



# Unit 1 Planning and financing a business

## Starting a business

## Chapter 1 Enterprise

### PRACTICE EXERCISE

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- (2 marks) **1** Any business or organisation can be called an enterprise, but the term usually refers to the process by which new businesses are formed, and new products and services created and marketed.
- (3 marks) **2** An entrepreneur is an individual with an idea that he/she develops by setting up a new business and encouraging it to grow. Entrepreneurs take the risk and receive the subsequent profits that come with success or bear the losses that come with failure.
- (3 marks) **3** Possible answers **are** Roman Abramovich, Philip Green, Richard Branson, Stelios Haji-Ioannou, James Dyson, Charles Dunstone.
- (4 marks) **4** Any of the following characteristics:
- determination and persistence
  - passion
  - the ability to spot and take advantage of opportunities
  - relevant skills and expertise
  - vision, creativity and innovation
  - motivation to succeed and not be daunted by failure
  - willingness to take risks — possibly the most important quality of an entrepreneur
- (4 marks) **5** Evaluating risk and uncertainty is an integral part of business decision making and thus important in developing a successful business. Having researched the idea and the market to ensure that all reasonable steps have been taken to minimise the probability of failure and that there is a good probability of success, most entrepreneurs are happy to take risks if the subsequent rewards might be great enough. The outcome of successful risk taking will be a profitable venture.
- (8 marks) **6** Opportunity cost is the ‘real cost’ of taking a particular action, i.e. the next best thing that could have been chosen but was not.
- Student example: time available in the evenings and at weekends is limited and a choice may have to be made between going out with friends and revising a business topic for a class test. The real cost (as opposed to the monetary cost) of spending an evening out with friends may thus be a failure to understand the business topic and resulting low marks in the test. Alternatively, the real cost of an evening spent revising could be the missed opportunity of attending a concert or of earning money by working in a supermarket.
- School example: with a limited budget, a school may have to decide whether to refurbish the canteen or build an all-weather games pitch. The real cost of choosing to build the games pitch is the ongoing problems of the old, overcrowded canteen.
- Business example: the opportunity cost that William Chase of Tyrrells faced on taking the risk and deciding to remain independent was the guaranteed sales that he would have made if he had entered into a contract with Tesco (see fact file on p. 6).
- (3 marks) **7** Any of the following: some to gain more freedom at work; most to make money; some to sustain a going concern such as a family business; some to provide employment for the local community, sometimes in the form of social enterprises.
- (5 marks) **8** An environment that encourages enterprise and supports people who take opportunities and risks is likely to improve productivity and encourage growth. This is because new and more



dynamic businesses increase competitive pressures in markets and facilitate the introduction of new ideas, new technologies and more efficient working practices. Existing firms are forced to increase their efficiency in order to stay in the market. In addition, any efficiency gains can be passed on to consumers through lower prices and greater choice.

- (6 marks) **9** Any of the following:
- reducing business taxes and trying to establish and maintain a modern and competitive business tax system
  - reducing the regulatory burden on enterprises; reducing barriers to small businesses raising finance
  - improving the support for small and new businesses
  - promoting a change in the UK's enterprise culture
  - encouraging business start-ups in economically deprived regions of the UK
  - introducing legislation to promote competition
  - funding projects to raise awareness of enterprise among underrepresented groups of people and reviewing how to encourage unemployed people to move into self-employment
  - giving financial support to voluntary and not-for-profit organisations that are carrying out excellent work
- (2 marks) **10** Possible answers are:
- local city councils
  - the Prince's Trust
  - university enterprise centres

## CASE STUDY Creating an enterprise culture

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- (2 marks) **1 a** South East
- (2 marks) **b** South West
- (6 marks) **c** Best five for start-up opportunities: South East, South West, East of England, Scotland, London.  
Best five for skills to start up: South West, South East, East of England, London, West Midlands.  
Best five for least fear of failure: South West, Scotland, East Midlands, East of England, North West.  
Best five for rating entrepreneurship as a career: Northern Ireland, West Midlands, North West, North East, Wales.  
Best five for entrepreneurship and status: Northern Ireland, North East, Yorkshire and Humberside, Wales, Scotland.  
The south of England looks the best from the point of view of start-up opportunities and start-up skills. However, the status of entrepreneurs and entrepreneurship as a career is not as high as in the north.
- (10 marks) **2 a** Answers will depend on the area, but should include a discussion of each of the headings in the table: start-up opportunities, skills, fear of failure, entrepreneurship and status.
- (15 marks) **b** Issues to discuss include start-up opportunities and skills, unemployment rates, salary levels, the amount of competition and government assistance.