Adding Value

The process of adding value involves doing something to a product to higher its price. For example: ready-grated cheese is more expensive than a block of cheese. Products that are protected by patents can be used to add value.

Primary Sector	Secondary Sector	Tertiary Sector
It is hard to add value to products here as they are often the same (oil, coal, gas, etc)	This sector is manufacturing and adds the most value (~~eg:~~e.g.: Walkers v Tesco Value)	Effective marketing can make products stand out here (~~eg:~~e.g.: M&S)

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Business Plans

A business plan sets out how a business idea will be financed, marketed and put into practice. It is likely to be essential in getting funding from a bank because they will need to see how well a business idea is thought through and how financially viable it is.

It is a great idea to create a business plan because of the following…

- It gives directions
- It helps make decisions about resources that are needed
- It helps to measure success

A good business plan should contain…

- How you are going to develop your business
- How you will manage your finance

Any business plan is only as good as the information on which it is based. It is a good guide, but is only a plan.

Benefits	Problems
It makes the entrepreneur consider every aspect of the start-up so they can try to eliminate failures	The BP is only a plan and does not guarantee success. For example: sales may be lower than predicted
It makes the entrepreneur aware of what skills they are missing so that they can hire an expert	If the plan is too rigid some problems may arise. It must be flexible to adapt to market changes
Venture capital may be available to the business if investors like the business plan	High sales expectations may cause overspending in other areas such as stock and staffing

Legal Structures

The legal structure of a business is crucial in determining how seriously the owners will be financially impacted if things go wrong. It also has an effect on the taxation levels that the business and owners need to pay.

In **Unlimited Liability** the owners of a business are fully responsible for any debts incurred, even if this requires them to sell their personal assets or possessions. There are two types of businesses that have unlimited liability…

- Sole traders
- Partnership

A **Sole Trader** is someone who owns and operates their own business. A sole trader can have employees, but they must take all the final decisions about running the business.

Advantages of Sole Traders	Disadvantages of Sole Traders
They make all the decisions and keep all the profit	The owner is the only one responsible if it fails
There are no administrative costs to pay	There are long hours of work involved
They are confidential as accounts aren't published	Becoming ill causes problems running the business

A **Partnership** is where 2-20 people start their own business with the goal of making profit. Trust is vital.

Advantages of Partnerships	Disadvantages of Partnerships

- Inferior goods
  the demand for these falls as the economy grows. As we get wealthier we prefer to buy branded products instead of home-brand ones

Of course, if the economy is struggling luxury goods quickly vanish and inferior goods become more popular.
The **Actions of competitors** plays a big influence on demand. For example, the demand for a Ryanair flight to Dublin doesn't just depend on the price of the flight or customer~~s~~ incomes but the prices of rival flights too.
A firm's own **Marketing objectives** may also play a part in the demand for a product or service.
Seasonal factors are the biggest influence on demand for some businesses. For example: Ice cream sales will boom in the summer whereas the coat market will be more successful in the winter.

Location

One of the most important factors influencing the success of a business is its location. This makes good locations with good infrastructure very expensive, and small businesses often struggle to compete.
Factors affecting the choice of location…

- The cost of land
  a business who's products are price sensitive need to keep costs down so a cheap location may help
- Space
  is there room for expansion? This should be a consideration in case the business does well
- Government grants
  financial incentives that are offered by the government may influence the decision on location
- Accessibility to the market
  businesses that operate on the internet may not need to worry about this factor but hairdressers and such will benefit from being close to their target market
- Accessibility of suppliers
  businesses that use JIT will benefit from being close to suppliers due to shorter deliveries
- Cost of labour in the location
  locating in a high area of unemployment may help to keep costs down, but will the workforce have the required skills?
- Infrastructure
  the provisions available in a certain area, for example transport links and telecommunications. Online businesses such as Amazon and Play will need to be in areas with sufficient transport links.

Sources of Finance

A source of finance is the term used to describe where a business gets its money from. Almost all new businesses will need money to invest before it can start operating, including the following…

- Capital investments such as machinery, equipment and property
- Money for running the business (bills, wages, etc.)

Businesses will also need to be able to raise money for other reasons such as expansion of premises, machinery and employees, to buy more produce for large orders, or for more external reasons such as a dip in the economy. The amount of finance available to a business will depend on:

- The type of business
  a sole trader is somewhat restricted to the amount they can put into a business from their own resources. A limited company will be able to raise share capital in addition to being able to borrow. A balance between equity (own money) and debt (loans) should be around 50:50
- The stage of development of the business
  new businesses will have a harder time raising finances than a business that is already established
- The state of the economy
  if the economy is booming there will be higher business confidence and therefore more money