

Knockout.Economics by Kru P'Eve & Kru P'Da

# IGCSE -Business studies

## Enterprise and entrepreneurship 🔍

- Executive summary IGCSE Business studies
- Series of exam questions each chapter
- Exam Strategies and exclusive tips to achieve A\* from Knockout.Economics
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# Overview

1. Characteristics of successful entrepreneurs
2. Contents of a business plan and how business plans assist entrepreneurs
3. Why and how governments support business start-ups



# 1. Characteristics of successful entrepreneurs

**Entrepreneurs** : persons who organise / operate / takes the risk for a new businesses such as Steve Job, Mark Zeckerberg, Jack ma

## Advantages

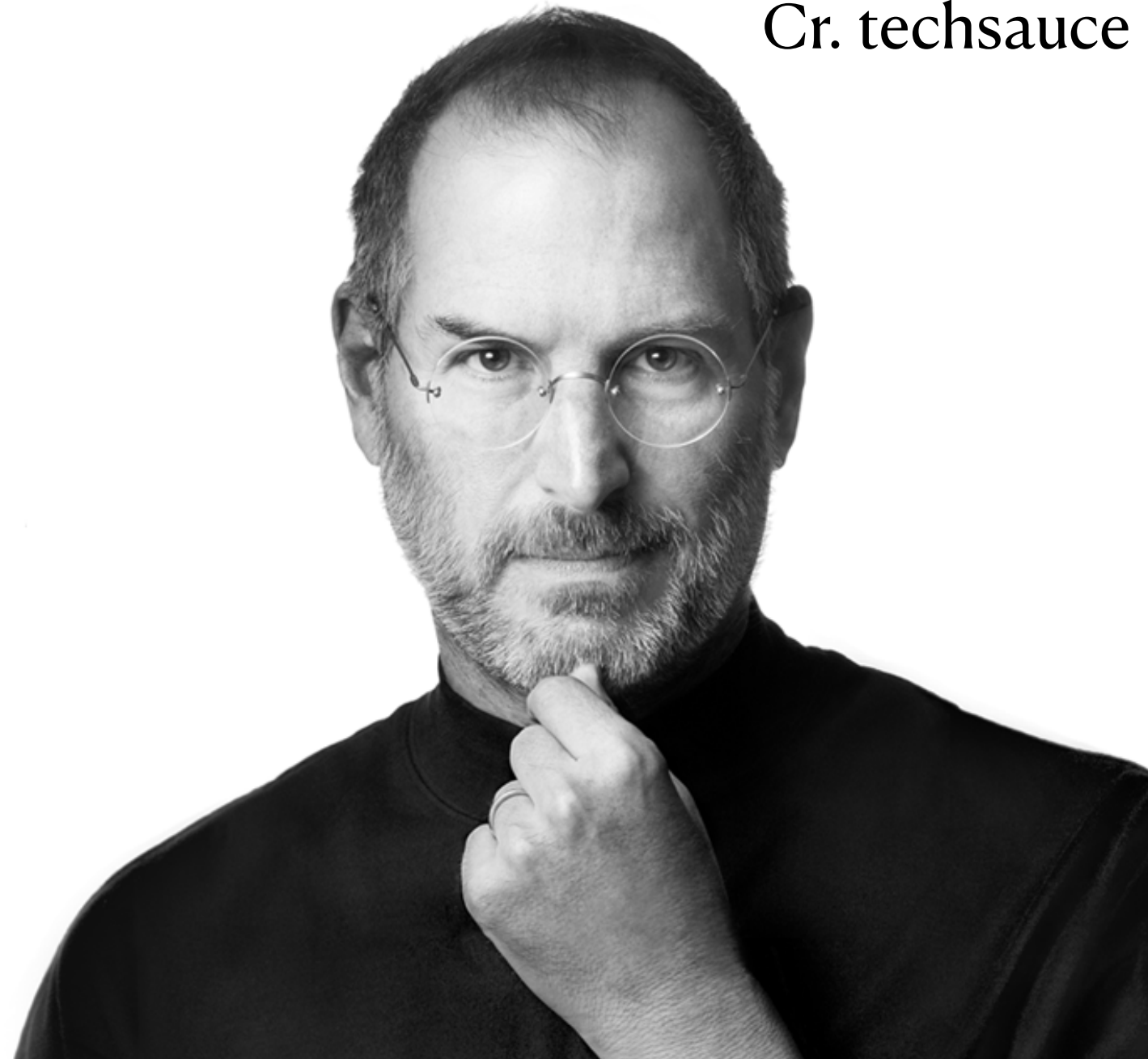
- Independence - able to choose working hours and holiday
- Entrepreneurs can put their own ideas into practice.
- Entrepreneurs can receive profit and income which might be higher than working as workers for another business.
- Entrepreneurs can gain high reputation if the business become successful.
- Entrepreneurs can use personal interest and skills in the businesses.

## Disadvantages

- Entrepreneurs might take high risk from unsuccessful businesses.
- Entrepreneurs need to put their own saving or find other sources of finance into business.
- Entrepreneurs may lack of experiences and skills of operation at the beginning stage of forming new business.
- Entrepreneurs might face with the opportunity cost from losing salary since they are not an employee of another business.

# 1. Characteristics of successful entrepreneurs

Cr. techsauce



**Steve Job**

Cr. thinkofliving



**Mark Zeckerberg**

Cr. Forbes



**Jack Ma**

# 1. Characteristics of successful entrepreneurs

1. Hard working
2. Risk taker
3. Creative
4. Optimistic
5. Self-confident
6. Innovation
7. Independent
8. Effective communicator



## 2. Contents of a business plan and how business plans assist entrepreneurs

**Business plan** : is a document combining the business objectives and important information about products, pricing, place, promotions, sources of finance, the operations etc.



### Benefits :

- To help gain finance; e.g. when a business would like to borrow money from a bank, the bank manager will require a detailed business plan.
- To carefully plan and to reduce risk.

## 3. Why and how governments support business start-ups

Government supports business by grants and training schemes :

### 3.1 Reduce unemployment

: New businesses can create jobs to help reduce unemployment rate in the economy

### 3.2 Increase competition

: New businesses provide consumers more variety of goods and services and may increase quality of goods and services to compete with existing businesses in the economy.

### 3.3 Increase output

: More new businesses mean more goods and services in the economy.

### 3.4 Benefit society

: Entrepreneurs may create social enterprise which provides benefits to the society. Eg. Unicef

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# IGCSE -Business studies

## The methods and problems of measuring business size



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# Overview

## 1. Methods of measuring business size and limitations



# 1. Methods of measuring business size and limitations

Businesses can vary in terms of size. Comparing size of businesses can be useful for



# 1. Methods of measuring business size and limitations

Business size can be measured in many ways.

## Number of employees

: High number of employees means larger size of business.

### Why

- Large scale of production
- High budget to hire more labour
- Many departments in the business

### Limitation

Some large firms use capital-intensive.

## Value of output

: High value of output means larger size of business while low value of output means smaller size of business.

(It is common way to measure size of business in the same industry)

### Limitation

: A high level of production does not mean that business is large when using other ways to measure. E.g. Firms may employ few workers to produce expensive devices.

OR The higher value of output does not mean higher sale revenue if the products are not sold.

# 1. Methods of measuring business size and limitations

## Value of sales

: High value of sales means larger size of business. - especially retail stores selling similar goods.

### Limitation

It could be misleading to measure size of business when selling in different products.  
Eg. Handbags VS. Food

## Value of capital employed

**Capital employed** - total value of capital invested into the businesses E.g. equipment, machines, etc.

High value of capital employed means larger size of business

: more funding to invest in capital and machines  
: more production

### Limitation

: Some firms employ many workers to produce products rather than using machines.  
(Labour intensive - When the businesses mainly produce products by labour.

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# IGCSE -Business studies

## Why some businesses grow and other remain small

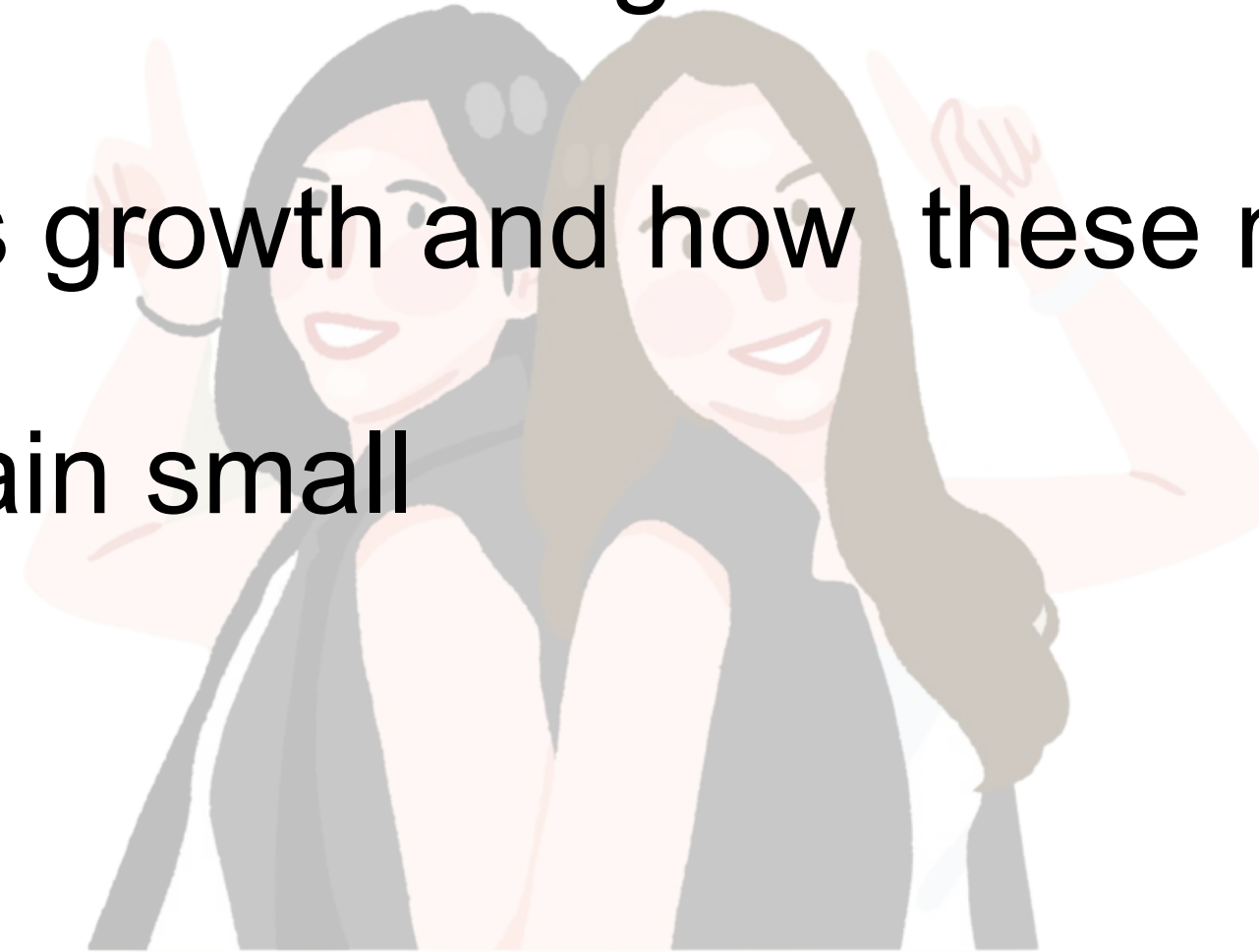


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# Overview

1. Why the owners of a business may want to expand the business
2. Different ways in which businesses can grow
3. Problems linked to business growth and how these might be overcome
4. Why some businesses remain small



# 1. Why the owners of a business may want to expand the business

## 1. Owners can gain higher profit

For example

- : Businesses expand to another areas
- : Businesses gain consumer based
- : As a result, Business can receive higher revenue and profit.

## 2. Larger firms can reduce average cost of production

For example

- : Larger firms produce higher level of production
- : Larger firms receive discount when buying bulk
- : As a result, average cost will reduce. (Economies of scale)



# 1. Why the owners of a business may want to expand the business

## 3. Larger firms can gain higher market share

: Market Share =  $\frac{\text{total sales revenue of firm}}{\text{total sales revenue of industry}}$

: This gives a business more dominate in the market when dealing with suppliers, bankers etc.

## 4. Larger firms can leverage status and prestige for owners of the businesses

: There will be easier to start new business in other areas.



## 2. Different ways in which businesses can grow

### How can business grow?

#### Internal growth

: expanding business without merger and acquisition with other companies.  
(expand its existing operations)

**For example :**

Bank A uses retained profit to increase branches.

#### External growth

: expanding business by merger and acquisition with other companies:

Horizontal  
Integration

Vertical  
Integration

Conglomerate  
Integration

## 2. Different ways in which businesses can grow

**Internal growth**: Firms can increase revenue by

- Increase design, innovation, colour etc.
- Design attractive packaging
- Increase range of products and services
- Expand business to another areas



## 2. Different ways in which businesses can grow

### External Growth

- **Mergers** : when owners of two firms agree to join to make new business together.

Eg.  $A+B = C$

- **Acquisition** : when one business buys out another business. (Take over)

Eg.  $A+B = A$  (In this case, Company A bought company B)



## 2. Different ways in which businesses can grow

Primary Sector



Secondary Sector

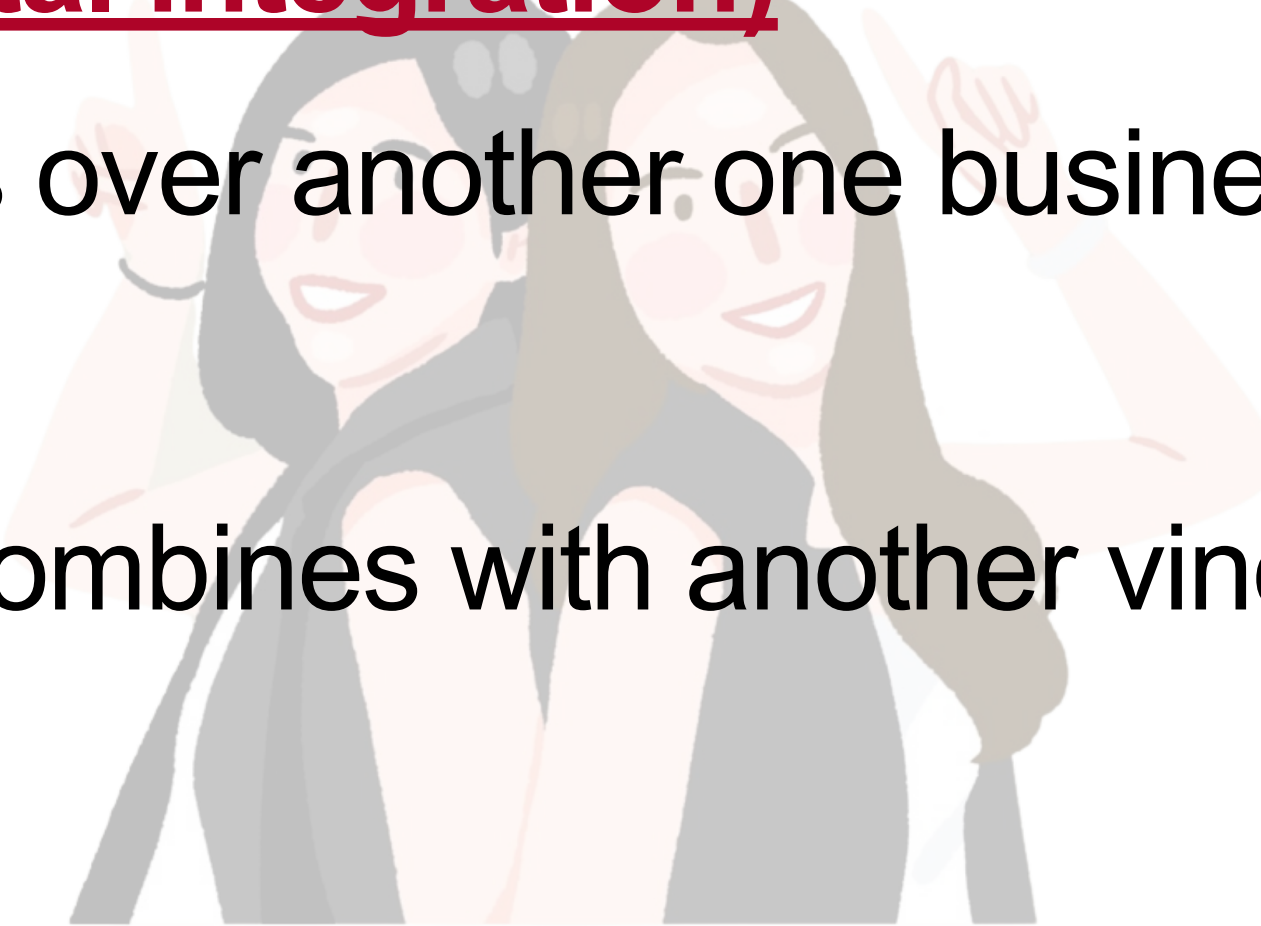


Tertiary Sector

- Horizontal merger (Horizontal integration)

: when one firm merges / takes over another one business in the **same industry** at the **same stage of production**.

For example - One vineyard combines with another vineyard.



## 2. Different ways in which businesses can grow

Primary Sector



Secondary Sector



Tertiary Sector

- Vertical merger (Vertical integration)

: when one firm merges / takes over with another one business in the *same industry* at the *different stage of production*.

### Vertical Integration

#### Backward Vertical Integration

**Meaning** : A firm in *secondary sector* merges with another firm in *primary sector*.

**For example** : Manufacturers of wine maker combine with vineyard.

#### Forward Vertical Integration

**Meaning** : A firm in *secondary sector* merges with another firm in *tertiary sector*.

**For example** : Manufacturers of wine maker combine with wine stores.

## 2. Different ways in which businesses can grow

Primary Sector



Secondary Sector



Tertiary Sector

- Conglomerate merger (Conglomerate integration)

: when one firm merges / takes over with another one business in the totally different industry.

For example :



## 2. Different ways in which businesses can grow

### Advantages and disadvantages of integration

#### • Advantages & disadvantages HORIZONTAL INTEGRATION

##### Advantages

- It reduces competition in the market.
- A business can take advantage of economies of scale resulting in lower average cost.
- The combined business can get bigger market share.

##### Disadvantages

- The combined business may experience diseconomies of scales.

##### For example -

: Two businesses may have different management structures & culture; as a result; there are high conflict and high cost of management.

## 2. Different ways in which businesses can grow

### • Advantages & disadvantages BACKWARD INTEGRATION

#### Advantages

- This can make sure that firms have adequate good quality of raw materials at reasonable price.
- It is more certain over the supply of raw materials and cost.
- This can also restrict suppliers to sell raw material to rivals.

#### Disadvantages

- There is no competition between suppliers anymore. It may lead to higher raw material costs.
- There is higher risk from adverse change in supplier as it will affect the whole business.
- It may cause diseconomies of scale from being a large firm.

## 2. Different ways in which businesses can grow

### • Advantages & disadvantages FORWARD INTEGRATION

#### Advantages

- This can ensure that there are sufficient outlets.
- This can ensure that products are stored and displayed well in high quality outlets.
- The business can control after sale services and marketing and get customers preference.
- The business can get profit made by retail shops.
- The business can prevent retailers from selling competitor's products.

#### Disadvantages

- There is a higher risk from holding high fixed costs.
- It may cause diseconomies of scale from being a large firm.

## 2. Different ways in which businesses can grow

### • Advantages & disadvantages CONGLOMERATE INTEGRATION

#### Advantages

- A merger spreads a business's risks. If the sale revenue from a product falls, the business still has revenue from other products.
- It enables a merger to grow even if the market of one of its products is declining.
- A merged firm is large size business which is easier for the business to borrow money from bank.

#### Disadvantages

- It may cause diseconomies of scale from being a large firm.
- A merger may lack experience in new business. It has a chance to fail.

### 3. Problems linked to business growth and how these might be overcome

#### Problems from expansion

#### Solution

Larger businesses can be difficult to control.

This problem can be solved by dividing business into small sections.

**Decentralisation** : formal decision-making power is allocated across teams / employees.

It might be poor communication in larger businesses.

This can solve by operating the business in small divisions.

- It is easier to communicate with teams.
- It takes shorter time to make decision.

### 3. Problems linked to business growth and how these might be overcome

#### Problems from expansion

It can cause financial problems from huge expansion costs.

It can cause management problems.  
(Eg. different management styles, different cultures / languages.)

#### Solution

Businesses should expand the production more slowly by using retained profits.

Businesses should provide training eg. Icebreaker (team-building)  
Good communication with the workforce is required- everyone can understand business strategies.

## 4. Why some businesses stay small?

### 4.1 Owner's objectives

- : Owners would like to avoid the stress or worry of running a large businesses.
- : Owners might want to spend leisure time to do other activities.

### 4.2 Small market size

- : Total number of customers may be small, so the businesses no need to be large.
- : Eg. Luxurious yacht, expensive handbag

### 4.3 Personal services or specialised products

- : Some industries offer personal services which require close relationships with customers.
- : Eg. Bridal gown

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## Why some businesses fail

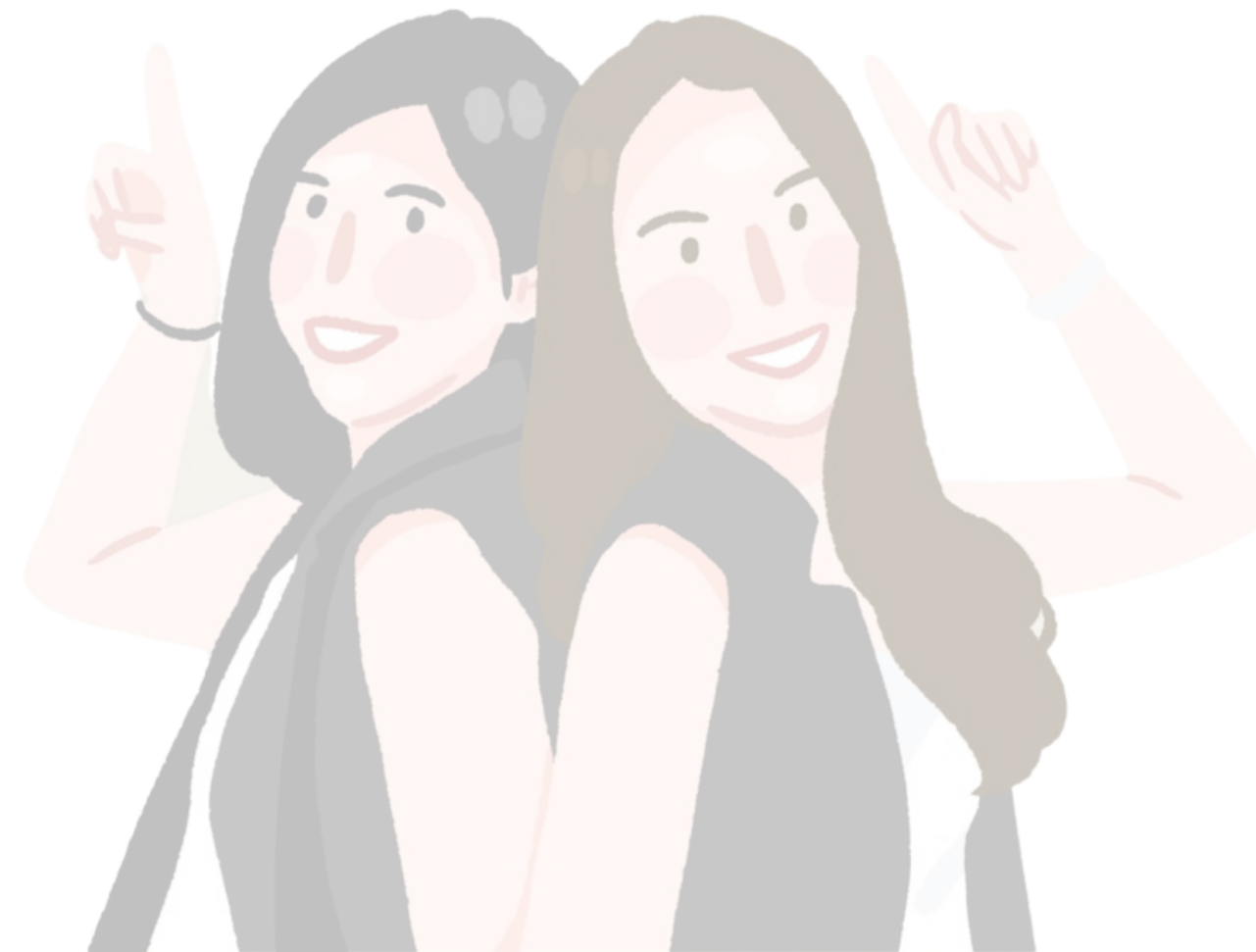


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# Overview

## 1. Causes of business failure



# 1. Causes of businesses fail

## 1. Poor management

: Owners might lack of experience in term of management, decision making etc.

: For example, Owners decide to locate businesses in high rent fee but low demand.

## 2. Cannot adjust businesses for change

: Owners cannot respond effectively to change in customer demand or new technology.

: For example, Nokia did not adapt to change with a pace of the changing technology. Nokia kept on producing the old version of the phone whereas other competitors started to produce highly advanced smartphone.

# 1. Causes of businesses fail

## 3. Poor financial management

: Owners are unable to plan / forecast cash flows ( money-in and money-out).

: If money out-flow is higher than in-flow, businesses not have enough money to pay raw material, labour cost etc. in order to continue running businesses.(Shortage of cash)

## 4. Over expansion

: When businesses expand too quickly, it can lead to finance and management problems.

: For example, Owners might not know how to manage businesses in other areas. There might be different in cultures or languages. Or Businesses cannot find source of fund for expansion.

## 5. Risks of new business start-ups

: The owners of new businesses may lack of experience in new businesses.

: Owners might not know well about market, product, consumer preference, or inadequate research, so new businesses might be fail.

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# IGCSE -Business studies

## Exercise : Enterprise, business growth and size 🔍

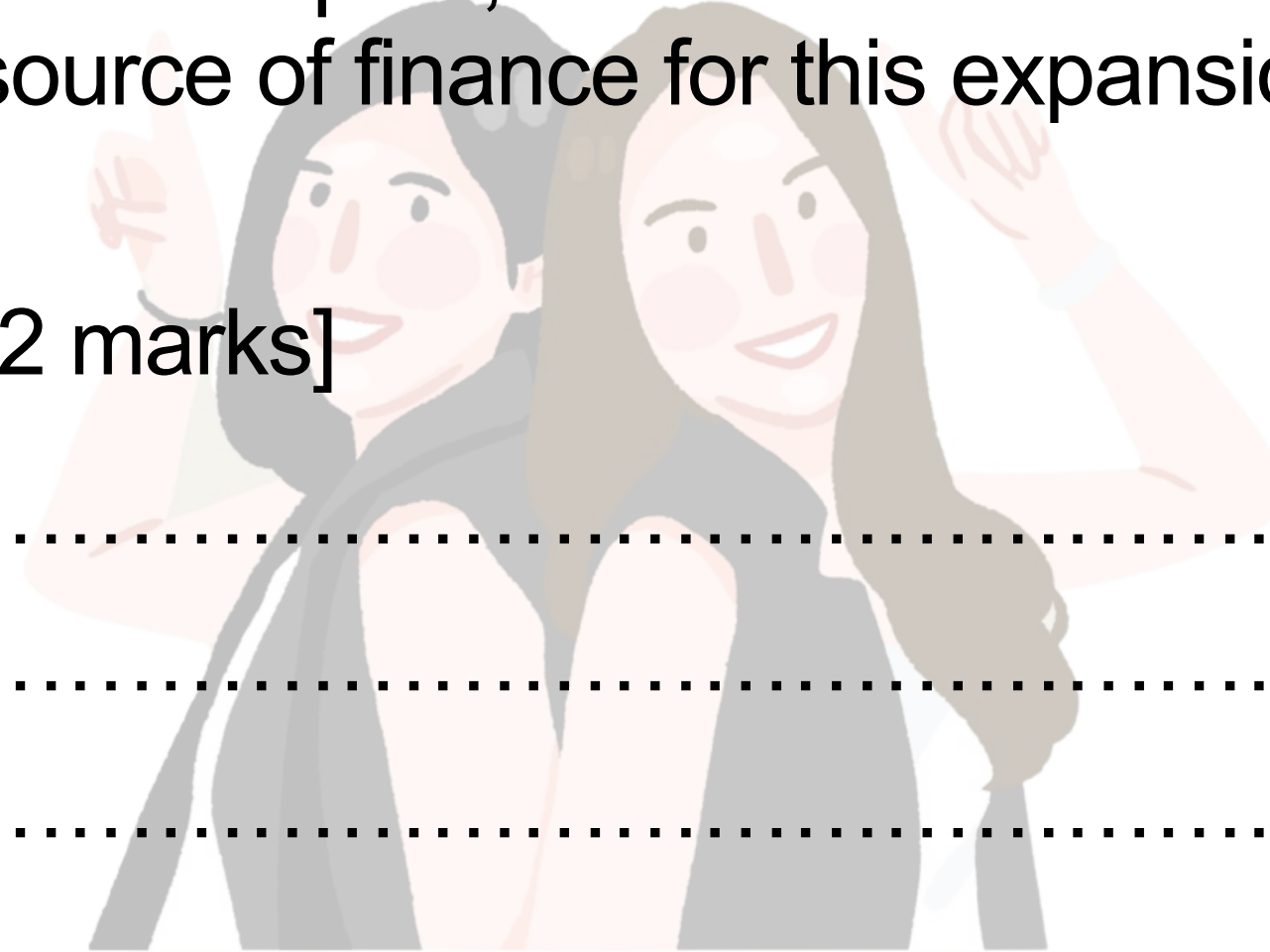
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## Exercise

1. Sarah started a **music school** ten years ago. Every year Sarah pays herself a salary and makes \$1,500 profit. The school offers a **range of music and exercise classes for children**. It is a sole trader business. Sarah believes using the right pricing method is important. Sarah wants to expand the business by **opening a second music school**. Based on her business plan, she forecasts that this will cost \$8000. Sarah cannot decide whether a bank loan is the best source of finance for this expansion.

(A) What is meant by a business plan? [2 marks]



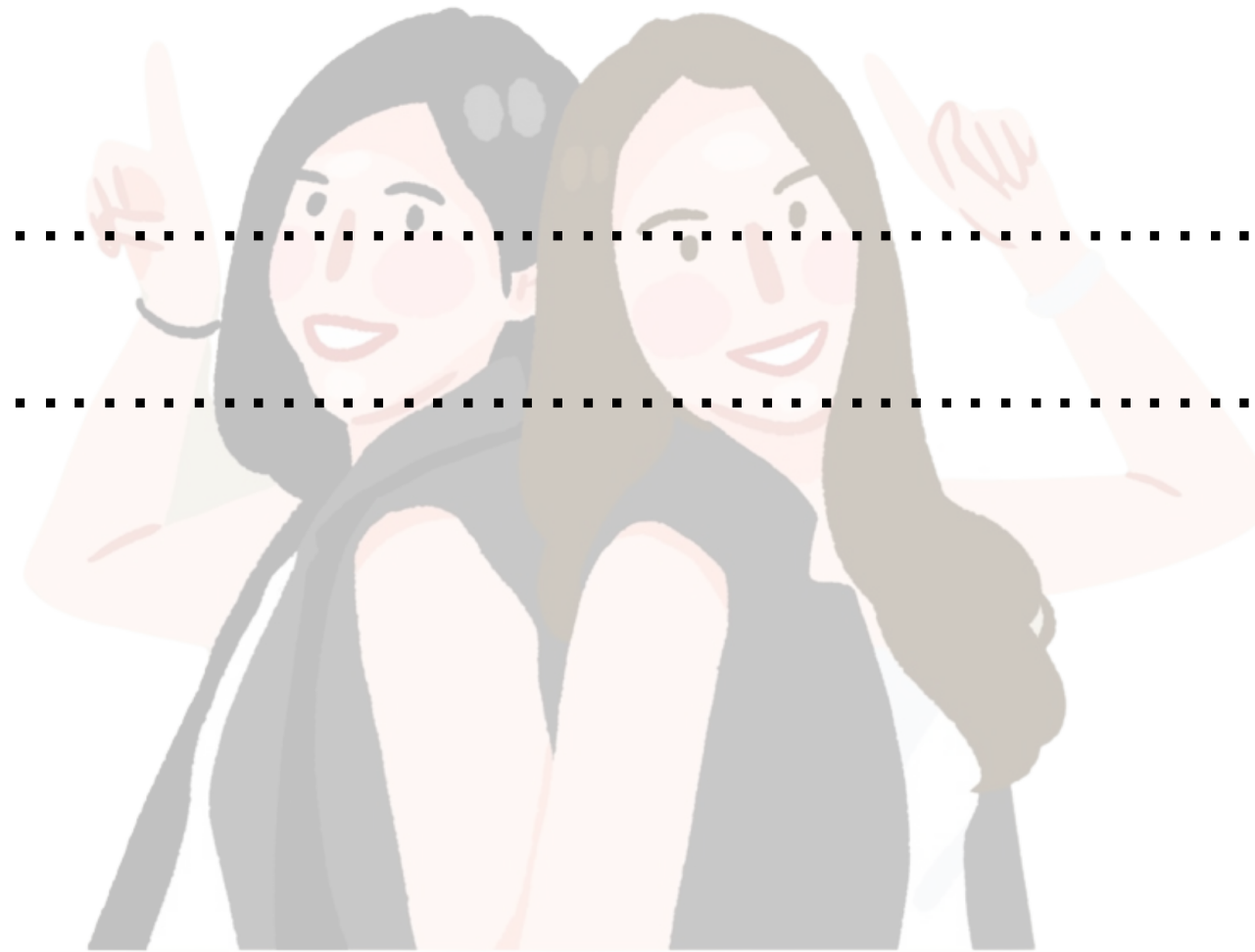
## Exercise

2. Mercy and Alisa are entrepreneurs. They plan to open a shop selling **homemade ice cream**. Mercy wants the business to be ethical and only buy **high quality organic milk from local farms**. Alisa used 1 sampling to help him carry out some primary market research

(A) Define “entrepreneur” [2 marks]

.....

.....



# Exercise

3. Reebaca and Paul are in a business partnership. They make a range of **hand-printed products including t-shirts, bags and posters** using job production. Most of Reebaca and Paul's customers are **tourists**. Reebaca and Paul designs and prints all the products at the back of **a small shop**. Paul is responsible for sales and finance. Production is slow and it is difficult for Reebaca to keep up with demand. Paul wants to increase output. One way of doing this is to introduce some machinery into the process. Paul also **wants to develop a website**.

(A) Explain two reasons why a business might want to expand. [4 marks]

**Command word :**

**Explain : Set out purposes or reasons / make the relationships between things clear / say why and/ or how and support with relevant evidence**

Reason 1 : .....

.....

Explanation 1 : .....

.....

Reason 2 : .....

.....

Explanation 2 : .....

.....

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