# 1.3 Enterprise, Business Growth and Size

1.3 Is where the IGCSE get serious. There is a lot of content and nearly every section could form the basis of longer style questions.

But it also looks at perhaps the most inspiring side of business, entrepreneurship and business growth and the challenges of starting a business.

## 1.3.1 Characteristics of successful entrepreneurs

Characteristics of successful entrepreneurs is quite straight forward.  You need to identify and explain four different characteristics of successful entrepreneurs.

It's helpful to have an entrepreneur that has inspired you in mind when thinking of examples – like Mark Zuckerberg or Michelle Phan.

**Creativity** – also known as innovation or vision – the ability to generate new ideas or fresh thinking for new products or services to gain competitive advantage.

**Exam Technique**

Where you need to be careful is **repetition** – if you give creativity as your first characteristic and then follow up with innovation rather than another completely different point, you may get just one knowledge point instead of two.

**Resilience** – also known as optimism or the ability to bounce back – all entrepreneurs will face many set backs and have to overcome these and not give up on their aims.

**Hard Working** – entrepreneurs often have to work long, irregular hours late into the night and on weekends – especially during the start up phase of the business.

**Multi tasking** – also known as problem solving or independent – before they can afford to hire experts entrepreneurs will have juggle all the tasks of the business – marketing, finance, operations and make sure they don't drop the ball on any of these tasks.

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**Contents of a business plan and how business plans assist entrepreneurs**

I know it's a cliché but failing to plan is planning to fail – and a business plan is no exception. It is considered crucial if a business is going to survive.

Business plan questions can come up as simple knowledge questions on the contents of a business plan or you may have to explain further how business increase the chances of start ups success.

A Business plan is a document setting out a business's objectives and how it will achieve them.

It's usually drawn up when starting up a new business or when there will be an important change in how the business is run – like starting a service or investing in a new shop.

We will run through four of the most common sections but other sections could be included depending on the business.

**Finance** concerns how much capital will the business need and where will it come from – for example $10,000 start up capital required from a bank loan

It will also look at much forecast revenue and costs so the business can estimate how much profit they will make. It makes sure they have enough capital to start the business.

It can also show banks or potential investors the business has a solid plan to control costs, earn revenue and repay loans.

**Marketing Plan** – researching the market and planning how to sell a product or service.

Ensures there is a sufficient budget in place to pay for marketing and outlines strategies for building a customer base. It can also help forecast future volume demand.

**Operations** – how will the product or service be produced.

Ensures the firm can find suppliers, and produce effectively at the output needed to ensure the customer demand is satisfied.

**Human Resources** – employees required, and what skills or training they will need.

It means entrepreneurs can employ the right people for the job and they can be productive quickly. For example a restaurant will have to find skilled chefs and train service staff.

**Why and how governments support business start-ups**

Why do governments around the world spend billions of dollars helping start ups and entrepreneurs?

We are going to find out so we can tackle this kind of question which is quite common at IGCSE

Firstly, how do governments help?

**Training schemes** – helps entrepreneurs draw up a business plan and forecast their sales and costs for the first year.

Can also get grants – which are payments – for equipment or to help with start up costs.

Governments can also offer tax breaks, free office space, and subsidies for hiring new employees.

So why do governments help?

**Link** Unit 6.1 Government control over the economy

This links with Unit 6 and government objectives, because successful start ups help governments achieve nearly all of their targets.

**Employment creation** – successful start ups employ workers and reduce unemployment.

**Economic growth** – entrepreneurs contribute to developing economic activity by creating profits, and paying employees and suppliers.

**Innovation and technological change** – often entrepreneurs come up with new ideas which can inspire other start ups and make the economy more competitive and productive.

## 1.3.2. Methods of Measuring Business Size

Business size is not a hugely popular topic in IGCSE exam questions – it's more likely to come up in short answer questions.

However, it's still important to learn the four main methods of measuring business size and be aware of the limitations.

| **Company** | **Number of employees** | **Capital Employed** | **Value of Output** |
|---|---|---|---|
| **X-Ray Microchips** | 4 designers<br>6 maintenance staff<br>10 | High tech production line<br>$100,000 | 500 microchips at $100<br>= $500,00 |
| **Yummy Oranges** | 480 farm workers<br>20 managers<br>500 | Basic fruit picking tools<br>$20,000 | 500,000 oranges at $1<br>= $500,000 |

Let's use the example of **Xray Microchips** and **Yummy Oranges.**

The first method is **number of employees** – simply add up all of the employees in business x and business y and see which one has more.

The difficulty is that some businesses may have invested in machinery so less employees are required, so they appear smaller in terms of employees but higher in output and sales.

Closely related to this issue is **capital employed** – calculated by adding up the value of all the assets in a company like buildings and machinery. However, a firm may have a high level of capital employed but low output compared to a business with a high number of employees but little capital employed.

**Value of output** is calculated by multiplying market value of the product by the level of output

Value of output = market value of the product x the level of output

So if we collect 10,000 oranges which the Yummy Oranges sells for $1 each the value of output is $10,000.

However, we can't be sure that all the oranges will be sold or the prices might change – which limits the accuracy of this figure.

**★★★Top Tip ★★★**

Usually comparing business size it's best to compare like with like. So compare orange producers with other fruit producers or microchip manufacturers with other technology suppliers.

**⚠⚠ DANGER! ⚠⚠**

Profit is NOT a measure of business size – if a huge multinational like Netflix makes a loss it doesn't mean that a sole trader hairdresser is a larger organisation as they make a $100 profit

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## 1.3.3 Why some Businesses Grow and others Remain Small

Some companies grow to global domination like the tech giants FAANG, with a combined market capitalization of over $4.1 trillion as of January 2020. Others stay small like your local corner store. 1.3.3. is all about finding out why.

Business growth may not come up too often as a stand alone question, but it is crucial in understanding other concepts. The importance of business growth is often an important part of longer, higher scoring questions.

**Why the owners of a business may want to expand the business**

**Profit** is the easiest one to remember – the bigger a company grows, the more it can sell so the more profit it can make

**Link** Unit 4.2.2 Economies of Scale

**Economies of scale** – as companies grow larger they can cut costs by buying in bulk, and can afford to invest in technology or machinery that lowers the unit cost of each item they produce, cutting costs and increasing profits

**Survival motive** – or reducing risk. As a business grows it can produce different products and it lowers its dependence on one product. For example, if a car rental company expands to also offer van and truck rental it means if there is a downturn in the car rental market they can still rely on revenue from the truck market.

**Market domination** – as companies grow they have greater market share and great control of the market. For example if a coffee shop in a small town has a number of branches it can have a large influence over setting the price of a cup of coffee.

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**Different ways in which businesses can grow**

For IGCSE two different examples of how a business can grow is sufficient, so let's keep it simple.

**External Growth** – is when a business expands by taking over or merging with another business. For example when if our coffee shop takes over a competitors coffee shop and then runs it as its own

**Internal Growth** (or Organic growth) is when a company expands by not taking over another business, but by making another outlet or adding another service. So if Ed's coffee expands by finding another location, redecorating, employing staff and starting operating.

External Growth is quicker but riskier and needs higher capital investment

It's more expensive to buy an existing business than expand your own operations from scratch, but much quicker, as the business is already running and has a customer base and suppliers. We'll look at this a little further in the next section.

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**Problems linked to business growth and how these might be overcome**

As growth is a major change in how a business operates, the disruption brings challenges (or growing pains). Again, this is less likely to be a stand alone question and is more likely to be part of a larger question.

We'll look at two examples or problems linked to growth and how they could be overcome.

**Link** Unit 2.4 Communication

**Communication** – as business grows more people are employed in more locations, it becomes increasingly difficult to ensure everyone is getting clear messages from the top and for management to know what is going on in every part of the business.

To overcome this businesses can set up clear communication channels with the assistance of modern technology (email and instant messaging) to keep all staff updated. We'll look at this more in Unit 2.4.

**Finance** – expansion involves a high capital cost which puts pressure on a company's finances and cash flow.

The solution can be to expand more slowly, and ensure that there is a suitable long term source of finance.

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**Why some businesses stay small**

For some businesses less is more, but for others expansion is never an option because of lack of capital. In this section we find out the different reasons why some businesses stay small.

**Owner's objectives** – some business owners start their own business as they want to have control over their lives. If a business expands it will involve more responsibility, stress and risk and a higher workload. So they stay small to enjoy a greater work life balance

**Access to capital** – some business owners can't expand even if they wanted to because they can't get a bank loan or find an investor to finance business growth. This is particularly the case in the developing world where there are millions of small business owners who can't expand because of high interest rates or they lack the assets required for collateral.

**Contact with customers** – For many small business owners what makes them successful and what motivates them is the close relationship with customers. If for example a yoga teacher expanded to employ other teachers and run a larger yoga school this would be she would spend less time giving a personalised service to her loyal customers and more time in the office controlling and organising.

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## 1.3.4 Why some (new or established) Businesses Fail

The business world is tough, and for all the business success we hear about, there are also millions of failures. The failure rate (where businesses go bankrupt or give up) is about 50% after 5 years in the USA. So there is only a 1 in 2 chance of any business making it to their 5th birthday.

Why does this happen? Let's look at the top 3 reasons

**Lack of management skills** – business managers have to be experts in finance, marketing, operations and all aspects of the business. It is very difficult to master every part of business and mistakes or bad choices can lead to failure.

Start ups are particularly vulnerable to this as they are just starting out and lack the experience or expertise of competitors, and will inevitably make mistakes.

**Changes in the business environment** – changes in the business environment can effect the whole economy like a recession, where the economy gets smaller.  Changes in the business environment may also just effect a small section of the economy. For example, online shopping has made it very difficult for ordinary "bricks and mortar" shops to compete and many have closed down as they can't compete on price and convenience with Amazon and Alibaba.

**Lack of finance/liquidity** – startups often underestimate how much money they will need to survive, and it can be a real challenge to predict sales accurately. If revenue is lower than costs the business will ultimately fail.

More established companies can base their sales forecasts on previous results.

All companies will fail if they don't have enough money coming into the business to be able to pay their short term debts or cash flow.

**Link** Unit 5.2 Cash Flow