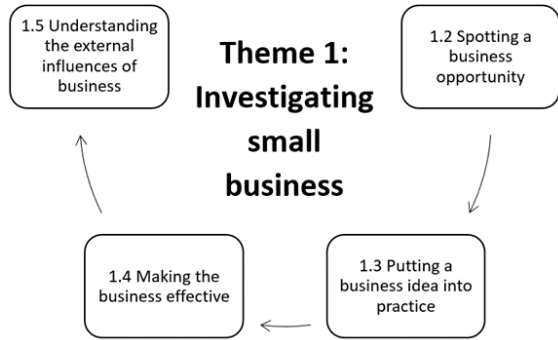


1.1 Enterprise & Entrepreneurship



2 Why new business ideas come about

- Changes in technology**
- As **new technology** is introduced businesses must create new products to match new consumer wants.
 - Current technology becomes **obsolete**.
 - Failing to **adapt** risks the business losing money and going out of business.
 - Businesses that can provide new technology products before other businesses tend to be more **successful**.
 - This requires business to **take risks**.

3 How new business ideas come about

- Original ideas**
- It is not enough to have an original idea, you need to be able to communicate to others and you need the resources to turn it into a product or service.
 - Well-run businesses encourage staff to share their original ideas.
 - For some businesses, original ideas form the basis of their operation and success.

- Adapting existing products and services**
- Most new products are an adaptation of an existing product.
- Adaptation requires less research and development time and money.
 - Existing production machinery can probably be used with some adaptation.
 - It is very hard to come up with and develop an entirely new product or service.
 - Adapted products can produce the original product.

- New ideas and competitive advantage**
- Competitive advantage is factors that help a business succeed against its rivals.

1 The dynamic nature of business

Dynamic nature of business

- Businesses includes charities, individuals or sports clubs – e.g. Manchester United or Apple computers.
- **Wants and needs** of customers change all the time.
- **Technology** means businesses have to adapt quickly.
- Example = **Snapchat**
- Successful businesses are those that **adapt the quickest**.
- Starting a business comes down to the **WHY**, the **WHO** and **HOW** are key to success.

Snapchat growth

Changes in what consumers want

- **Consumer tastes** changes over time, e.g. skimmed milk instead of full fat milk.
- The **media** or **social media** can affect tastes, e.g. a health scare causing consumers to drink less full fat milk.
- **Household income** may go up or down, e.g. incomes going down make consumers switch to cheaper brands, e.g. Asda own milk instead of Cravendale milk.
- **Price** can affect how many consumers want to buy a product. This is known as...
 - **demand**.

Theodore Levitt, economist and business thinker – 'An industry begins with customer needs, not with a patent, a raw material or a selling skill.'

- Possible consequences of risks**
- **Business failure** – the owner and/or family lose their savings leading family breakdown
 - **Financial loss** – unlimited liability where the sole trader has to pay for any debts the business has
 - **Lack of financial security** – working for yourself means an income that varies a lot but responsibilities often stay the same, e.g. credit card debts or mortgage

- Becoming obsolete**
- Products and services become **obsolete** for some of the following reasons:
- The demand has fallen due to **changes in tastes**.
 - e.g. less demand for butchers shops as consumers eat less meat
 - Demand falls due to **changes in behaviour**.
 - e.g. app-based taxi services replacing black cab taxis

Qualities and skills to start a business

Qualities

- Resilience (ability to bounce back from setbacks)
- Enthusiasm
- Hard working
- Willingness to take risks

Skills

- Listener as well as speaker
- Well organised
- Good at planning
- Persuasion (ability to convince others to buy or do something)
- Good at managing others

Jeff Bezos is the founder of Amazon. What qualities might he have?

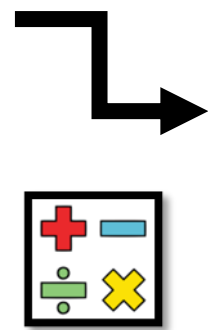
Resources

- Looking for help and advice, e.g. financial
- Specialist knowledge and skills, e.g. website design

4 Risk and reward

- What is risk and reward?**
- Risk is about taking a chance, e.g. only 1 in 5 new products are a success.
 - Products must make enough profit to cover failures.

- Main risks of starting a business**
- Identifying a **market gap** that is big enough to be profitable
 - Raising enough **capital** (money)
 - Getting the right **people** working the right way
 - Building a base of **customers**



FEAST

Must Know Tier 2 & 3 Vocabulary

- Adapting existing products** – finding new products based on the original ones.
- Branding** – giving a product or service ‘personality’ with a name and logo that makes it stand out.
- Business decisions** – choices that have to be made, usually within a short time period.
- Business failure** – the collapse of a business, probably leading to its closure.
- Competitive advantage** – features of a product or service that make it stronger than its competitors.
- Customer needs** – the products or services people need to make life comfortable.
- Customer wants** – what people choose to spend their money on, once the weekly bills have been paid.
- Demand** – the number of units that a customer wants – and can afford – to buy.
- Design** – deciding how something will look, both internally (the gearbox) and externally (the boot).
- Dynamic nature of business** – the idea that business is ever-changing because external factors, such as technology.
- Enterprise** – the personal characteristics of questioning and initiative that can be shown by an employee or an entrepreneur.
- Entrepreneurs** – businesspeople who see opportunities and are willing to take risks in making them happen.
- Goods** – products that may be grown, such as apples or manufactured such as baked beans.
- Human resources** – things or people that can be used to help build and run the business.
- Independence** – the need by many business owners to make their own decisions and be their own boss.
- Lack of financial security** – uncertainty for the business owner about day-to-day family income and assets.
- Obsolete** – a product or service with sales that have declined or come to an end as customers find something new.
- Original ideas** – ideas that have not been done before.
- Product range** – the number of different product types, sizes, colours and brands offered by a company.
- Resources** – things or people that can be used to help build and run the business.
- Risk and reward** – the balance between the worst that can happen and the best that can happen.
- Risk taking** – making decisions where unknown factors of failure are in the decision-maker’s mind.
- Sales revenue** – the total value of the sales made within a period of time.
- Services** – providing useful ways to help people live their lives, for example shops and hospitals.
- Technology** – hardware and software that can help people be more productive.
- Unique selling point (USP)** – an original feature of a product that rivals are not offering.
- Value added** – the difference between the selling price and the cost of goods and services.
- Venture capital** – capital provided by an investor willing to take a risk in return for a share in any later profits.

5 The role of business enterprise

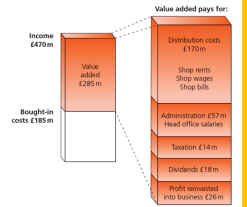
- Goods are **products** that can be touched and held.
- Products must be **manufactured**, possibly in a factory, e.g. iPhones.
- Services usually cannot be touched or held, they are **invisible**.

What are goods or services?

- ### Meeting customer needs and wants
- **Meeting needs** of customers means products or services are likely to sell.
 - e.g. customers need transport to work so rail services are in demand.
 - **Meeting wants** means persuading customers to buy a product or service that is not needed, but wished for.
 - e.g. buying a large screen mobile phone
 - Meeting wants requires money spent on advertising and customer service.

Why is value added important?

- Businesses have to pay for costs such as electricity or any waste materials.
- These costs must be taken from added value.
- The greater the costs the more important it is to have a high value added.
- The bar on the right of the diagram shows how added value pays for all Ted Baker’s costs.
- Added value must be more than these costs to make a profit.



6 Adding value

What is a good business decision?

- Good decisions make a business successful.
- The key to making a good decision is to gain as much information about the issues before making it.
- Sources of information include customers, staff, suppliers, and competitors.
- Small businesses need to make decisions quickly.
- Even if the decision is wrong it can still be changed before the competition realises.

Unique selling points

- A **unique selling point (USP)** can be used to create something different about a product.
- Customers **demand** products that are different.
- Different products that meet customer needs and wants can **add value** due to this demand.
- For example, virtual reality headsets provide a different way of playing games and allow for **greater added value**.

Organising resources

- **Human resources** – the right people with the skills needed to deliver the business product
- **Physical resources** such as premises, decoration, chairs
- **Daily resources**, for example the right food for a restaurant
- Resources are often managed by the entrepreneur when starting the business.
- As the business grows this then must be delegated.

How do businesses add value?

- Convenience and speed, e.g. take away subway sandwiches cost much more than homemade
- Good design, e.g. Dr Beats compared to a normal set of headphones
- High quality manufacture or service, e.g. 2D cinema compared to 3D cinema
- Brand name is the way a business identifies its products distinctively from others of the same type e.g. the Nike swoosh on trainers

7 The role of the entrepreneurship

What is risk taking?

- Entrepreneurs often want to create an organisation or product that can make a difference.
- Bold ideas can lead to large financial and emotional rewards.

