

Enterprise

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What you need to know

By the end of this topic you should be able to:

1. **Explain what business activity is for.** Businesses combine resources to make goods and services that satisfy people's needs and wants, usually aiming for profit.
2. **Name and explain the four factors of production** that every business needs: land, labour, capital and enterprise.
3. **Explain added value:** the selling price of a product minus the cost of the materials and services bought in to make it, and how a business creates it.
4. **Explain economic activity, the problem of choice and opportunity cost.** Resources are scarce, so every choice gives up something, and the opportunity cost is the next best alternative given up.
5. **Explain why the business environment is dynamic:** markets keep changing, so businesses must keep adapting.
6. **Explain why some businesses succeed and others fail.**
7. **Tell local, national, international and multinational businesses apart.**
8. **Explain the qualities entrepreneurs and intrapreneurs need,** the role of an entrepreneur in setting up a business, and the role of an intrapreneur in keeping an existing business successful.
9. **Explain the barriers to entrepreneurship:** what makes it hard to start a business.
10. **Explain business risk and uncertainty.**
11. **Explain how business enterprise helps a country develop.**
12. **Explain what a business plan is, what it contains, and its benefits and limitations.**

How businesses are classified by sector and ownership (public and private sector, primary to quaternary, legal structures) is the next topic, business structure. Sources of finance and cash-flow forecasts have topics of their own; here you only need to know that a business plan uses them.

Understand it

What business activity is for

A **business** is any organisation that turns **inputs** into **outputs**: goods (physical products, such as furniture) and services (things done for people, such as a taxi ride). It exists to satisfy customers' **needs** (essentials such as food and shelter) and **wants** (things people would like but can live without).

Most private-sector businesses aim to make a **profit** for their owners. Others have different aims: a charity or social enterprise puts a social or environmental purpose first, and a public-sector organisation provides a service for citizens. All of them still have to combine resources efficiently and cover their costs.

Factors of production

Every business needs four kinds of resources, the **factors of production**:

Factor	What it is	Example for a juice bar
Land	Natural resources: the site, water, minerals, crops	The plot the shop stands on, the fruit grown on farms
Labour	People's physical and mental effort	The staff who make and serve the juice
Capital	Man-made goods used to make other goods (not money in the bank)	Blenders, fridges, the counter, a delivery van
Enterprise	The skill and risk-taking that bring the other three together	The owner who spotted the idea, invested savings and organises everything

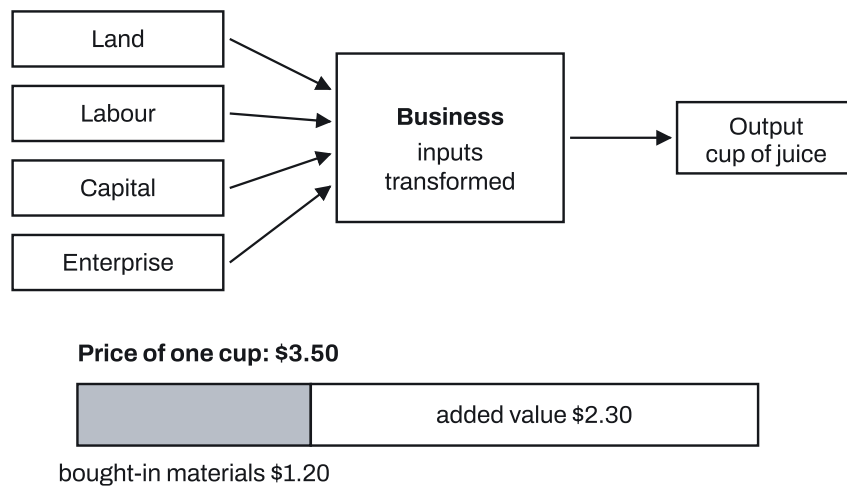
Enterprise is different from the other three: it is the factor that **organises** them and **takes the risk** that the business may fail. Without someone willing to do this, land, labour and capital would stay unused.

Adding value

A juice bar buys oranges, ice and a cup for 1.20 dollars and sells the cup of juice for 3.50 dollars. Customers pay more than the materials cost because the business has made something more useful: fresh juice, ready to drink, served quickly in a convenient place.

$$\text{added value} = \text{selling price} - \text{cost of bought-in materials and services}$$

So each cup has an added value of $3.50 - 1.20 = 2.30$ dollars. On 400 cups a day the juice bar adds $400 \times 2.30 = 920$ dollars of value.



Added value is **not profit**. Out of the 2.30 dollars the business still pays wages, rent and other overheads; what is left is profit. A business adds value in two ways: making customers willing to pay **more** (better quality, branding, design, excellent service, convenience, processing a raw material into something more useful) or **cutting the cost** of what it buys in. Turning cocoa beans into chocolate, or upgrading an old flat and reselling it, are both ways of adding value.

Economic activity, choice and opportunity cost

Economic activity is producing, buying and selling goods and services. It exists because of the **basic economic problem**: people's wants are unlimited, but the factors of production are **scarce**. Not everything can be made, so every consumer, business and government has to **choose**.

Every choice has an **opportunity cost**: the **benefit of the next best alternative given up**. A bakery with 30 000 dollars ranks three uses: a new oven, a delivery van, then an advertising campaign. It buys the oven, so its opportunity cost is the **van** and what the van would have brought it (for example, sales from delivering to cafés). It is not the 30 000 dollars, and not the van and the advertising together: only the next best option counts.

Opportunity cost explains why a business plan, a training course or an hour of the owner's time is never "free": the time and money could have been used for something else.

The dynamic business environment

A **dynamic** business environment is one that **changes quickly and often**, so businesses must keep adapting to survive. Changes come from two places:

- **External changes** (outside the business): new technology (online ordering, artificial intelligence), the economy (inflation, recession, interest rates), laws and government policy, social trends and tastes (healthier eating, ethical buying), the environment (climate change, pressure to be sustainable) and competitors (a new rival, a price cut, a better product).
- **Internal changes** (inside the business): a new manager with a different style, a restructure, new equipment or IT systems.

Each change affects the business through **demand, costs, competition or uncertainty**. For example, customers switching to healthy food reduces demand for a café's cakes, so it must research what customers now want and change its menu, which costs money in the short run but protects sales and profit later. A business that does not adapt loses customers to rivals that do.

Why businesses succeed or fail

A business **succeeds** when it survives and meets its objectives, which may mean profit, growth, market share or a social aim. Common reasons for success:

- a product that meets a real customer need, found through **market research**;
- something that makes it **stand out** from competitors (quality, price, service, innovation);
- good **management** and enough **finance**, especially enough cash (working capital) to pay bills on time;
- the ability to **adapt** when the environment changes.

A business **fails** when it can no longer carry on trading. Most failures come from:

- **poor cash flow**: too little working capital, so it cannot pay suppliers, wages or loans even if it is selling;
- **weak management**: managers without the skills or experience to make good decisions;
- **too few customers**: poor market research, a weak product, or a niche market that shrinks;
- **strong competition**: rivals with lower prices, better products or loyal customers;
- **failing to adapt** to changes in technology, tastes or the economy;
- growing too fast, or depending on one big customer or supplier.

Local, national, international and multinational businesses

Type	Where it operates	Example
Local	Serves customers in one town or area	A hairdresser or a corner shop
National	Operates and sells across one country only	A supermarket chain with branches in many cities of one country
International	Sells (exports) or buys in other countries, but produces in one country	A furniture maker in one country that exports to five others
Multinational	Has production or service bases (factories, offices, branches) in more than one country , with a head office in one	A car maker with factories in four countries

A business usually starts local and grows. Being national or bigger gives access to more customers but brings more competition, higher costs and more complex management; a multinational also faces exchange-rate, legal and cultural differences.

Entrepreneurs and their qualities

An **entrepreneur** is a person who **spots a business opportunity, organises the factors of production to start a business and takes the risk** of losing their own money if it fails, in return for the profit if it succeeds.

The entrepreneur's role in creating a business is to: spot an opportunity (a gap in the market, a better way of doing something), turn the idea into a product, raise the finance (often their own savings first), find premises, suppliers and staff, and make the early decisions.

The qualities they need, and **why** each brings success:

- **Willing to take risks:** they must invest savings and give up a steady wage, knowing they could lose both.
- **Innovative and creative:** new ideas let them find a gap in the market and offer something rivals don't, which attracts customers.
- **Self-confident and resilient** (able to bounce back): many new businesses fail or have setbacks; the belief to keep going matters.
- **Committed, hard-working and self-motivated:** a new business needs long hours with no boss to push them.
- **Multi-skilled:** at first the owner does the marketing, finance, buying and selling, and deals with customers.
- **Leadership and communication:** once staff are hired, the owner must motivate them and persuade banks, suppliers and customers to back the business.
- **Initiative and organisation:** they act on opportunities quickly and plan resources.

Intrapreneurs

An **intrapreneur** is an **employee** who **acts like an entrepreneur inside an existing business**: they develop new ideas, products or ways of working, are often given a budget and the freedom to try them, and lead the project. The big difference is **risk**: if the idea fails, the **business** carries the loss, not the intrapreneur, and the intrapreneur doesn't keep the profit either (they may get a bonus or promotion).

The qualities an intrapreneur needs are similar to an entrepreneur's, plus some that matter inside an organisation:

- **innovative and creative**, a problem-solver who sees problems as chances to improve;
- **persuasive and good at communicating ideas**, because managers and colleagues must be convinced to support a change;
- **a networker**, able to build support and teams across departments and get past resistance to change;
- **determined**, because new projects meet setbacks and objections.

Intrapreneurship keeps a business successful over time. Products reach the end of their life and competitors copy, so a business that relies only on "business as usual" falls behind. Intrapreneurs bring a flow of new products and better methods from people who know the business well, often more cheaply than hiring

consultants, and being trusted to innovate motivates staff. The drawbacks: not every employee has the skills, projects take staff time away from their normal work (an opportunity cost), and some ideas fail and lose the business money.

Barriers to entrepreneurship

Barriers are the problems that stop people starting a business, or make it harder:

- **Spotting a real opportunity:** an idea needs enough customers willing to pay; many ideas are not different enough from what already exists.
- **Raising finance:** a new business has no trading record, few assets to offer as security and often small savings, so banks see it as risky and may refuse loans.
- **Finding a location:** good sites cost a lot; some businesses (hairdressers, shops) can't run from home.
- **Competition:** established firms have loyal customers, lower costs from bulk buying and bigger promotion budgets.
- **Building a customer base:** nobody knows the new business; marketing costs money it may not have.
- **Lack of skills, experience or contacts:** a new owner may not know how to manage cash, staff or suppliers, and has no network for advice.

Barriers are linked. Too little finance means too little working capital, so little marketing, so few sales, which makes it even harder to borrow.

Business risk and uncertainty

Risk is the chance that something goes wrong and the business loses money, where the chance can be estimated: a delivery being late, a machine breaking down, a customer not paying. Businesses can reduce risk with research, insurance, contracts and plans.

Uncertainty comes from future events that **cannot be predicted or measured**: a sudden recession, a new law, a pandemic, a change in fashion. A business cannot insure against uncertainty; it can only stay flexible.

Main business risks: **demand** falls (tastes change, a rival arrives), **financial** risk (cash-flow problems, unexpected costs, interest rates rise), **operational** risk (supply or IT failure), **economic** change and **inexperienced management**. Entrepreneurs carry both risk and uncertainty, which is why they expect profit as a reward.

How business enterprise helps a country develop

New and growing businesses help a whole country, not just their owners:

- **Jobs:** new businesses employ people, so unemployment falls, incomes rise and people spend more, which helps other businesses. Workers also gain skills they take to bigger firms.
- **Economic growth:** more output of goods and services; unused resources are put to work.

- **Tax revenue:** profitable businesses and their employees pay taxes, which the government can spend on schools, health care, roads and electricity.
- **Innovation:** entrepreneurs bring new products, services and technology, raising living standards and productivity.
- **Exports:** selling abroad earns foreign currency for the country.
- **Competition and choice:** new firms push existing ones to cut prices and improve quality.
- **Investment:** a successful business sector attracts other businesses, including foreign multinationals.
- **Social welfare:** social enterprises tackle problems such as clean water or training for poorer communities.

There can be downsides too: a large or foreign business can drive small local firms out of the market, and growth can harm the environment.

Business plans

A **business plan** is a **written document that sets out a business's objectives and how it intends to achieve them**, usually over a stated time, such as five years. Entrepreneurs write one before starting up, and established businesses write them before big changes such as expansion or a new product.

Key elements:

- a description of the business, its owners and its **objectives**;
- the **product** and what makes it different;
- the **market**: research findings, target customers, competitors;
- the **marketing plan**: price, promotion and where it will sell;
- the **operations plan**: location, premises, equipment and suppliers;
- the **human resources plan**: the staff needed and their skills;
- the **finance plan**: start-up costs, sources of finance, a cash-flow forecast, forecast profit and break-even.

Benefits:

- It **forces the owner to think everything through** and to do market research, so problems are spotted early and the **risk of failure falls**.
- It is often **needed to raise finance**: banks and investors use it to judge whether the business can repay or make a profit.
- It gives the business **clear direction** and coordinates every department towards the same objectives.
- It sets **targets to measure progress** against, so the owner can see early when things go wrong.
- Shared with staff, it keeps them focused and can motivate them.

Limitations:

- It **takes time, skill and money** to write well; a new owner may lack the experience, and the time could have been spent selling (opportunity cost).
- It is **based on forecasts and estimates** that may be wrong, especially for a new business with no sales data.

- It can give a **false sense of certainty**: the plan is not the result.
- It can make the business **inflexible**: owners may stick to the plan and miss new opportunities.
- In a **dynamic environment** it soon goes **out of date** and must be revised.
- A plan does **not guarantee success**: it must be carried out well.

Key facts and formulas

There is no formula list for this subject in the exam. "Learn it" means you must remember it.

Formula or fact	Status
Added value = selling price – cost of bought-in materials and services	Learn it
Opportunity cost: the benefit of the next best alternative given up when making a choice	Learn it
Factors of production: land, labour, capital, enterprise	Learn it
Entrepreneur: spots an opportunity, organises the factors of production and takes the risk of starting a business	Learn it
Intrapreneur: an employee who acts like an entrepreneur inside a business; the business carries the risk	Learn it
Dynamic business environment: fast-changing, so businesses must keep adapting (internal and external changes)	Learn it
Business plan: a written document of a business's objectives and how it will achieve them	Learn it
Risk can be estimated; uncertainty cannot be measured	Learn it

How to do it

We have tagged 26 questions on this topic (2021–2025), across Paper 1 and Paper 2. Eight of them have parts of more than one type (one has three), so the counts add up to 35.

Question type	Questions
Explain what an entrepreneur is or the qualities one needs	7
Define a key term	5
Explain or analyse business plans	4
Evaluate how important a quality, or intrapreneurship, is to success	3

Question type	Questions
Analyse barriers to starting a business	3
Explain or analyse the dynamic business environment	3
Explain the term intrapreneur or analyse intrapreneur qualities	2
Analyse how enterprise helps a country develop	2
Explain added value	2
Explain why a business might fail, or identify a risk	2
Explain a factor of production	1
Explain local, national or international business	1

The marks are for four skills: **K** (knowledge: a correct point or definition), **App** (application: using the business in the question or a real example), **An** (analysis: a chain of consequences) and **Eval** (evaluation: a supported judgement). Below, (K), (App), (An) and (Eval) after a sentence show the mark it earns.

1. Explain what an entrepreneur is or the qualities one needs (7 questions)

"Explain one quality an entrepreneur needs for success" [3] (Paper 1):

1. **Name one quality** (K): risk-taker, innovative, self-confident and resilient, committed, multi-skilled, leadership.
2. **Explain why it brings success**, in two linked steps (App, App): "A risk-taker is willing to put their own savings into the business (App), which is needed because banks rarely lend to a business with no trading record, so without that risk the business would never start (App)."

Variations you will meet:

- **"Explain two qualities" [3]**: name two qualities, and explain at least one of them.
- **"Explain the term entrepreneur" or "the role of an entrepreneur" [3]** (Paper 2): what an entrepreneur is (K), what they do (spots opportunities, organises the factors of production, takes the risk) (App), and an example from the case (App).
- **"Explain two entrepreneurial qualities the owner has shown" [4]** (Paper 2 case): each quality needs **evidence from the case**: "Priya opened a second shop in a new city, which shows she is a risk-taker."

Write about **one** quality when one is asked for. Examiners report many answers listing three qualities with no explanation, and others giving tasks ("starting a business") or general skills ("decision making") instead of qualities.

2. Define a key term (5 questions)

[2]: 2 marks for a clear definition, 1 for a partial one. An example alone is not a definition, and repeating the words of the term earns nothing.

Term	Full definition (2)	Partial (1)
Added value	Selling price minus the cost of bought-in materials	"What production adds"
Opportunity cost	The benefit of the next best alternative given up when a choice is made	"Choosing one thing over another"
Business enterprise	The process of spotting an opportunity and bringing together the factors of production to provide goods and services for profit	"An entrepreneur"
Entrepreneur	A person who spots an opportunity, organises resources to start a business and takes the risk	"Someone who starts a business"

For opportunity cost, the strongest answers mention **both** the choice and the **benefit lost** (the sales the van would have brought).

3. Explain or analyse business plans (4 questions)

"Explain the term business plan" [3] (Paper 2):

1. **Definition** (K): a written document setting out the business's objectives and how it will achieve them.
2. **Develop** (App, App): name sections it contains (marketing, operations, HR and finance plans), what it is used for (to apply for finance, to attract investors) or its time frame ("for the next five years"), using the case where possible.

"A plan of the business for the future" earns **nothing**: it only repeats the words. "A forecast of sales" is wrong.

"Explain one benefit of a business plan" [3] (Paper 1): name the benefit (K), then two linked steps of explanation (App, App), for example "helps obtain finance (K): banks see the cash-flow forecast and market research (App), so they are more confident the loan will be repaid and lend at a lower rate (App)".

"Analyse two limitations (or benefits) for [business] of a business plan" [8] (Paper 1 or 2): for each point, 1 K + 1 App + 2 An.

1. Name the limitation (K): needs skill and experience; costs time and money; built on estimates; false sense of certainty; inflexible; out of date in a dynamic market.
2. Apply it (App): a fact from the case (the owner is inexperienced, the business is new with no sales data, the market is changing fast).
3. Build a chain of two or more links (An, An): "...so her sales forecast may be far too high, so the finance plan underestimates how much cash she needs, so she runs out of working capital in the first year".

4. Evaluate how important a quality, or intrapreneurship, is to success (3 questions)

"Risk-taking is the most important quality an entrepreneur needs to succeed in [industry]. Evaluate this view." [12], or "Evaluate the importance of intrapreneurship to [business]'s ongoing success" [12]. Marks: **2 K, 2 App, 2 An, 6 Eval**. Half the marks are for evaluation, so about half your answer should be judgement.

1. **K**: define the term (entrepreneur, intrapreneurship, success) and name the qualities or factors you will compare.
2. **App**: use the **industry or business** in the question throughout (what makes clothing design, computer games or a theme park different: fast-changing fashions, new technology, falling visitor numbers).
3. **An**: one developed chain for the named quality or factor ("risk-taking lets the designer launch bold new styles before rivals, so the brand stands out, so customers pay higher prices").
4. **The other side**: why other qualities or factors may matter more (for an entrepreneur: creativity, resilience, being multi-skilled, leadership; for business success: finance, management, marketing, demand, competition).
5. **Judgement (Eval)**: answer the question directly ("risk-taking is necessary to start, but creativity matters more for lasting success in clothing design, because...") and say **what it depends on**: what "success" means (survival, profit, growth), how risky the plan is, the stage of the business, the time frame. Make small judgements after each point, then a final one in context.

The evaluation table rewards: a judgement supported and **in context** (6), developed evaluative comments in context (5), a supported judgement without context (4), down to an attempt to weigh both sides (1).

5. Analyse barriers to starting a business (3 questions)

"Analyse two barriers an entrepreneur faces when starting a business" [8], or "two barriers [owner] faced" in a case. For each barrier, 1 K + 1 App + 2 An:

1. **Barrier** (K): finding an opportunity, raising finance, finding a location, competition, building a customer base, lack of skills or contacts.
2. **App**: the case detail (small savings, a crowded market, high rents, only a few sales in the first month).
3. **Chain** (An, An): "With no trading record, banks see her as a risk and refuse a loan, so she starts with little working capital, so she cannot afford advertising, so sales grow slowly."

A two-sided point also counts as developed analysis: "...although she could use crowdfunding or micro-finance instead".

Variation: "Discuss the challenges of starting a [type of] business" [12]: analyse two or three barriers, then judge which is the biggest **for that kind of business** and why.

6. Explain or analyse the dynamic business environment (3 questions)

"Explain the term dynamic business environment" [3] (Paper 2):

1. **K**: a fast-changing market where businesses must adapt quickly.
2. **App**: say the changes can be internal or external, and name one (new technology, the economy, laws, tastes, competitors).
3. **App**: an example, from the case if it has one (high competition from other coffee chains; customers now want healthy food).

Examiners say most candidates get 2 marks and miss the third because they give no example. Don't define it with "dynamic" and "environment".

"Analyse one way a business may be affected by a dynamic business environment" [5] (Paper 1): name one effect (K: on demand, costs, competition, profit or uncertainty), say what change causes it (App), then a chain of consequences (An): "tastes change towards healthy food, so demand for sugary snacks falls, so the business must spend on research and new products, so costs rise in the short run, but it protects its market share".

7. Explain the term intrapreneur or analyse intrapreneur qualities (2 questions)

"Explain the term intrapreneur" [3]: start with the knowledge, or no marks can be given:

1. **K**: someone who develops new ideas, products or ways of working; creative and innovative.
2. **Explain**: an **employee**, acting like an entrepreneur **inside** a business; the **risk stays with the business**.
3. **Context**: an example from the case ("Lin, who develops FE's new products").

Strong answers make the difference from an entrepreneur clear.

"Analyse two qualities an intrapreneur should possess" [8]: 1 K + 1 App + 2 An each. Chain each quality to what it achieves inside a business: "persuasive (K): new ideas meet resistance from managers used to the old way (App), so an intrapreneur who can win support gets the budget and the team (An), so the idea actually reaches customers and the business keeps up with rivals (An)".

8. Analyse how enterprise helps a country develop (2 questions)

"Analyse two ways business enterprise can help the development of a country" [8], or "two roles [business] has in the development of country Z". For each, 1 K + 1 App + 2 An:

1. **Way** (K): jobs, economic growth, tax revenue, innovation, exports, investment, competition, social welfare.
2. **App**: an example of the way working (a business bringing electricity to villages, a new firm employing unskilled workers), or the case's data (the business employs 40% of the region's workers, exports its produce).
3. **Chain** (An, An): "new businesses create jobs, so unemployment falls, so households spend more, so other businesses grow and the government collects more tax, which pays for schools and hospitals".

Two-sided analysis also counts: a large business may push small local firms out of the market.

9. Explain added value (2 questions)

"Explain the term added value" [3]: the definition (K), then how value is added (App), with an example, from the case if there is one: processing cocoa beans into cocoa butter, upgrading a flat before reselling it, branding, better service. "Making more money when it sells" is too vague and earns nothing.

"Explain one way [business] could add value" [2]: a way (raise what customers will pay, or cut bought-in costs) with how it fits the case.

10. Explain why a business might fail, or identify a risk (2 questions)

"Explain one reason why a business might fail" [3]: name the reason (K), then cause and effect (App, App): "poor cash-flow management (K): the business sells on credit but must pay suppliers at once, so it runs short of working capital (App); it cannot pay its bills, so suppliers stop delivering and it has to close (App)".

"Identify one potential risk to [business]" [1]: one word or phrase is enough: loss of demand, cash-flow problems, competition, supply disruption, inexperienced management.

11. Explain a factor of production (1 question)

"Explain one factor of production needed for business activity" [3]: name it (K: land, labour, capital or enterprise), then explain its role as an input with an example (App, App): "capital: man-made goods used in production, such as a bakery's ovens and delivery van, without which it could not make or deliver its bread". If you are only asked to **identify** one, a single word is enough.

12. Explain local, national or international business (1 question)

"Explain the term national business" [3]: operates only within one country (K), so it sells only to that country's customers, not abroad (App), plus an example or a consequence: "a supermarket chain with branches in many cities of one country; it avoids exchange-rate risk but its growth is limited by one country's market" (App). "Operates nationwide" alone is too vague. Learn local, international and multinational the same way, from the table in "Understand it".

Worked examples

Example 1

(a) Define the term added value. [2]

(b) Explain one reason why a new business might fail. [3]

(a) Added value is the difference between the selling price of a product and the cost of the bought-in materials used to make it (2).

(b) A new business might fail because the owner lacks management experience (K). Without experience, the owner may set prices too low to cover overheads, or order more stock than can be sold (App), so cash runs out and the business cannot pay its suppliers and wages, forcing it to close (App).

Example 2

Zara opened a juice bar in a city centre two years ago using 5 000 dollars of her own savings. A bank refused her a loan because she had no trading record. Two large coffee chains have shops on the same street. Each cup of juice sells for 3.50 dollars, and the fruit, ice and cup for each one cost 1.20 dollars. She now sells 400

cups a day.

(a) Calculate the added value from one day's sales. [2]

(b) Analyse two barriers to entrepreneurship that Zara faced when starting her juice bar. [8]

(a) Added value per cup = $3.50 - 1.20 = 2.30$ dollars (1). For 400 cups: $400 \times 2.30 = 920$ dollars a day (1).

(b) Barrier 1: raising finance. New entrepreneurs often cannot raise enough finance (K). The bank refused Zara a loan because she had no trading record, so she had only 5 000 dollars of savings (App). With so little capital, she had to choose a small site and could spend little on blenders and advertising (An), so fewer people knew about the juice bar and early sales were low, which made it harder still to convince a bank to lend (An).

Barrier 2: competition from established businesses. A new business must win customers from rivals that already have them (K). Two large coffee chains are on Zara's street (App). They have loyal customers, well-known brands and big promotion budgets, so passers-by tend to go to them (An); Zara had to offer something different, fresh juice rather than coffee, and keep her price competitive, which squeezed her added value in the first months (An).

Each barrier earns $K + \text{App} + 2 \text{An}$, so $4 + 4 = 8$.

Example 3

"A detailed business plan is essential for the success of a new restaurant." Evaluate this view. [12]

Knowledge. A business plan is a written document setting out a business's objectives and how it will achieve them, with marketing, operations, HR and finance sections (K). "Success" for a new restaurant usually means surviving its first years and making a profit (K).

Analysis for the view. Restaurants need a lot of finance before opening: a kitchen, furniture and a deposit on premises (App). A plan with a cash-flow forecast shows a bank how the loan will be repaid, so the owner is more likely to get the money, and the research behind it (who eats nearby, what rival restaurants charge) means the menu and prices suit local customers, so the risk of failing in the first year falls (An, An).

The other side. But a plan is built on estimates. A new restaurant has no sales data, so the forecast of covers per night may be far too high (App), and an owner who trusts it may hire too many staff and run short of cash. Restaurants work in a dynamic market where tastes and food prices change quickly, so a plan can go out of date within months, and sticking to it can make the owner slow to change the menu (Eval). Success also depends on things no plan can guarantee: the chef's skill, the quality of service and the location (Eval).

Judgement. A business plan is essential for a new restaurant that needs to **borrow**, because without one it is unlikely to get finance at all, and the research it forces reduces the risk of the most common early mistakes (Eval). It is not enough on its own, though: the restaurant succeeds only if the owner treats the plan as a guide, checks actual sales against it each month and changes it when customers' tastes change (Eval). It depends on how much finance is needed and how experienced the owner is: an experienced chef opening a small café with savings could succeed with a simpler plan (Eval). So the plan is necessary but not sufficient; how well it is carried out and updated matters more (Eval).

The marks: 2 K, 2 App, 2 An (one developed chain), and 6 Eval for a judgement that is supported, in context and says what it depends on.

Common mistakes

- **Listing instead of explaining.** "Risk-taker, innovative, hard-working" earns 1 mark at most. When one quality is asked for, explain **one**, with why it brings success.
- **Defining with the words of the term.** "A business plan is a plan for a business" and "a dynamic environment is an environment that is dynamic" score 0. Examiners say this every year.
- **Giving tasks or general skills instead of qualities.** "Starting a business" is a task; "decision making" is not an entrepreneurial quality. Use risk-taking, innovation, resilience, commitment, being multi-skilled, leadership.
- **Mixing up entrepreneur and intrapreneur.** An intrapreneur is an **employee**, and the **business** carries the risk. Say both.
- **Treating capital as money.** As a factor of production, capital is man-made equipment (machines, vehicles, buildings).
- **Half an opportunity cost.** Say the choice **and** the benefit of the next best alternative that is lost, not just "choosing one option".
- **Calling added value profit.** Added value takes away only bought-in materials and services, not wages and rent.
- **No example for "explain the term".** Most candidates lose the third mark on dynamic environment and business plan by not giving an example or a use.
- **Ignoring the case.** If the question names a business or a person, the App marks need that business's details; generic answers cap the marks, and simply copying the case earns nothing.
- **Short chains.** One "so" is limited analysis. Developed analysis needs two or more links, ending in an effect on the business (sales, costs, profit, survival).
- **Too much analysis in a 12-marker.** Only 2 marks are for analysis; 6 are for evaluation. Examiners see answers that are mostly analysis with a one-line conclusion.
- **Evaluating in an 8-mark "analyse" question.** It earns nothing extra and wastes time.

How to get the marks

- **Command words.** *Identify*: name it, no explanation (a single word is fine). *Define*: the exact meaning. *Explain*: a point, then why or how, with an example. *Analyse*: points developed into chains of cause and effect. *Evaluate* or *Discuss*: both sides, then a supported judgement.
- **Short answers [2] and [3]**: define precisely; for [3], one knowledge point plus two steps of explanation or context. Only the first answer counts when one is asked for.
- **8-mark analyse questions**: exactly two points, each with K, App and a chain of at least two links. Extra points don't add marks; depth does. Annotate them in your head: "point 1, point 2".

- **12-mark evaluate questions:** 2 K, 2 App, 2 An, 6 Eval. One good chain earns all the analysis marks; spend the rest on judging. Evaluate as you go ("this matters most if..."), then end with a direct answer to the question, in context, saying what it depends on.
- **Context (App)** means using the business's details to support a point (its industry, size, owner's experience, figures in a table), not repeating them.
- **"Most important" questions** need a comparison: why the named quality or factor matters more (or less) than at least one other, in that industry.
- **Calculations** (for example added value): show the working and units; the method earns a mark even if the arithmetic slips.

Quick check

1. Define the term opportunity cost. **[2]**
2. A furniture maker buys wood, screws and varnish for 85 dollars and sells the finished chair for 240 dollars. Calculate the added value per chair, and the added value on an order of 30 chairs.
3. Give two differences between an entrepreneur and an intrapreneur.
4. A bus company operates in a dynamic business environment. Explain one way this could affect it. **[3]**
5. Identify the factor of production each of these is: (a) a delivery van, (b) a field of tea bushes, (c) the owner who organises the business and risks her savings, (d) a chef.

Answers

1. The benefit of the next best alternative that is given up (1) when a choice is made (1).
2. $240 - 85 = 155$ dollars per chair; $30 \times 155 = 4650$ dollars for the order.
3. An entrepreneur starts their own business, while an intrapreneur is an employee developing ideas inside an existing business. The entrepreneur carries the risk and keeps the profit; for an intrapreneur, the business carries the risk and keeps most of the reward.
4. New technology changes how people travel (K): ride-hailing apps let passengers book cheap shared rides from their phones (App), so some customers switch away from buses, the company's revenue falls and it must invest in its own app or change its routes to win them back (App).
5. (a) capital; (b) land; (c) enterprise; (d) labour.

Past questions to try

- 9609/23/O/N/24 Q1: part (c), two limitations of a business plan for a new social enterprise, plus a risk and a national business.
- 9609/12/F/M/24 Q6: part (a), two barriers to an entrepreneur starting up.
- 9609/22/O/N/23 Q1: part (d), how important intrapreneurship is to a theme park's ongoing success.
- 9609/12/O/N/23 Q2: defining business enterprise and explaining why a business might fail.