

Enterprise, business growth and size

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Read first: **Business activity**

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What you need to know

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

1. **Describe the characteristics of a successful entrepreneur**, such as being a risk-taker, creative, hard-working and self-confident, and say why each one helps.
2. **List what goes into a business plan and explain how a plan helps an entrepreneur**, for example to get a bank loan, to set objectives, or to check there is enough demand.
3. **Explain why governments support business start-ups and how they do it**, for example with grants, cheap loans and training schemes.
4. **Measure the size of a business** by the number of employees, the value of output or sales, or capital employed, and explain the limits of each method. Profit is **not** a way to measure size.
5. **Explain why owners may want to expand a business.**
6. **Describe the ways a business can grow**: internal growth and external growth (mergers and takeovers).
7. **Explain the problems of growth and how they might be overcome.**
8. **Explain why some businesses stay small.**
9. **Explain why businesses fail**, such as poor management, changes in the business environment and liquidity problems, and **why new businesses are at greater risk of failing** than established ones.

Understand it

Enterprise and the entrepreneur

Enterprise is the skill of spotting an opportunity and setting up a business to meet it. An **entrepreneur** is the person who does this: someone who **organises the factors of production** (land, labour and capital) to start a new business and **takes the financial risk** that it may fail. If the business fails, the entrepreneur can lose the money they put in; if it succeeds, they keep the profit.

An entrepreneur is not the same as a manager, an investor or a sole trader. A manager runs a business someone else may have started; an investor only puts in money; a sole trader is a type of business organisation. The entrepreneur's job is **starting** the business and **bearing the risk**.

Characteristics of successful entrepreneurs. Each is useful for a reason, and exam answers need the reason:

Characteristic	Why it helps
Risk-taker	willing to invest savings or leave a secure job, knowing the money could be lost
Creative	has new ideas, so the product stands out from competitors and wins sales
Innovative	turns ideas into new products or new ways of working
Hard-working	a new business needs long hours, often with no staff to share the jobs
Self-confident	persuades banks, investors and suppliers to back the business
Effective communicator	explains the idea clearly to lenders, suppliers, customers and staff
Determined (resilient, self-motivated)	keeps going when there are setbacks, such as low early sales
Optimistic	believes the business will succeed, which keeps them working through problems
Independent	happy to make decisions and work without help

"Has enough capital" or "writes a business plan" are not characteristics: they are things a business needs, not qualities of the person.

The business plan

A **business plan** is a written document that sets out the business's **objectives** and **how it will achieve them**, with details of its product, market, operations, staff and finances. It is often shown to banks and investors to persuade them to lend.

Typical contents:

- the owner's details and experience;
- the business idea: the product or service and the **objectives** (aims and targets);
- the **market**: target customers, market research results, competitors, the size of the market;
- **marketing**: price, promotion and where it will sell;
- **operations**: location, premises, equipment, suppliers, production method;
- **staff**: how many workers are needed and what skills they need;
- **finance**: start-up costs, sources of finance, a cash flow forecast, a forecast of sales and profit, break-even.

How a business plan helps the entrepreneur:

- **Getting finance.** Banks and investors want to see a plan before they lend, so a good plan makes a **loan more likely**.

- **Setting objectives and direction.** Targets give a sense of purpose and something to **measure progress** against.
- **Estimating costs and cash flow.** Working out start-up costs and a cash flow forecast shows how much finance is needed and **when cash may run short**, so an overdraft can be arranged in time.
- **Checking demand.** Market research in the plan shows whether enough customers want the product before money is spent.
- **Planning resources.** Deciding on staff, equipment, suppliers, prices and promotion in advance leads to **better decisions**.
- **Reducing risk.** Thinking through problems before they happen lowers the chance of failure.

A plan is only as good as its forecasts: it takes time to write, and if the forecasts are wrong it can give false confidence.

Government support for start-ups

Why governments help new businesses:

- **Jobs:** new businesses employ people, so unemployment and the cost of welfare benefits fall.
- **Output and growth:** more goods and services are produced, so GDP and living standards rise.
- **Tax revenue:** successful businesses and their workers pay tax.
- **Competition and choice:** new rivals push existing firms to be efficient and give consumers more choice.
- **Innovation:** new businesses bring new ideas and products, including niche products large firms don't make.
- **Future large businesses:** today's small start-ups may grow into large employers and exporters.
- **Exports:** some start-ups sell abroad or replace imports.

How governments help:

- **grants** (money that does not have to be repaid) and **subsidies**;
- **low-interest loans**, or guaranteeing loans so banks will lend;
- **low-cost or rent-free premises**, for example small units in business parks;
- **training schemes** that teach business skills such as book-keeping and marketing;
- **advice and mentors**, and help with market research;
- **tax relief** or lower taxes for the first years.

Keep the two lists apart: "to create jobs" is a **reason why**; "a grant" is a **way how**.

Measuring business size

Business size is measured by comparing a business with others. The common measures are:

- **Number of employees:** how many people it employs.
- **Value of output:** the value of the goods or services it produces.

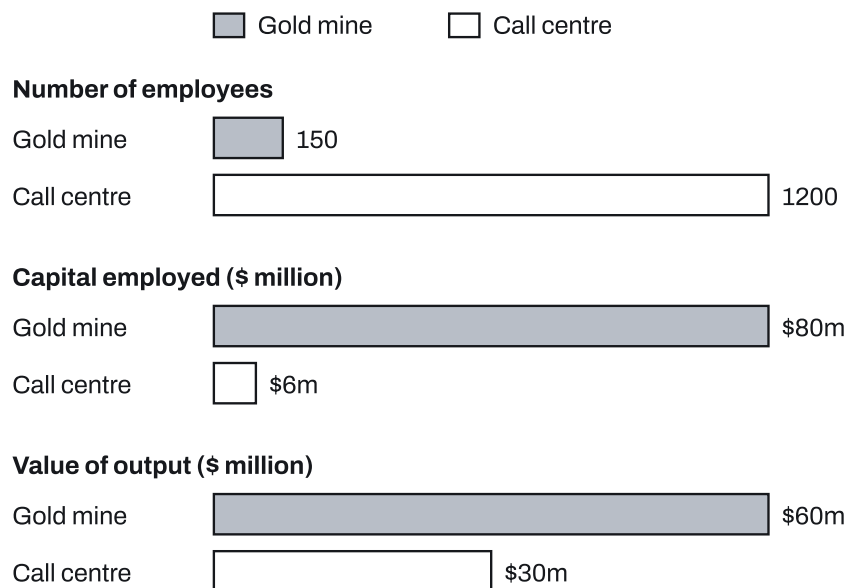
- **Value of sales** (revenue): how much it sells.
- **Capital employed**: the total value of the finance invested in the business, used to buy its premises, machinery and other assets.
- Also accepted: number of outlets (shops, branches), number of customers, market share.

Profit is not a measure of size. A small business can make a high profit, and a very large business can make a loss one year. It measures success, not size.

Every measure has limitations. The main one is that the answer depends on how the business works:

- A **capital-intensive** business (a mine, a power station, an automated factory) uses lots of machinery and few workers: it looks small by employees but large by capital employed.
- A **labour-intensive** business (a call centre, a restaurant chain, a cleaning firm) looks large by employees but small by capital employed.
- **Part-time** workers make the employee count look bigger than the amount of work done.
- **Value of output and sales** depend on the price of the product: a business selling a few expensive items (aircraft, jewellery) looks larger than one selling many cheap items. Sales also rise and fall with the season.
- Comparing businesses in **different industries** is unreliable with any single measure.

The best practice is to use **more than one measure**, and to compare businesses in the same industry.



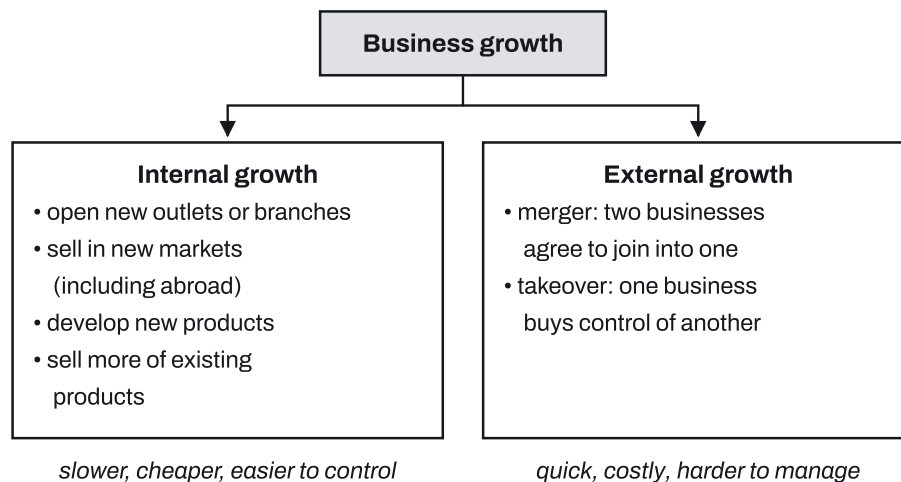
The diagram shows why the measure matters. By employees, the call centre is **8 times** the size of the mine; by capital employed, the mine is more than **13 times** the size of the call centre; by value of output, the mine is **twice** the size.

Why owners want to expand

- **More sales and profit**: a bigger business can sell more, and profit gives the owners a higher return.
- **Larger market share**: more influence over prices and less threat from competitors.

- **Economies of scale:** lower average (unit) costs from buying in bulk, using bigger machines or cheaper borrowing, so the profit margin on each item rises.
- **Spreading risk:** selling several products or in several markets means a fall in one does not sink the whole business.
- **Status and reputation:** a well-known, larger business attracts customers, good workers and lenders.
- **Survival:** a larger business is harder to take over and better able to survive a recession.

Ways a business can grow



Internal (organic) growth means the business gets bigger by expanding its own activities: opening new outlets, entering new markets, launching new products, or selling more of what it already makes (with more promotion, for example). Selling franchises of its brand is also a way a business can grow without joining another business.

- It is **easier to control**, **cheaper** and **lower risk**, and can usually be paid for out of profits.
- But it is **slow**, so competitors may take opportunities first.

External growth means joining with another business:

- a **merger**: two businesses agree to join together to form one new business;
- a **takeover** (acquisition): one business buys enough shares to take control of another, which may not want to be bought.

Advantages of external growth, especially a takeover of a competitor:

- **quick** growth, so opportunities are not missed;
- **less competition** and a **larger market share**, so more sales and more power over price;
- gains the other business's **brand, customers, skills, ideas and equipment**;
- **economies of scale** from the larger size.

Disadvantages:

- **high cost**: buying a business needs a lot of finance, often borrowed, which adds interest;

- **clashes** of management style and culture between the two businesses, leading to poor decisions;
- **demotivated workers**, worried about job losses or new managers;
- **harder to coordinate and communicate** across a bigger business, so mistakes rise;
- customers lose choice when a competitor disappears.

Problems of growth and how to overcome them

Problem	How it might be overcome
Communication and coordination get harder as layers of management are added, so messages are slow or distorted	clear communication methods (regular meetings, intranet), decentralise so local managers decide
Loss of control by the owner	delegate to trained managers; split the business into divisions with their own managers
Lack of finance to pay for expansion	choose a suitable source (bank loan, new shares, retained profit); grow in stages
Cash-flow problems from growing too fast (paying for new stock and staff before sales come in)	a cash flow forecast; arrange an overdraft; grow more slowly
Demotivated workers and a clash of cultures after a takeover	communicate plans early, involve staff, train them in the new methods
Diseconomies of scale : average costs rise when the business becomes too large to manage well	keep teams small, decentralise, improve communication

Why some businesses remain small

- **Owner's choice**: the owner wants to keep control, keep a good work–life balance, or avoid the stress and risk of growth.
- **Small market**: a **niche** market, or a local market such as a village shop, has too few customers to support a large business.
- **Personal or specialised service**: hairdressers, tailors, wedding planners and personal trainers sell a custom product that cannot easily be made on a large scale.
- **Close customer relationships**: owners want to know their customers and give a personal service.
- **Flexibility**: a small business can respond quickly to changes in customer tastes.
- **Lack of finance**: small businesses find it hard to borrow or raise capital to expand.
- **Lack of skills**: the owner may not have the management skills to run a larger business.
- **Market dominated by large firms**: big rivals with economies of scale leave little room to grow.

Why businesses fail

Businesses of any age can fail for these reasons:

- **Lack of management skills:** poor decisions on pricing, staff, stock and money; no planning.
- **Changes in the business environment:** new competitors, changes in customer tastes, new technology making a product out of date, a recession, higher interest rates, new laws.
- **Liquidity (cash-flow) problems:** not enough cash or **working capital** to pay suppliers, wages and bills on time, even if the business is making sales. A business can be profitable and still fail because it runs out of cash.
- **Over-expansion:** growing too quickly, so costs and borrowing rise faster than sales.
- **Poor market research and marketing:** making products customers don't want, at the wrong price or in the wrong place.

New businesses are at greater risk because:

- they have **no customer base** or **brand loyalty** yet, so sales are low and uncertain;
- the owner often has **little management experience**;
- they have **limited finance**: banks see them as risky, and they have no past profits to fall back on;
- they may not have done enough **market research** or **planning**;
- they compete with **established businesses** that have loyal customers, reputations and **economies of scale** (lower costs);
- suppliers may not give them **trade credit**, so they must pay at once, putting pressure on cash flow.

Key facts and formulas

This topic has no formula list in the exam. "Learn it" means you must remember it.

Fact	Status
Entrepreneur: a person who organises the factors of production and takes the risk of starting a new business	Learn it
Business plan: a document setting out the business's objectives and how they will be achieved (product, market, operations, finance)	Learn it
Measures of size: employees, value of output, value of sales, capital employed (not profit)	Learn it
Internal growth: expanding the business's own activities; external growth: a merger or takeover	Learn it
Merger: two businesses agree to join into one; takeover: one business buys control of another	Learn it
Liquidity problem: not enough cash to pay debts when they are due	Learn it
" n times as large" = $\frac{\text{larger value}}{\text{smaller value}}$	Learn it

How to do it

We have tagged 51 questions on this topic (2021–2025), on Paper 1 and Paper 2. 15 of them have parts of more than one type, so the counts add to 67. The topic is usually one or two parts of a 20-mark question.

Question type	Questions
Characteristics of a successful entrepreneur	10
Measuring business size and its limitations	8
Evaluate a growth method (takeover, internal vs external, franchising)	7
Why a business remains small	7
How a business plan helps	6
Why businesses fail, and why new ones are at greater risk	6
Why governments support start-ups	5
How governments support start-ups	5
Why owners want to expand	5
Define "entrepreneur" or "business plan"	4
Ways a business can grow	3
Problems of growth and how to overcome them	1

The mark scheme codes are **k** (knowledge: a correct point), **app** (application: a detail from the case), **an** (analysis: a developed consequence) and **eval** (evaluation: a justified judgement). How each part is marked:

Part	Marks	What earns them
Paper 1 (a) "Define"	2	a full definition with both ideas; half = 1
Paper 1 (b) "Identify two/four"	2 or 4	1 per correct point; only the first ones are marked
Paper 1 (c) "Outline two"	4	each: k + app
Paper 1 (d) "Explain two"	6	each: k + app + an
Paper 1 (e) "Explain two ... which is best?" or "Do you think ...?"	6	2 k + 2 an + 2 eval; general, so no app
Paper 2 (a) "Explain four" or "two"	8 or 4	each: point (1) + explanation (1), applied to the case when the question names the business
Paper 2 (b) "Consider ... which should ...? Justify"	12	levels: detailed discussion of every option in context, then a justified choice saying why the others were rejected

1. Characteristics of a successful entrepreneur (10 questions)

1. **Name a real characteristic** (k): risk-taker, creative, innovative, hard-working, self-confident, effective communicator, determined, optimistic, independent.
2. **Explain why it helps** (an) with a **different** word from the name: not "creative, because they need to be creative", but "creative, so the product is different from rivals' and attracts customers".
3. On Paper 1 (d), **link it to the case** (app): Hal plans to leave his job, which fits risk-taking; "a new bakery" fits creativity with new recipes (0450/12/M/J/25 Q3).

Variations you will meet:

- **"Identify two characteristics"** (0450/13/O/N/24 Q2): one word each.
- **"Which is most important?"** (0450/12/M/J/24 Q1 (e)): explain two, then compare them in the decision (see type 3 for the pattern). Risk-taking is often argued as most important because without it no business starts; creativity is what makes it succeed.
- **Entrepreneur vs manager** (0450/12/O/N/21 Q2): an entrepreneur **starts** the business and bears the risk; a manager plans, organises, coordinates and controls it. Say what each does, not just "a manager manages".
- **Paper 2**: explain four characteristics (8), or discuss three for a named business and pick the most important (12, 0450/23/O/N/21 Q1).

2. Measuring business size and its limitations (8 questions)

1. **Identify** (1 mark each): number of employees, value of output, value of sales (revenue), capital employed. Write "value of" or "number of" in full: "capital" or "output" on their own are too vague. **Never profit.**
2. **Explain** (Paper 2, 0450/23/M/J/22 Q3): say what the measure counts and why it shows size, or its drawback: "number of employees (1): easy to count and compare with similar businesses, but a business with a lot of machinery may have few workers (1)".

Variations you will meet:

- **"Best way to measure a primary sector business"** (0450/13/O/N/23 Q1 (e)): mines and farms use a lot of machinery, so employees understate their size and capital employed overstates it; value of output compares similar businesses well.
- **Tertiary businesses** (0450/12/O/N/21 Q4 (e)): services are often labour-intensive with many part-time staff, so employees can mislead; value of sales is quick to find but changes with the season.
- **Two limitations of using employees** (0450/11/O/N/22 Q2): capital-intensive businesses, part-time workers, different industries.

3. Evaluate a growth method (7 questions)

Paper 1 (e): "Do you think the advantages of taking over a competitor are greater than the disadvantages?" (0450/12/O/N/25 Q4) or "Is internal or external growth better?" (0450/11/M/J/24 Q2).

1. **Point 1 (k) → why it matters (an):** an advantage. "Taking over a competitor reduces competition (k), so the business can sell more and raise its revenue (an)."
2. **Point 2 (k) → why it matters (an):** a disadvantage, or the other method. "But a takeover costs a lot of money (k), which the business may have to borrow, adding interest costs (an)."
3. **Decision (eval) + reason comparing the two (eval):** "The advantages are greater, because the extra revenue from higher market share continues for years (eval) and can pay back the one-off cost of buying the business (eval)."

Variations you will meet:

- **Internal vs external:** internal is slower but cheaper, easier to control and lower risk; external is fast but costly and brings clashes of culture. **Mirror answers** ("internal is slow; external is fast") only earn once, and "economies of scale" does not tell them apart because both give it.
- **Franchising as a way to grow (0450/12/O/N/22 Q1, 0450/13/M/J/21 Q2):** franchisees pay fees and put in their own capital, so the brand spreads quickly and cheaply; but the owner loses some control and a poor franchisee can harm the brand's reputation.
- **Paper 2 (12 marks):** open a new shop or take over a rival, with appendix figures to use (0450/23/M/J/22 Q3 (b)). Work out and quote the relevant figures (cost, extra revenue, profit) for each option before recommending.

4. Why a business remains small (7 questions)

1. **Identify** (1 each): owner's choice (keep control), small or niche market, personal or specialised service, close customer relationships, flexibility, lack of finance, lack of skills, market dominated by large firms.
2. **Outline** (k + app): "a small market (k) as a shop selling office equipment in one town (app)".
3. **Explain** (Paper 2, point + explanation, 0450/21/O/N/24 Q1): "The market is small (1): a village bakery can only sell to the few hundred people who live nearby, so a bigger bakery would not find more customers (1)."

Variations you will meet:

- **"Other than finance"** (0450/13/M/J/25 Q2 (c)): don't mention money at all.
- **Vague answers** ("less stressful", "more free time") on their own are not credited: say whose choice it is and why ("the owner wants to keep control of decisions").
- **Most important reason** (0450/11/M/J/23 Q2 (e)): explain two, then judge, for example "the size of the market is most important, because even an owner who wants to grow cannot sell more than customers will buy".

5. How a business plan helps (6 questions)

1. **State a way** (k): get a bank loan, set objectives and direction, estimate costs and forecast cash flow, check demand, plan resources (staff, marketing, prices), reduce risk, measure progress.
2. **Explain or apply it:** say what it leads to, linked to the business: "to help get a bank loan (1) to open the new flower shop (1)".

Variations you will meet:

- **"One way each section helps"** (0450/12/M/J/24 Q1 (d)): "business objectives" → targets to measure progress against; "data about the market" → shows the size of demand and competitors, so she can set prices and plan promotion.
- **Paper 2 "explain four ways"** (0450/22/O/N/25 Q1 (a)): four different ways, each with a link to the case. Examiners report that "helps decision-making" or "more organised" is too vague: say **which decision** it helps with.
- **Which section helped most?** (Paper 2, 12 marks, 0450/21/M/J/22 Q1 (b)): for example market research (shows whether enough customers exist) versus resources (shows start-up costs, so how much finance is needed).

6. Why businesses fail, and why new ones are at greater risk (6 questions)

1. **Name the reason** (k): lack of finance, cash-flow (liquidity) problems, poor planning, lack of management experience, poor market research, low demand or no customer loyalty, strong established competitors, growing too fast, not reacting to changes in the business environment.
2. **Explain** how it leads to failure: "lack of finance (1): it may not have enough cash to pay its suppliers and wages on time, so it has to close (1)".

Variations you will meet:

- **"Other than finance"** (0450/11/O/N/23 Q1 (d)): use management, demand, competition or planning instead.
- **Why failure, not general problems**: "poor communication" or "inefficiency" can happen to any business; give a reason that explains **closing down**.
- **Paper 2 (12 marks)**: three given factors, such as lack of management experience, insufficient working capital and poor planning; explain how each could make the business fail, then pick the most important (0450/23/M/J/21 Q1 (b)). Working capital is **short-term** cash for day-to-day bills, not start-up capital.

7. Why governments support start-ups (5 questions)

1. **Identify**: create jobs / reduce unemployment, raise output (GDP), more tax revenue, more competition and choice, innovation, may grow into large businesses, more exports.
2. **Explain** (Paper 2, 8 marks, no application, 0450/22/F/M/24 Q1): develop each one step further: "to reduce unemployment (1), so the government pays less in benefits and people have more to spend (1)".

Examples of support ("grants") are **not** reasons.

8. How governments support start-ups (5 questions)

1. **Identify** (1 each, 0450/11/M/J/25 Q1 (b)): grants, low-interest loans, low-cost premises, training schemes, advice or mentors, tax relief.
2. Vague answers ("give them finance", "help with location") and **reasons** ("to create jobs") are not credited.

Variation: "Are grants the best way to support start-ups?" (0450/13/M/J/22 Q3 (e)): a grant does not need repaying, which helps cash flow (an); but training deals with the main cause of failure, a lack of management skills (an). Then decide and compare. Answer **the question asked** (which kind of support is best), not whether governments should help at all.

9. Why owners want to expand (5 questions)

1. **Identify:** more sales and profit, larger market share, economies of scale, spread risk, status, survival.
2. **Explain:** "economies of scale (k), so the average cost of each unit falls and the profit margin rises (an)".

Variations you will meet:

- **Most important reason** (0450/13/M/J/24 Q4 (e)): for example economies of scale, because lower unit costs raise the margin on every item sold, whereas more sales depend on how strong competitors are.
- **Reason for a takeover** (0450/11/M/J/21 Q1 (e)): economies of scale versus gaining market power and removing a competitor.

10. Define "entrepreneur" or "business plan" (4 questions)

Two ideas each for 2 marks:

- **Entrepreneur:** a person who **starts a new business** (organises the factors of production) **and takes the risk**. "Someone who starts a business" alone = 1. "Someone who manages a business" = 0.
- **Business plan:** a document setting out the **objectives** of a business **and how they will be achieved** (details of its operations, finance and owners). "A document with the aims of the business" alone = 1.

11. Ways a business can grow (3 questions)

1. **Identify** (1 each, 0450/13/O/N/23 Q1 (b)): takeover, merger, open new outlets, develop new products, enter new markets, increase sales of existing products, franchising.
2. **Explain** (Paper 2, 0450/22/M/J/22 Q1 (a)): name the way, then say how it makes this business bigger ("take over a toy maker in another country (1), gaining its factories and customers abroad at once (1)"). Examiners want **how it causes growth**, not the benefits of growth such as higher profit.

If a question asks for **external** growth, only merger and takeover count: opening branches and franchising are internal.

12. Problems of growth and how to overcome them (1 question)

Paper 2, 12 marks (0450/21/M/J/21 Q1 (b)): for a business growing by takeovers, discuss problems such as harder control, lack of finance and a clash of cultures. For each: what the problem is → why it harms **this** business → a realistic solution (decentralise and improve communication; arrange a bank loan or sell shares; communicate and train staff). Finish by judging which problem is easiest (or hardest) to overcome and why, and why the others are harder.

Worked examples

Example 1

(a) Define "business plan". [2]

(b) Identify two limitations of using capital employed to compare the size of businesses. [2]

(a) A document that sets out the objectives of a business (1) and how it plans to achieve them, with details of its market, operations and finance (1).

(b) A capital-intensive business with a lot of expensive machinery looks larger than it really is (1). It is unreliable for comparing businesses in different industries, such as a factory and a hairdresser (1).

Example 2

Kofi plans to open a mobile phone repair shop. He will need a bank loan to buy tools and equipment. He has written a business plan.

Explain two ways a business plan could help Kofi. [6]

Way 1. It helps him get a bank loan (k) to buy the repair tools and equipment (app), because the bank can see his costs, forecast sales and how he will repay, so it is more willing to lend (an).

Way 2. It includes a cash flow forecast (k), which shows the months when the repair shop's cash outflows are larger than its inflows (app), so he can arrange an overdraft in advance and pay his suppliers on time (an).

Each way earns k + app + an.

Example 3

Lakeside Printing has printed newspapers and magazines for 40 years. Its sales have fallen every year for five years as more readers switch to online news. It still owes a large amount on a bank loan used to buy new printing presses.

Explain two reasons why Lakeside Printing might fail. [6]

Reason 1. A change in the business environment (k): readers are moving to online news, so demand for printed newspapers keeps falling (app), and the revenue may no longer cover the fixed costs of running the presses, so the business makes losses year after year (an).

Reason 2. Liquidity problems (k): it must keep repaying the large bank loan for its printing presses while its sales fall (app), so it may not have enough cash to pay suppliers and wages on time, and the bank or suppliers could force it to close (an).

Each reason earns k + app + an. Being established does not protect a business from these causes.

Example 4

Do you think a business should grow by merging with another business or by selling franchises? Justify your answer. [6]

A merger is a quick way to grow (k), because the business gains the other business's outlets, customers and skills at once, which can bring economies of scale (an). Selling franchises brings in fees while franchisees pay for their own premises (k), so the brand spreads to new areas without the business having to raise much finance itself (an).

Selling franchises is better for most businesses because the franchisees carry most of the cost and risk of each new outlet (eval), whereas a merger means sharing control with the other owners, and a clash of management styles could lead to poor decisions across the whole business, though the franchisor must still check that franchisees keep its quality standards (eval).

The two **eval** marks need a decision **and** a reason that compares the two methods. The opposite decision, with a comparing reason, earns them too.

Common mistakes

- **Giving profit as a measure of size.** Examiners report this every year. Profit shows how well a business is doing, not how big it is.
- **Vague measures.** "Capital", "production" or "worth of the business" earn nothing. Write "capital employed", "value of output", "number of employees".
- **Repeating the characteristic as its explanation.** "Creative, because an entrepreneur should be creative" earns only the first mark. Explain what the quality leads to.
- **Describing a manager or a business, not a person.** Having capital, writing a business plan or managing staff are not characteristics of an entrepreneur. And don't confuse an entrepreneur with a sole trader or an investor.
- **Mixing up "why" and "how" for government support.** "Create jobs" is a reason; "a grant" is a way. Examiners see candidates give reasons when asked for ways, and the other way round.
- **Saying what is in a business plan when asked how it helps.** Explain what the plan lets the entrepreneur do, such as get a loan or plan cash flow.
- **Vague business-plan points.** "Helps decision-making" or "avoids problems" is too general; name the decision or the problem.
- **General problems instead of reasons for failure.** Poor communication or low efficiency don't explain why a business closes. Link the reason to running out of cash or customers.
- **Confusing working capital with start-up capital.** Working capital is the short-term cash for day-to-day bills.
- **Internal methods given as external growth.** Opening branches and franchising are internal; mergers and takeovers are external.

- **Mirror answers and application in (e).** "Internal is slow, external is fast" is one point, not two. The (e) part is general, so linking to the case earns nothing; use the time to develop points instead.
- **No comparison in the judgement.** A decision that only repeats one side ("a takeover is best because it reduces competition") gets at most one eval mark. Say why it beats the other option.

How to get the marks

- **Define:** two ideas for 2 marks, no examples.
- **Identify:** short answers; only the first two (or four) are marked, so don't add extras. Make each one different.
- **Outline** (4 marks): a correct point + a word or detail from the case that makes sense with it.
- **Explain** (Paper 1 (d), 6 marks): for each of two points, k + app + an. The analysis is a consequence: use "so...", "which means...", "leading to..."
- **Paper 1 (e)**, 6 marks: it is general, so no application. Explain **two** points (an advantage and a disadvantage, or two options), each developed. Then decide, and give a reason that **compares** them. Evaluation is only possible if both sides have been discussed.
- **Paper 2 (a)**: four points, each with its own explanation; use the business's name and details when the question names the business (sometimes the mark scheme says there are no application marks: the explanation still needs to be a real consequence).
- **Paper 2 (b)**, 12 marks: discuss **each** option in detail with advantages and disadvantages linked to the case (use figures from the appendix if there are any), then recommend one, **saying why the others were rejected**. The top level needs all three: detail, context and a well-justified choice.
- **"Justify your answer"** means the reason for your decision is where the marks are; a one-word choice scores nothing.

Quick check

1. Which of these is **not** a way to measure the size of a business: number of employees, capital employed, profit, value of output? Why not?
2. Firm X has 40 employees and capital employed of \$2 million. Firm Y has 400 employees and capital employed of \$0.5 million. Which firm is larger by each measure, and by how many times? What does this show?
3. Sort these into reasons why governments support start-ups and ways they support them: a grant; to reduce unemployment; a training scheme; to raise tax revenue; a low-interest loan; to increase competition.
4. Classify each as internal or external growth: opening a second shop; buying a rival bakery; two banks agreeing to join; launching a new product range.
5. A business has grown quickly by opening 20 new branches. Explain one problem this growth may cause and how it could be overcome.

Answers

1. **Profit.** A small business can be very profitable and a large one can make a loss, so profit measures success, not size.
2. By employees, Y is larger: $400 \div 40 = 10$ times. By capital employed, X is larger: $2 \div 0.5 = 4$ times. Different measures can give opposite answers, so more than one measure should be used; X is probably capital-intensive and Y labour-intensive.
3. Reasons: to reduce unemployment, to raise tax revenue, to increase competition. Ways: a grant, a training scheme, a low-interest loan.
4. Opening a second shop: internal. Buying a rival bakery: external (takeover). Two banks agreeing to join: external (merger). Launching a new product range: internal.
5. For example: communication becomes harder with 20 more branches (point), so instructions from head office are slow or misunderstood and mistakes rise (explanation). It could be overcome by giving each branch manager authority to make local decisions and holding regular video meetings (solution).

Past questions to try

- 0450/13/M/J/24 Q4: part (e), the most important reason for a business to grow.
- 0450/11/M/J/24 Q2: part (e), internal or external growth.
- 0450/13/O/N/23 Q1: part (e), the best way to measure a primary sector business.
- 0450/22/F/M/24 Q1: part (a), four reasons why governments support start-ups.