

# Edexcel GCSE Business Studies: Key Terms for Unit 1

## Unit 1: Introduction to Small Business

### Topic 1.1: Spotting a Business Opportunity

#### 1.1.1 Businesses

<b>Supplier</b>	A business which sells (or supplies) products to another business.
<b>Customer</b>	Any person (or organisation) which buys or is supplied with a product or service by a business.
<b>Consumer</b>	The person / business that ultimately uses / consumes the product or service.
<b>Markets</b>	Where buyers and sellers meet to exchange goods and / or services.

#### 1.1.2 Understanding Customer Needs

<b>Customer Needs</b>	The wants and desires of buyers of a product or the customers of a business.
<b>Market Research</b>	The process of gaining data about customers, competitors and market trends through collecting primary and secondary data
<b>Primary (Field Research)</b>	The gathering of new information called primary data, which has not been previously collected
<b>Survey</b>	Research involving asking questions of people and/or organisations - usually primary research
<b>Respondents</b>	Those who provide data for a survey usually by answering questions in a questionnaire or interview.
<b>Questionnaire</b>	A list of questions to be answered by respondents, designed to gather information about consumers' tastes.
<b>Focus Group</b>	In market research, a group of people brought together to answer questions and discuss a product, brand or issue.
<b>Secondary (Desk Research)</b>	The process of gathering secondary data, which is information that has already been gathered such as sales records, governments statistics, newspaper articles or reports from market research groups.
<b>Quantitative Data</b>	Data that can be expressed as numbers and can be statistically analysed.
<b>Qualitative Data</b>	Information about opinions, judgements and attitudes.

#### 1.1.3 Market Mapping

<b>Market Segment</b>	Part of the market which contains a group of buyers with similar buying habits, such as age or income.
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<b>Price Sensitive</b>	When the price is very important in the decision about whether or not to buy.
<b>Market Map</b>	A diagram that shows the range of possible positions for two features of a product e.g. Low to high price & low to high quality. It will also show gaps in the market.
<b>Gap In The Market</b>	Occurs when no business is currently serving the needs of customers for a particular product.
<b>1.1.4 Competition</b>	
<b>Product Range</b>	A group of similar products made by the same business e.g. Different soap powders
<b>Brand</b>	A named product which customers see as being different from other products and which they can associate or identify with.
<b>Brand Image</b>	The idea / image / impression that customer have in their minds about a brand.
<b>1.1.5 Added Value</b>	
<b>Added Value</b>	The increase worth that a business creates for a product – it is the difference between what a business pays its suppliers and the price that it is able to charge for the product/ service.
<b>Unique Selling Point (USP)</b>	A characteristic of a product that makes different from other similar products on the market e.g. Design, quality, packaging, opening hours, speed of delivery, price etc.
<b>1.1.6 Franchising</b>	
<b>Franchise</b>	The right given by one business to another business to use its name or sell its goods or services using its name.
<b>Franchisee</b>	A business that agrees to make, sell or distribute a produce under licence from a franchisor
<b>Franchisor</b>	The business that gives its permission to another to make, sell or distribute its goods or services.

## Topic 2: Showing Enterprise

### 1.2.1 Enterprise

<b>Entrepreneur</b>	A person who owns and runs their own business and takes risks.
<b>Enterprises</b>	Another word for businesses.
<b>Enterprise</b>	The willingness by an individual or a business to take risks, show initiative and undertake new ventures.
<b>Risk</b>	The chance of damage or loss occurring as a result of making a decision.
<b>Goods</b>	Physical, tangible products like a car, a pair of scissors or a television set.
<b>Services</b>	Non-physical products, intangible products like a taxi journey, a haircut or television programme.

<b>1.2.2 Thinking Creatively</b>	
<b>Thinking Creatively</b>	Coming up with new and unique ideas.
<b>Competitive Advantage</b>	An advantage that a business has to enable it to perform better than its rivals in the market and which is both distinctive and defensible.
<b>Deliberate Creativity</b>	The intentional creation of new ideas through recognised and existing techniques.
<b>Lateral Thinking</b>	Thinking differently to try and find new and unexpected ideas.
<b>Blue Sky Thinking</b>	A technique of creative thinking where participants are encouraged to think of as many ideas as possible about an issue or a problem.
<b>1.2.4 Invention &amp; Innovation</b>	
<b>Innovation</b>	The process of transforming inventions into products that can be sold to customers.
<b>Invention</b>	The discovery of a new process and potentially new products, typically after a period of research.
<b>Patent</b>	Right of ownership of an invention or process when it is registered with the government.
<b>Copyright</b>	Legal ownership of material such as books, music and films which prevents these being copied by others.
<b>Trademark</b>	The symbol, sign or other features of a product or business that can be protected in law.
<b>1.2.5 Taking Risks</b>	
<b>Calculated Risk</b>	The probability of a negative event occurring.
<b>Downside</b>	The disadvantages of doing a course of action, including what can go wrong.
<b>Upside</b>	The advantages of a course of action, including what can go right.
<b>1.2.6 Important Enterprise Skills</b>	
<b>Driven</b>	In a business being very motivated.
<b>Mind-map</b>	Is a diagram that is used to record words and ideas connected to a central word or idea.

## Topic 1.3: Putting a Business Idea into Practice

### 1.3.1 Objectives When Starting Up

<b>Financial Objectives</b>	Targets expressed in money terms e.g. To make a profit, to break-even, to earn a % of profit, to build financial wealth
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<b>Non-Financial Objectives</b>	Non-money objectives e.g. Personal satisfaction, enjoyment, fulfilling a dream, risk taking and challenge, being independent, actually owning the business, being altruistic (helping others)
<b>1.3.3 Estimating Revenues, Costs and Profits</b>	
<b>Revenue, Sales Revenue or Sales Turnover</b>	The amount of income received from selling products or services over a period of time.
<b>Sales Volume</b>	The number of items or products or services sold by a business over a period of time.
<b>Fixed Costs</b>	Costs which do not vary with the output produced e.g. Rent, Business rates, yearly salaries, advertising costs
<b>Variable Costs</b>	Costs which change directly with the number of products made by a business such as the cost of buying raw materials.
<b>Semi Variable Costs</b>	Costs which include both a fixed cost element and a variable cost element e.g. Electricity (standard charge [fixed] and usage [variable])
<b>Total Costs</b>	All the costs of a business – it is equal to fixed costs plus variable costs.
<b>Profit</b>	Occurs when the revenues of a business are greater than its costs over a period of time.
<b>Loss</b>	Occurs when the revenues of a business are less than its costs over a period of time.
<b>1.3.4 Forecasting Cash Flows</b>	
<b>Cash Flow</b>	Notes, coins and money in the bank
<b>Cash Flow</b>	The flow of cash into and out of the business.
<b>Inflow</b>	The cash flowing into a business, its receipts.
<b>Outflow</b>	The cash flowing out of a business, its payments.
<b>Net Cash Flow</b>	The receipts of a business minus its payments.
<b>Insolvency</b>	When a business can no longer pay its debts
<b>Cash Flow Forecast</b>	A prediction of how cash flow will flow through a business in a period of time in the future.
<b>Opening Balance</b>	The amount of money a business has at the beginning of the month (the same at what it had at the end of the previous month)
<b>Closing Balance</b>	The amount of money a business has at the end of the month (the same as it will have at the beginning of the following month)
<b>Cumulative Cash Flow</b>	The sum of cash that flows into a business over a longer period of time
<b>Trade Credit</b>	Where a supplier gives their customer a period of time to pay a bill (or invoice) for goods and services once they have been delivered.

<b>Stocks</b>	Materials that the business holds. Some could be materials waiting to be used in the production process and some could be finished stock waiting to be delivered to customers.
<b>1.3.5 Business Plan</b>	
<b>Business Plan</b>	A plan for the development of a business giving forecasts of items such as sales, costs and cash flow.
<b>1.3.6 Obtaining Finance</b>	
<b>Long Term Finance</b>	Source of money for businesses that are borrowed or invested typically for more than a year.
<b>Short Term Finance</b>	Source of money for businesses that may have to be repaid either immediately or fairly quickly, such as an overdraft, usually within a year.
<b>Share</b>	A part ownership in a business; for example a shareholder owning 25 per cent of the shares of business owns a quarter of the business.
<b>Personal Savings</b>	Money that has been set aside and not spent by individuals and households.
<b>Share Capital</b>	The monetary value of a company which belongs to its shareholders; for example, if five people each invest £10,000 into a business the share capital will be £50,000.
<b>Shareholders</b>	The owners of a company.
<b>Venture Capitalists</b>	An individual or company who buys shares in what they hope will be a fast growing company with a long-term view of selling the shares at a profit.
<b>Loan</b>	Borrowing a sum of money which has to be repaid with interest over a period of time, such as 1-5 years.
<b>Security (Collateral)</b>	Assets owned by a business which are used to guarantee payment of a loan. If the business fails to re-pay the loan, the lender can take the assets and sell them to recover their loan.
<b>Mortgage</b>	A loan where property is used as security.
<b>Dividend</b>	A share of the company's profits received by the shareholders (on which they have to pay tax)
<b>Retained Profit</b>	Profit kept back by a business for the future or for future investment
<b>Leasing</b>	Renting premises or equipment.
<b>Overdraft Facility</b>	Borrowing from a bank for a short term. Interest is paid on what is actually borrowed even if a higher amount is agreed. Should be a short term measure to pay outflows only.
<b>Factoring</b>	A source of finance. A business sells its debts to a factoring company for immediate payment rather than waiting. The business does not receive all the amount of the debt. The difference between what it is owed and actually paid is the factoring company's profit. Factoring provides a business with certainty about its cash flow.

## Topic 1.4: Making the Start Up Effective

### 1.4.1 Customer Focus and the Marketing Mix

<b>Marketing Mix</b>	The combination of factors (4 P's) which help the business to take into account customer needs when selling a product – usually summarised as the 4P's (Product, Price, Place and Promotion).
<b>Price</b>	The amount of money customers give up to acquire a product.
<b>Product</b>	A good or service produced by a business or organisation and made available to customers for consumption.
<b>Promotion</b>	Communication between the business or the customer, making the customer aware that the product is for sale, telling or explaining to them what is the product, making customers aware of how the product will meet the customers' needs and persuading them to buy it for the first time or again.
<b>Place</b>	The way in which a product is distributed (called Logistics) - i.e. How a business gets its product to its customer - it covers where the product is sold and the distribution method
<b>1.4.2 Limited Liability</b>	
<b>Sole Trader (Proprietor)</b>	The only owner of a business which has unlimited liability.
<b>Unlimited Liability</b>	A legal obligation on the owner of a business to settle (pay off) all the debts of the business. In law, there is no distinction between what the business owes and owns and what the business owner owns and owes.
<b>Limited Liability</b>	When shareholders of a company are not personally liable for the debts of the company: the most they can lose is the value of their investment in the shares of the company.
<b>Companies</b>	Businesses whose shareholders have limited liability.
<b>1.4.3 Start-Up Legal and Tax Issues</b>	
<b>Records</b>	Evidence of what has happened in the past. Financial records have to be maintained and kept for 7 years. They show all the financial transactions (receipts and payments) of a business and are used to calculate tax and profit.
<b>HM Revenue &amp; Customs (HMR&amp;C)</b>	HMR&C - The government authority responsible for calculating and collecting tax. They prosecute for Tax Evasion (illegally not paying tax) not for Tax Avoidance (legally not paying tax)
<b>Value Added Tax (VAT)</b>	A tax on the value of sales currently 20%. Gas / electricity, etc. have only 5%. Some products are exempt from paying tax (don't have tax on them) and some have a Zero rate (the government can easily put tax on these items).
<b>Income Tax</b>	A tax on the value of income earned by workers; this includes sole traders who have to pay tax on their net earnings.
<b>Corporation Tax</b>	A tax on the profits of limited companies.
<b>National Insurance Contributions (NIC)</b>	A tax on the earnings of workers; Employers' National Insurance contributions are paid by the employers on the wages of their workers; employees and sole traders have to pay National Insurance contributions on their earnings. Paid by all workers @10% of their taxable earnings. Businesses also pay NIC for their employees. The money is used to pay State Pensions, Job Seekers' Allowance, Maternity benefit, etc.
<b>1.4.4 Customer Satisfaction</b>	
<b>Customer Service</b>	The experience that a customer receives when dealing with a business and to the extent to which that experience meets and exceeds customer needs and expectations.
<b>Customer Satisfaction</b>	A measure of how much products meet customers' expectations.

<b>Repeat Purchases</b>	Orders or sales that occur from customers who have bought the good or service in the past.
<b>1.4.5 Recruiting, Training and Motivating Staff</b>	
<b>Job Applicant</b>	A person who shows interest in a job vacancy - usually completing the relevant application forms
<b>Job Description</b>	A document that describes all the requirements of the job - duties, status in the business, salary, hours of work, work location
<b>Person Specification</b>	A document describing the type of person wanted - skills, qualities, qualifications
<b>Application Form</b>	A document used by a business for all its job applicants with all details it wants about the applicant
<b>Curriculum Vitae (CV)</b>	Details provided by the job applicant of their personal details - qualifications, previous and current employment, interests, address, experience, references
<b>Motivation</b>	The desire to complete work tasks and how that can be fulfilled by the employer

## Topic 1.5: Understanding the Economic Context

### 1.5.1 Demand & Supply

<b>Commodities</b>	Raw materials e.g. Coal, steel, sugar, wheat, iron ore, soya
<b>Commodity Markets</b>	Where buyers and sellers of commodities meet to exchange commodities (usually international organisations, many in London e.g. London Diamond Exchange, London Metal Exchange)
<b>Demand</b>	The amount consumers are willing and able to buy at any given price.
<b>Supply</b>	The amount sellers are willing to offer for sale at any given price.
<b>Shortage</b>	Where demand for a product exceeds supply - this tends to lead to an increase in price
<b>Surplus</b>	Where demand for a product is less than supply - this tends to lead to a decrease in price
<b>Goods Market</b>	The market for everyday products e.g. clothes, food, petrol, going to the cinema, a DVD, etc.

### 1.5.2 Interest Rates

<b>Interest Rates</b>	The percentage reward or payment over a period of time that is given to savers or paid by borrowers on savings or loans.
<b>Bank of England</b>	The Bank for England - England's central bank - it monitors interest rates and inflation. It is responsible for setting interest rates. This is done by the Bank of England Monetary Committee which meets the 1st Thursday every month.
<b>Variable Interest Rates</b>	Interest rates that can change over the lifetime of the loan. May depend on what is happening to interest rates nationally
<b>Base Rates</b>	The interest rate that is set by the Bank of England and represents the interest rate that it will charge other banks for lending them money. The difference between Base Rate and interest rates charged to customers by banks is the banks' profit.

<b>Fixed Interest Rates</b>	An interest rate that does not change during the life of the loan or for a specific period of the loan e.g. The first 2 or three years.
<b>1.5.3 Impact Of Changes In Exchange Rates</b>	
<b>Exchange Rate</b>	The exchange rate is the price of buying foreign currency. It tells you how much of the foreign currency you will get for every pound or how many pounds you have to give up to acquire a foreign currency.
<b>Export</b>	The sale of goods / services to a foreign buyer. Money therefore flows into the UK. The foreign buyer has to change their currency into £ in order to buy
<b>Import</b>	The sale of goods / services by a foreign seller to a UK buyer. Money therefore flows out of the UK. The UK buyer has to change pounds into the foreign currency in order to buy
<b>1.5.4 Impact Of The Business Cycle</b>	
<b>The Economy</b>	Economic activity carried out by people and businesses in a country.
<b>Economic Activity</b>	The amount of buying and selling that takes place in a period of time.
<b>Economic Growth</b>	Rises in the rate of economic activity in an economy. It is measured by calculating the value of sales in an economy over a period of time.
<b>Business Cycle</b>	Fluctuations in the level of economic activity over a period of time. Most economies experience times when economic activity is rising and others when economic activity is slowing.
<b>Recession</b>	A situation when the level of economic growth is negative for two successive quarters.
<b>1.5.5 Business Decisions And Stakeholders</b>	
<b>Stakeholders</b>	An individual or a group which has an interest in and is affected by the activities of a business; stakeholders have an interest in how the business operates and whether or not it is successful.