Faculty of Business and Computing

HOME STUDY

YEAR 9

Business

Please complete the four worksheets below to revise topics previously covered and to practise your examination skills.

Write your answers on a piece of paper (or in the **BACK** of your exercise book if you have it).

Once finished, use the answers at the end of this document to self-assess your work. Make any corrections and/or improve your responses.

The dynamic nature of business

1 Which one of the following is a reason for a product to become obsolete?

Select **one** answer:

☐ **A** The product breaks

☐ **B** An accessory for the product is introduced

☐ **C** The product is unique

☐ **D** New technology is introduced **(1 mark)**

2 Explain **one** way that changing consumer needs could create a new opportunity for a business.

Consumer needs may change due to shifts in lifestyle, fashion and economic conditions.

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..... **(3 marks)**

3 Explain **one** reason why a business owner might want to develop new ideas from existing products and services.

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..... **(3 marks)**

4 Discuss a factor that an entrepreneur should consider before opening a new business.

Guided

One factor that an entrepreneur may consider before opening a new business is whether or not there is a consumer need for the products or services that the business will offer. .....

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..... **(6 marks)**

Had a go ☐ Nearly there ☐ Nailed it! ☐

Risk and reward

Guided

1 Which **one** of the following is a factor that could increase the level of risk in a business?

Select **one** answer:

☐ **A** Seasonal demand

☐ **B** Having a large target market

☐ ~~**C** Having low fixed costs~~

☐ **D** Employing a large number of employees

Having low fixed costs is an advantage for a business because it will need to sell fewer products before it starts to make a profit, so it does not increase risk.

(1 mark)

2 Explain **one** reason why running a business can involve high levels of risk.

Think about the reasons why some businesses fail.

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..... **(3 marks)**

3 Discuss a method that a business owner may use to reduce the level of risk in the running of their business.

Research and planning are two ways that a business owner could reduce the risk. Write a detailed sentence explaining how good planning and good research could reduce risk.

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..... **(6 marks)**

Had a go ☐ Nearly there ☐ Nailed it! ☐

Customer needs 1

Samit Singh works as a bus driver for a local transport company in Stratford-upon-Avon. He is keen to start his own business providing an express bus service between Stratford-upon-Avon and Birmingham Airport. He spent a week doing market research. Samit interviewed 200 airport users in Stratford-upon-Avon town centre and some of the results are shown below.

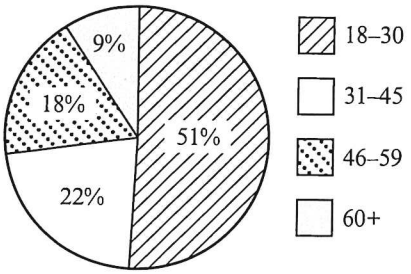

Figure 1 Age profile of people who would use the service

Return fare	% of people prepared to pay
£14–£16	94%
£17–£18	76%
£19–£20	59%
£21–£24	31%
£25–£28	12%
£29+	3%

Table 1: The proportion of people interviewed prepared to pay different fares

1 Identify the percentage of people willing to pay **more than** £20.

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..... **(1 mark)**

2 Identify the percentage of potential customers aged 46 or over.

The answer is not 18%. Take your time and look at the age brackets carefully.

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..... **(1 mark)**

3 Explain **one** reason why customer service is an important need that businesses should meet.

Guided

Customer service is important because it is linked to the experience a customer has when they buy a product .....

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..... **(3 marks)**

Competition

Valerie and Norman Trembath own a dairy farm in Cornwall. In 2015, they decided to use some of the milk they produced to make their own brand of ice cream. Their analysis of the local competition showed that there was only one supplier of premium-priced ice cream in the area, so they developed a brand called 'Truro's Best'. It is very rich and creamy, and it is sold at a premium price. Most of their customers are in the catering industry – hotels and restaurants. Valerie and Norman now have an established product range and can produce ice cream in any flavour ordered by their customers, which larger ice cream manufacturers cannot do.

1 State **one** reason why the Trembaths thought there was an opportunity in the local market for their premium ice cream.

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..... **(1 mark)**

2 Outline **one** way in which the Trembaths have differentiated their ice cream.

Add a point of development for the second mark in this question.

Guided

The Trembaths offer ice cream in any flavour ordered by customers.

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..... **(2 marks)**

3 Outline **one** method that the Trembaths could use to further differentiate their ice cream.

Differentiation is closely linked to adding value.

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..... **(2 marks)**

Answers

Theme 1: Investigating small business

The following pages contain suggested answers to the questions in Theme 1 of the Revision Workbook. In many cases, these are not the only correct answers.

1. The dynamic nature of business

1 D

2 Changing consumer needs creates a gap in the market. If the business can satisfy these needs, it will be able to charge customers a premium price, which allows the business to generate a greater profit margin.

3 An advantage of developing a new idea from an existing product or service is that the business owner knows the basic idea is already successful. Developing an existing idea is therefore less high risk than launching a brand new idea, as it allows a business owner to expand an existing and successful product or service to meet the needs of more consumers.

4 One factor that an entrepreneur may consider before opening a new business is whether or not there is a consumer need for the products that the business will offer. Up-to-date market research allows an entrepreneur to spot unfulfilled consumer needs and identify potential gaps in the market. If there is insufficient demand for the product offered by a new business, it is likely that the business will fail due to a lack of revenue. Considering consumer needs also allows an entrepreneur to estimate potential demand and how much of a product they should manufacture for the business launch, so that they are not surprised by their product being very popular and running out of stock.

2. Risk and reward

1 A

2 Running a business can involve high levels of risk because demand can quickly change. This means that a business's sales might fall very suddenly due to an increase in competition. This could lead to a business losing revenue, failing to make a profit and having to close down.

3 A business owner could reduce the risk of their business by carrying out market research. Market research will allow an owner to understand the market and make appropriate decisions to run the business well. It also enables the owner to anticipate customer demand, allowing them to ensure that the business holds the correct amount of stock to meet customers' needs. Another way that a business owner could reduce risk is through effective planning. Creating a detailed business plan makes the business owner consider all the issues associated with running their business and means that they are more likely to have anticipated potential problems.

3. The role of business enterprise

1 A

2 D

3 A business can meet the needs of its customers by providing high-quality products. If products are high quality, they are less likely to break or be faulty. This means that customers will be satisfied and will feel as though they have received value for their money.

4. The importance of added value

1 The sale of exotic flowers.

2 The Witney Flower Shop could add value to its products by offering its customers a delivery service. This will make it more convenient for some customers to buy flowers.

3 Being located on a high street means the business is more visible to passing trade. This adds value because customers may recognise the brand because they have seen it on the high street and may feel that they are buying flowers from a well-established business. This means that Ellie may be seen as trustworthy and her flowers as more prestigious. Furthermore, being located on a high street makes it easier for customers to visit the shop when buying from other local businesses. This adds value because the shop is more convenient and customers may be willing to pay a high price for products that are more accessible and therefore save them time when shopping.

5. The role of entrepreneurship

1 C

2 A and C

3 Entrepreneurs benefit the economy because they create jobs. This is because successful new businesses normally grow, which means they need more employees to work for them. These new jobs reduce the level of unemployment in the economy. Entrepreneurs also create products and services that people want and desire. When consumers go out and buy these new products and services, they spend money, which boosts economic activity and growth. This can also lead to additional tax revenue for the government as people pay VAT on an increased number of purchases.

6. Customer needs 1

1 46%

2 27%

3 Customer service is important because it is linked to the experience a customer has when they buy a product. If customer service is good, it is more likely that customers will be satisfied with their experience. This means that they are more likely to return to the business and become a repeat customer.

7. Customer needs 2

1 Option 1 may encourage customers to use Samit's service instead of booking another service such as a local taxi company. Furthermore, customers may also book and pay in advance for a number of trips, and this would help to improve his cash flow.

Offering to pick up customers over 60 may also be a good option, as this segment of his market may value convenience more than other segments of the market. Picking customers up from their homes would certainly provide a more convenient service. However, other customers may not be happy with this as it may lengthen their journey time to the airport. In addition, only 9% of the people who responded to his market research fell into this market segment, so there may not be a significant number of people who are looking for this type of service.

Overall, I believe that Samit should offer customers Option 2. Although fewer people are likely to want this service, because it is limited to the segment of his market aged 60 or over, he could start to open this option up to other customers. This would make his service very convenient and allow him to compete with taxi companies who might provide this service at a premium.

8. The role of market research

1 Possible answers include:

- the least important factor to customers is the shop's layout
- opening hours are a less important factor than the friendliness of staff
- the most important factor to customers is whether the shop's products meet their needs
- value for money is a more important factor than the friendliness of staff.

2 Conduct and read surveys about customers' buying habits when purchasing clothing, which will allow the business to see what styles or items of clothing customers are interested in purchasing.

3 Market research can help a business to decide the price at which it should sell its products. The business would be able to compare competitors offering similar products in order to identify the best price range that it could charge for its own products. This might allow it to offer competitive prices that would encourage more customers to buy from the business rather than from its rivals.

9. Types of market research

1 Possible answers include:
- questionnaire
- survey
- focus group
- observation.

2 Primary market research is collected first-hand so it is likely to be more reliable: a business is more likely to be able to trust the data that it has gathered for itself because this data is tailored to its needs. As a result, the business can have more confidence in the business decisions that it makes using this information.

3 Secondary market research can be quick and easy to get hold of because it has already been collected by a third party and is often available on the internet through sources such as government agencies. This may be appealing to a business because it will take far less time and less money to collect than most forms of primary research. Another advantage of secondary research over primary research is that primary research normally involves a small sample size. A small sample size means that the business cannot be as confident that the data is representative of the whole population or its customer base. This means that data based on a larger sample size is likely to be more reliable; enabling the business to make well-justified decisions.

10. Market research data

1 100 customers.

2 Market research data might be biased because the people involved may already know the business owner (such as friends of the business owner). This might mean that they are more likely to give positive responses to a questionnaire because they want to be nice. As a result, the results of the questionnaire will not be a true reflection of what most consumers think.

3 The limitations of the research carried out by the clothing company are that it is only a sample of 100 people and the results are quantitative. Quantitative data is good if the owners want to calculate statistics, but it does not give the reasons behind customers' responses, such as why 11 customers liked the late opening hours or how the business provides value for money. A focus group would allow customers to discuss their ideas, share opinions and give far more detailed responses. The owners could observe these discussions and record the answers. This would provide qualitative data, which may be far more useful in helping the owners to make decisions. For example, if they better understand what their customers want, they could increase the number of customers who feel that the shop sells the clothes that they want. Similarly, qualitative research data could help them to understand what makes their staff friendly and to improve customer service. The business may find that qualitative market research data takes longer and costs more to gather, but it may help the business to make better long-term business decisions.

11. Market segmentation

1 Possible answers include:
- by age
- by gender
- by income
- by location
- by lifestyle
- by demographics.

2 One limitation of market segmentation is that focusing on one segment can cause a business to miss another opportunity elsewhere. This is because other market segments could be far more profitable. As a result, focusing on one segment could lead to an opportunity cost for a business.

3 Focusing on a specific market segment makes it easier for a business to develop products and services. This is because it can focus the features and functions of its products and services to meet the specific needs of its chosen market segment. This can result in products being more desirable and the business being better able to meet customer needs. Another benefit is that market research becomes far easier when dealing with specific market segments. This is because there is a smaller potential population size and it will be easier for a business to gather a representative sample size. As a result, its business decisions will be more accurate.

12. Market mapping

1 One benefit of Option 1 is that there is a gap in the market in his local town for restaurants offering South American cuisine. This means that there are no other restaurants of this type, so Mario's business would be unlikely to face any direct competition. However, this does not necessarily mean that the business will be a success. There is no research available on local customers' preferences, so Mario does not know whether there is a gap in the market because there is no demand for this cuisine in Odmoor.

On the other hand, there are four restaurants offering British cuisine, suggesting that Option 2 might be popular with local consumers. In addition, there is a number of cheaper restaurants in the area and this might be because consumers in the local area prefer cheaper prices to premium prices, again suggesting that Option 2 could be more popular. However, the disadvantage of Option 2 is that there are already restaurants offering medium-priced British cuisine, meaning that Mario's business would be more likely to face direct competition.

Overall, I think Mario should choose Option 1. Entrepreneurs need to take risks and if his restaurant is popular then there is every chance of it being a success because of the lack of direct competition. Its success will also depend on the quality and reputation of Toni's Bistro (the closest competitor) and also on the level of demand for this cuisine. As a result, Mario should carry out further research into local consumers' preferences and the other local restaurants in the area before making his final decision.

13. Competition

1 Market research showing that there was demand for farm-produced dairy ice cream.

2 The Trembaths offer ice cream in any flavour ordered by customers. This differentiates their ice cream from others because other manufacturers cannot do this.

3 Valerie and Norman could differentiate their ice cream by using a unique logo and packaging that emphasises the local Cornish nature of their brand. This will help the Trembaths to build a solid Cornish brand that may be more likely to be stocked in local shops, cafés and restaurants.