through established confectionery shops and not ‘cheap’ vending machines. Higher prices as a result of successful branding should create added value.

ACTIVITY 1.1

[12 marks, 25 minutes]

Explain how the following businesses could create added value to the goods they buy in:

a hotel

[3]

b car dealer

[3]

c clothing manufacturer

[3]

d fast-food restaurant.

[3]

6

KEY CONCEPT LINK

Creating value requires effective management of resources. The most successful businesses in terms of creating value tend to be customer-focused. Many customers are prepared to pay relatively high prices for products which exactly meet their needs – creating more value for the business.

Economic activity and the problem of choice

We live in a world of great wealth and great scarcity. Very poor people are unable to obtain the basic requirements of life – food, clean water, shelter – and they have many unsatisfied needs and wants. Even very rich people may not be able to satisfy all of their wants for luxury goods and services. It should be clear to us all that there are insufficient goods to satisfy all of our needs and wants at any one time; this is known as ‘the economic problem’. It is the purpose of economic activity to provide for as many of our wants as possible, yet we are still left wanting more. This shortage of products – together with the resources needed to make them – lead to us all having to make choices. As we cannot satisfy all of our wants, then we must choose those which we will satisfy now and those which we will forgo. If we are careful and rational, we will choose those things that give us the greatest benefit,

leaving out those things of less value to us. This need to choose is not exclusive to people as consumers. All economic units have to make choices – governments, businesses, workers, charities and so on.

Opportunity cost

This need to choose leads to the next important principle of our subject – **opportunity cost**. In deciding to purchase or obtain one item, we must give up other goods as they

KEY TERM

Opportunity cost: the benefit of the next most desired option which is given up.



If consumers choose to buy the smart phone, then the trainers become the opportunity cost



If government chooses to build the fighter plane, then the hospital becomes the opportunity cost

cannot all be purchased. The next most desired product given up becomes the ‘lost opportunity’ or opportunity cost. This concept exists for all economic decision makers: consumers, businesses and government.

The role of the entrepreneur

New business ventures started by **entrepreneurs** can be based on a totally new idea or a new way of offering a service. They can also be a new location for an existing business idea or an attempt to adapt a good or service in ways that no one else has tried before. In this chapter, we will be looking at several examples of people who have set up their own new business and have shown skills of ‘entrepreneurship’. They have:

- had an idea for a new business
- invested some of their own savings and capital
- accepted the responsibility of managing the business
- accepted the possible risks of failure.



KEY TERM

Entrepreneur: someone who takes the financial risk of starting and managing a new venture.

Characteristics of successful entrepreneurs

The personal qualities and skills needed to make a success of a new business venture include:

Innovation: The entrepreneur may not be an inventor in the traditional sense, but they must be able to carve a new niche in the market, attract customers in innovative ways and present their business as being different from others in the same market. This requires original ideas and an ability to do things differently – this is the skill of innovation.

Commitment and self-motivation: It is never an easy option to set up and run your own business. It is hard work and may take up many hours of each day. A willingness to work hard, keen ambition to succeed, energy and focus are all essential qualities of a successful entrepreneur.

Multiskilled: An entrepreneur will have to make the product (or provide the service), promote it, sell it and keep accounts. These different business tasks require a person who has many different qualities, such as being keen to learn technical skills, being able to get on with people and being good at handling money and keeping accounting records.

Leadership skills: The entrepreneur will have to lead by example and must have a personality that encourages people in the business to follow them and be motivated by them.

Self-confidence and an ability to bounce back: Many business start-ups fail, yet this would not discourage a true entrepreneur who would have such belief in themselves and

their business idea that they would bounce back from any setbacks.

Risk taking: Entrepreneurs must be willing to take risks in order to see results. Often the risk they take is by investing their own savings in the new business.



KEY CONCEPT LINK

Innovative entrepreneurs can often **create much value** for their business as long as their new ideas for goods or services are **customer-focused**.

ACTIVITY 1.2

Bangalore enterprise blossoms

Rama Karaturi gained the idea for his rose-growing business when he searched, without success, for a bouquet of roses for his wife in Bangalore. The city was a rose-free zone, so he decided to start growing them himself. Initially, he opened two greenhouses growing just roses. He used his own savings, so took a considerable risk, but his confidence in the growth of flower-giving at times of major festivals encouraged other investors too. He sold the flowers in India, but his business also became one of the first in India to start exporting flowers on a large scale. Rama worked long hours to make his business a success. The business, called Katuri Networks, has grown at a tremendous rate, helped by Rama’s all-round business skills. He recently bought out a large rose-grower in Kenya and his business is now the world’s largest cultivator of roses – and Rama achieved this in a little over ten years.

[9 marks, 15 minutes]

- 1 Rama is an example of a ‘business entrepreneur’. Explain what is meant by this term. [3]
- 2 Outline any **three** characteristics of Rama’s personality that led to the success of his enterprise. [6]

Major challenges faced by entrepreneurs

Identifying successful business opportunities

Identifying successful business opportunities is one of the most important stages in being an effective entrepreneur. Many people say that they ‘want to work for themselves’, but they do not make the leap into entrepreneurship successfully because they have not been able to identify a market need that will offer sufficient

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demand for their product to allow the business to be profitable. The original idea for most new businesses comes from one of several sources including:

- Own skills or hobbies – e.g. dress-making or car bodywork repairing. Very often, these skills will enable an entrepreneur to offer them to friends and relatives and this could be the start of the business.
- Previous employment experience – working for a successful hairdresser, for example, allows a potential entrepreneur to see the working of such a business and judge whether they could set up a similar business themselves.
- Franchising conferences and exhibitions – these offer a wide range of new business start-up ideas, e.g. fast-food restaurants, which also give the potential benefits of the support of a much larger franchiser business.
- Small-budget market research – the Internet allows any user to browse business directories to see how many businesses there are in the local area offering certain goods or services. Such small-scale research might indicate gaps in local markets that could be profitably filled by the entrepreneur.

Sourcing capital (finance)

Once the entrepreneur has decided on the business idea or opportunity, the next task is to raise the necessary capital. In an International Labour Organization survey of new business start-ups, the problem of finance came top of the list of replies from entrepreneurs regarding the main difficulty. So why is obtaining finance such a major problem for entrepreneurs?

- Lack of sufficient own finance – many entrepreneurs have very limited personal savings, especially if they are setting up their own business because they were previously made redundant.
- Lack of awareness of the financial support and grants available.
- Lack of any trading record to present to banks as evidence of past business success – a trading record would tend to give a bank confidence when deciding to lend money or not for a new venture.
- A poorly produced business plan that fails to convince potential investors of the chances of a business's success.

Determining a location

Perhaps the most important consideration when choosing the location for a new business is the need to minimise fixed costs. When finance is limited, it is very important to try to keep the break-even level of output – the output level that earns enough revenue to cover all costs – as low as possible. This will greatly increase the business's chances of survival. Operating from home is the most common way for entrepreneurs to establish their

business. This has the great advantage of keeping costs low, but there are drawbacks:

- It may not be close to the area with the biggest market potential.
- It lacks status – a business with its own prestigious premises tends to generate confidence.
- It may cause family tensions.
- It may be difficult to separate private life from working life.

The cost and position of the location chosen could have a big impact on the business entrepreneur's chance of success.

New businesses that offer a consumer service need to consider location very carefully. Whereas a website designer could operate from home very effectively, as communication with customers will be by electronic means, a hairdresser may need to consider obtaining premises in an area with the biggest number of potential customers. An alternative is to visit customers in their own homes – this way, the entrepreneur may avoid the costs of buying or renting their own premises altogether.

Competition

This is nearly always a problem for new enterprises unless the business idea is so unique that no other business has anything quite like it. A newly created business will often experience competition from older, established businesses, with more resources and more market knowledge. The entrepreneur may have to offer better customer service to overcome the cost and pricing advantages that bigger businesses can usually offer.

Building a customer base

This is linked to the previous point about competition. To survive, a new firm must establish itself in the market and build up customer numbers as quickly as possible. The long-term strength of the business will depend on encouraging customers to return to purchase products again and again. Many small businesses try to encourage this by offering a better service than their larger and better-funded competitors. This better service might include:

- personal customer service
- knowledgeable pre- and after-sales service
- providing for one-off customer requests that larger firms may be reluctant to provide for.

Why do new businesses often fail?

Even if an entrepreneur has all of the qualities listed above, success with a new business can never be guaranteed. In fact, many businesses fail during their first year of operation. The most common reasons for new enterprises failing are:

Lack of record keeping

The lack of accurate records is a big reason for business failure. Many entrepreneurs fail to pay sufficient attention to this need as either they believe that it is less important than meeting their customers' needs, or they think they can remember everything. The latter will be quite impossible after a period of time. How can the owner of a new, busy florist shop remember:

- when the next delivery of fresh flowers is due?
- whether the flowers for last week's big wedding have been paid for?
- if the cheque received from the government department for the display of flowers in its reception area has been paid into the bank yet?
- how many hours the shop assistant worked last week?

There are many other examples that could be given to illustrate the crucial importance of keeping accurate and up-to-date records of business transactions and other matters.

With the falling cost of computing power, most businesses, even newly formed ones, keep records on computer. It is always advisable to keep hold of paper records too – when these exist – for example, receipts from suppliers or details of big deliveries. Not only can these act as a check or back-up system if the computer should fail, but they can also provide evidence to the tax authorities if they dispute the entrepreneur's own tax calculations.

Lack of cash and working capital

Running short of capital to run day-to-day business affairs is the single most common reason for the failure of new businesses to survive the first year of operation.

Capital is needed for day-to-day cash, for the holding of inventories and to allow the giving of trade credit to customers, who then become trade receivables. Without sufficient working capital, the business may be unable to buy more supplies, or pay suppliers offer credit to important customers. All these factors could lead to the business closing down.

Serious working capital deficiencies can usually be avoided if several simple, but important, steps are taken as the business is being established:

- Construct a cash flow forecast so that the liquidity and working capital needs of the business can be assessed month by month. Keep this updated and also show it to the bank manager.
- Inject sufficient capital into the business at start-up to last for the first few months of operation when cash flow from customers may be slow to build up.
- Establish good relations with the bank so that short-term problems may be, at least temporarily, overcome with an overdraft extension.

- Use effective credit control over customers' accounts – do not allow a period of credit that is too long, and regularly chase up late payers.

Poor management skills

Most entrepreneurs have had some form of work experience, but not necessarily at a management level. They may not have developed:

- leadership skills
- cash handling and cash management skills
- planning and coordinating skills
- decision-making skills
- communication skills
- marketing, promotion and selling skills.

They may be very keen, willing to work hard and have undoubted abilities in their chosen field, e.g. an entrepreneur opening a restaurant may be an excellent chef, but may lack management skills. Some learn these skills very quickly once the business is operating, but this is quite a risky strategy. Some organisations exist to provide support for new entrepreneurs in the form of advice and training. Some entrepreneurs 'buy in' experience by employing staff with management experience, but how many newly formed businesses can afford this expensive option?

It is wrong to think, just because a business is new and small, that enthusiasm, a strong personality and hard work will be sufficient to ensure success. This may prove to be the case, but often it is not. So potential entrepreneurs are usually encouraged to attend training courses to gain some of these skills before putting their hard-earned capital at risk, or to first seek management experience through employment.



KEY CONCEPT LINK

The section above introduces some of the important functions of and skills required by good managers, suggesting why the key concept of **management** is so important.

Changes in the business environment

Setting up a new business is risky because the business environment is dynamic, or constantly changing. In addition to the problems and challenges referred to above, there is also the risk of change, which can make the original business idea much less successful. Change is a key feature of Business syllabuses and, therefore, of this book – indeed there is a whole section on change in Unit 6, Chapter 40. It is enough to observe at this stage that new businesses may fail if any of the following changes occur,

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which may turn the venture from a successful one to a loss-making enterprise:

- new competitors
- legal changes, e.g. outlawing the product altogether
- economic changes that leave customers with much less money to spend
- technological changes that make the methods used by the new business old-fashioned and expensive.

ACTIVITY 1.3

Farah branches out on her own

Farah was a well-qualified dressmaker. She had worked for two of the biggest dress shops in town. She was always arguing with her shop manager, who was very jealous about Farah’s superior dress-making skills. Farah was now determined to set up her own business. She was lucky that her father was prepared to invest \$5,000 in it, but she would have to find the rest of the capital needed – about \$10,000, she guessed – from her own savings and a bank loan. Her first step was to investigate the prices of shop premises and she was disappointed when she found out how expensive the city-centre locations were. Her father suggested a cheaper but less busy out-of-town location. She contacted an accountant who offered to look after the financial side of the business, but he would charge at least \$2,000 per year. Farah wondered if she could learn to keep the accounts herself if she attended classes at the local college in the evening. She wanted to make her shop very different from all of the competitors in the city and she had the idea of offering lessons in dress-making as well as selling finished dresses. She had been asked so many times by customers, ‘How did you do that?’ when they were pleased with her latest dress designs, that she was sure this was a great business opportunity. What she had not realised was the amount of paperwork she had to complete before her business could even start trading.

[22 marks, 30 minutes]

- 1 Outline **three** problems that Farah had to deal with in setting up this new business. [6]
- 2 Which of these problems do you think was the most important one for Farah to find a good solution to? Explain your answer. [6]
- 3 Do you think Farah had some of the right qualities to be a successful entrepreneur? Justify your answer. [10]

This list of changes could be added to, but even these four factors indicate that the business environment is a dynamic one, and this makes owning and running a business enterprise very risky indeed.

Common types of entrepreneurial businesses

New business start-ups can be found in nearly all industries, yet it is true to say that there are some industries and sectors of industry where there is a much greater likelihood of new entrepreneurs entering. These include:

Primary sector

- fishing – e.g. a small boat owned by an entrepreneur
- market gardening – producing cash crops to sell at local markets.

Secondary sector

- jewellery-making
- dress-making
- craft manufacture, e.g. batik cloth
- building trades.

Tertiary/service sector

- hairdressing
- car repairs
- cafés and restaurants
- child-minding.

It would be most unusual for entrepreneurs to successfully establish themselves in, say, the steel-making industry or in car manufacturing, because of the vast amount of capital equipment and financial investment that would be required.

Impact of enterprise on a country’s economy

All governments around the world are following policies that aim to encourage more people to become entrepreneurs. What are the claimed benefits to the economy of business enterprise?

Employment creation: In setting up a new business, an entrepreneur is employing not only themselves (self-employment), but also, very often, employing other people too. Very often these are members of the family or friends, but in creating such employment, the national level of unemployment will fall. If the business survives and expands, then there may be additional jobs created in the businesses that supply them.

Economic growth: Any increase in output of goods or services from a start-up business will increase the gross domestic product of the country. This is called economic growth, and if enough small businesses are created, it will lead to increased living standards for the population. In addition, increased output and consumption will also lead to increased tax revenues for the government.

Firms’ survival and growth: Although a high proportion of new firms fail, some survive and a few expand to become really important businesses. These will employ large numbers of workers, add considerably to economic growth and will take the place of declining businesses that may be forced to close due to changing consumer tastes or technology. So, in Trinidad and Tobago, the relative decline of the sugar industry has been balanced out by the growth of the tourist industry, which has itself been boosted by small guesthouse businesses operating as sole traders.

Innovation and technological change: New businesses tend to be innovative and this creativity adds dynamism to an economy. This creativity can rub off on to other businesses and help to make the nation’s business sector more competitive. Many new business start-ups are in the technology sector, e.g. website design. The increased use of IT by these firms, and the IT services they provide to other businesses, can help a nation’s business sector become more advanced in its applications of IT, and therefore more competitive.

Exports: Most business start-ups tend to offer goods and services that meet the needs of local or regional markets. Some will expand their operations to the export market, however, and this will increase the value of a nation’s exports and improve its international competitiveness.

Personal development: Starting and managing a successful business can aid in the development of useful skills and help an individual towards self-actualisation – a real sense of achievement. This can create an excellent example for others to follow and can lead to further successful new enterprises that will boost the economy still further.

Increased social cohesion: Unemployment often leads to serious social problems and these can be much reduced if there is a successful and expanding small business sector. By creating jobs and career opportunities and by setting a good example for others to follow, entrepreneurship can help to achieve social cohesion in the country.



TOP TIP

Some questions may ask you to make references to businesses ‘in your own country’. You are advised to take a close interest during the Business course in the activities of businesses – new and well established ones – in your country.

Social enterprise

Social enterprises are not charities, but they do have objectives that are often different from those of an entrepreneur who is only profit motivated.



KEY TERM

Social enterprise: a business with mainly social objectives that reinvests most of its profits into benefiting society rather than maximising returns to owners.

In other words, a social enterprise is a proper business that makes its money in socially responsible ways and uses most of any surplus made to benefit society. Social entrepreneurs are not running a charity, however – they can and often do keep some of any profit they have made. Social enterprises compete with other businesses in the same market or industry. They use business principles to achieve social objectives. Most social enterprises have these common features:

- They directly produce goods or provide services.
- They have social aims and use ethical ways of achieving them.
- They need to make a surplus or profit to survive as they cannot rely on donations as charities do.

Social enterprise – objectives

Social enterprises often have three main aims. These are:

- 1 **economic** – make a profit to reinvest back into the business and provide some return to owners
- 2 **social** – provide jobs or support for local, often disadvantaged, communities
- 3 **environmental** – to protect the environment and to manage the business in an environmentally sustainable way.

These aims are often referred to as the **triple bottom line**. This means that profit is not the sole objective of these enterprises.



KEY TERM

Triple bottom line: the three objectives of social enterprises: economic, social and environmental.

ACTIVITY 1.4

Research a social enterprise business in your own country. Try to find out:

- what its social and environmental objectives are
- how it is different from a charity
- how it is different from a traditional profit only business.

Write a report on your findings.

Example 1: SELCO in India. This social enterprise provides sustainable energy solutions to low-income households and small businesses. In one scheme, solar-powered lighting was provided by SELCO to a silkworm farmer who depended on dangerous and polluting kerosene lamps. The farmer could not afford the upfront cost, so SELCO helped with the finance, too.

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Example 2: The KASHF Foundation in Pakistan provides micro-finance (very small loans) and social-support services to women entrepreneurs who traditionally find it very difficult to receive help. This enables the women to set up their own

businesses in food production, cloth making and other industries. The loans have to be repaid with interest, but the interest rates are much lower than a profit-maximising international bank would charge.

ACTIVITY 1.5

Caribbean cook tastes success

A Jamaican reggae musician turned businessman has hit the headlines. Levi Roots appeared on a famous BBC TV programme called *Dragons' Den*. On this programme, he persuaded wealthy businessmen to invest \$100,000 in his new business idea. He plans to increase production of his Reggae Reggae Sauce, which uses an old family recipe. Levi realised this might be a good business opportunity when he started selling jerk chicken with this sauce on at local carnivals. Such was the demand from his street stall that he believed he could set up his own business making and selling the sauce.

At first, his request for finance was turned down by many banks, but he was not dispirited. He applied to appear on *Dragons' Den* and his business presentation was so effective that he had no problems in getting the \$100,000 of start-up capital he asked for. In return, he agreed to give up 25% of his business profits to the businessman who agreed to offer the venture capital.

Levi's popularity after the programme and his great personality convinced one of the largest supermarket companies in Europe, Sainsbury's, to buy enough of Levi's sauce to stock all of its stores. His new financial backer said, 'Levi is a great guy and he has created a great product which he is passionate about. I am sure that this deal with Sainsbury's will be the first of many fantastic milestones on the way to business success and making his dreams a reality.' Levi is now in discussion with an export company that wants to export the sauce back to the Caribbean.



Levi Roots had a bright idea for a new business – and he is now a successful entrepreneur.

12

[26 marks, 35 minutes]

- 1

Explain **four** possible benefits to the UK economy from Levi's enterprise.

[8]
- 2

Analyse **two** reasons for the initial success of Levi Roots as an entrepreneur.

[8]
- 3

Do you think that Levi's business will always be successful? Justify your answer.

[10]

SUMMARY POINTS

- Business activity uses resources to try to satisfy customers’ needs.
- Most businesses are always looking for ways to create value.
- Entrepreneurship is about taking risks to set up new business ventures.
- Successful entrepreneurs tend to have many characteristics in common.
- An economy can obtain many important benefits from entrepreneurship.
- Entrepreneurs face challenges such as a dynamic business environment.
- Social enterprises have three objectives, not just ‘to make a profit’.

RESEARCH TASK

Use the internet to find out about three social enterprises in your own country.

Write a brief report on:

- what goods/services they provide
- their main objectives
- the main sources of finance.



AS Level exam practice questions

Short answer questions

[80 marks, 90 minutes]

Knowledge and understanding

- 1 Explain what ‘creating value’ means. [3]
- 2 What do you understand by the term ‘entrepreneur’? [3]
- 3 List **three** characteristics of successful entrepreneurs and explain why they are important. [9]
- 4 Identify **three** challenges faced by entrepreneurs. [3]
- 5 Explain the concept of opportunity cost and give **three** examples of it. [9]
- 6 Explain why a country is likely to benefit from expansion of its business enterprises. [6]
- 7 What is meant by the term ‘social enterprise’? [3]
- 8 Explain what is meant by the term ‘triple bottom line’. [3]
- 9 Explain the difference between a charity and a social enterprise. [3]

Application

- 10 List **three** factors of production that a new hairdressing business will require. [3]
- 11 A new business selling computer software has just opened in your town. Explain **three** needs that this business will have if it is to be successful. [6]
- 12 Explain how a supermarket could create value added to the food and other goods it buys in. [4]
- 13 Explain why there are so many new business enterprises in the tertiary sector of industry, such as hairdressing and car servicing. [7]
- 14 Using an example of a small business/recently established new business, explain how its owners overcame the **three** challenges you identified in Q4. [9]
- 15 List **three** benefits of entrepreneurship to your country’s economy and explain why they are important. [9]

Cambridge International AS and A Level Business

Data response

1 Rivelino – entrepreneur, innovator and strategic thinker

‘We are a global business,’ states Rivelino Simmons, one of the three partners in Integrated Trade Solutions (ITS). This is a fast-growing business that responds to the changing needs of other businesses by developing cutting-edge software to facilitate e-commerce and e-trade transactions within the regional and global marketplace.

This is not Rivelino’s first business venture. He has also set up businesses selling herbal teas and arranging boat tours for tourists. He has always been on the lookout for business opportunities. He started by using his hobby of video filming to offer his skills to film companies as a freelance cameraman, quickly developing a large number of important business contacts. He is now one of the best-known freelance cameramen in the Caribbean region. However, ITS is his biggest success by far. He discussed the opportunity to set up a software development company with an old school friend who was trained in software design and development. There have been opportunity costs. Rivelino not only gave his time to the new business venture but he also contributed his savings, marketing skills and business contacts. Rivelino and his friend were also joined by another partner who brought financial skills as well as software design experience.

After much success selling software to the Caribbean market, Rivelino and his fellow entrepreneurs plan to provide advanced customised software on a global scale. Rivelino’s vision is fuelled by a drive to succeed and a love for the software development business. He recognises, however, the strength of competing businesses and the changes occurring in the business world, especially in e-commerce.

2 Returned next day, or nothing to pay

Wesley had been really pleased with himself six months ago. His business plan for a new laundry business had been well received by the bank manager. She had agreed to lend him \$30,000 – half of the capital he needed for starting the business. Wesley planned to offer a premium laundry service for local hotels and guesthouses that did not have their own sheet and towel washing facilities. His promise was ‘returned next day, or nothing to pay’.

The number of customers was small at first, but news of Wesley’s service standards and next-day promise soon spread. By the end of month three, the laundry was working to full capacity and Wesley needed more resources. He recruited four workers to help him. At the end of month four, the bank manager asked to see him again. He was shocked by what he was told:

‘You have reached your overdraft limit and cash coming in to the business is not enough to ensure survival. I want to see all of your accounting and sales records next week,’ she told him. Wesley knew that would be a problem. He had been so busy that his accounting records were three weeks out of date. Customers had not paid during this period – because he had not sent the bills out. Some customers were claiming that they should not pay anyway as their laundry had taken three days to be returned. Another problem concerned the workforce. They were always arguing because there were certain jobs that no one wanted to do, such as handling the chemicals used and cleaning the boiling tanks at the end of each day. Wesley had not allocated jobs clearly enough and the workers could not decide themselves.

After his visit to the bank, he sat down with all of the company’s paperwork and wondered why he had not gained some experience in computer-controlled accounting. Wesley’s own business skills had mainly been gained in marketing – no wonder the sales of the laundry were doing so well.

[30 marks, 45 minutes]

- 1
- a

Define the term ‘entrepreneurs’.

[2]
- b

Briefly explain the term ‘opportunity costs’.

[3]
- 2
- Explain the qualities Rivelino has that make him a successful entrepreneur.

[6]
- 3
- Analyse **two** examples of opportunity cost experienced by Rivelino when setting up ITS.

[8]
- 4
- Assess the likely importance of a dynamic business environment to the future success of ITS.

[11]

[30 marks, 45 minutes]

- 1
- a

Define the term ‘capital’.

[2]
- b

Briefly explain the term ‘resources’.

[3]
- 2
- Explain **three** problems that Wesley now faces in managing his business.

[6]
- 3
- Explain the skills that Wesley should have had from the start of the business that would have reduced the significance of these problems.

[8]
- 4
- Recommend to Wesley what steps he should now take to overcome the difficulties his business is experiencing.

[11]

AS Level essay questions

[20 marks, 40 minutes each]

- 1
- To what extent do you believe that a successful entrepreneur depends on luck rather than personal qualities and skills?

[20]
- 2
- a

Outline the main benefits to your country’s economy of an increase in the number of new business start-ups made by entrepreneurs.

[8]
- b

Discuss the challenges that face new business entrepreneurs in your country.

[12]