

Enterprise: how an idea becomes a business

AS Level 1.1.1 Business activity · 1.1.2 Entrepreneurs and intrapreneurs · 1.1.3 Business plans

Dr Moaz Tariq · Cambridge International AS & A Level Business 9609

Running case: Nexa Refill, Lahore · 60 minutes

How this topic is examined

Paper 1 · Business concepts · 40 marks

Define the term... [2] · Explain one/two... [3]

Analyse one way... [5]

Essay choice: (a) Analyse two... [8]

(b) '...' Evaluate this view [12]

Paper 2 · Business decision-making · 60 marks

Two cases with line numbers and tables

Identify [1] · Explain the term... (line x) [3]

Calculate [3] · Explain one... [3]

Analyse two... [8] · Evaluate... [12]

Typical questions on this topic

Define the term opportunity cost / entrepreneur / intrapreneur. [2]

Explain one benefit to a business of having a business plan. [3]

Analyse one way a business might fail as a consequence of lack of finance. [5]

Analyse two ways business enterprise can help the development of a country. [8]

'Risk-taking is the most important quality needed by an entrepreneur...' Evaluate this view. [12]

By the end of this lecture you can...

- 1 Explain the purpose of business activity and the four factors of production.
- 2 Calculate and explain added value, and explain scarcity, choice and opportunity cost.
- 3 Analyse why businesses succeed or fail in a dynamic environment, and their geographical scope.
- 4 Explain the qualities and roles of entrepreneurs and intrapreneurs, and the barriers they face.
- 5 Distinguish risk from uncertainty, and explain the role of enterprise in a country's development.
- 6 Evaluate the usefulness of a business plan, using case evidence.

Starter: what do you already know?

- Q1** Name the four factors of production.
- Q2** A café buys a cake for \$2 and sells it for \$5. What is the \$3 called?
- Q3** Is the \$3 the café's profit? Why or why not?
- Q4** Name one famous entrepreneur and one quality they show.
- Q5** You have \$1000: a new laptop or a course. You choose the laptop. What is the opportunity cost?

Nexa Refill: growing fast, but is it growing well?

The situation

Amina started Nexa Refill as a sole trader in Lahore.

It sells concentrated, low-waste cleaning liquids with a refill service to households and hotels.

She has PKR 600,000 to spend, and a hotel order that must be paid for before the hotel pays.

What should she do with the money?

Indicator	Year 1	Year 2
Sales revenue	PKR 2.4m	PKR 5.1m
Average paid workers	3	8
Bottles refilled	18,000	42,000
Net profit	PKR 0.32m	PKR 0.46m
Homes / hotels served	410 / 1	760 / 2
Owner's capital	PKR 1.1m	PKR 1.1m

Revenue more than doubled. Did profit? Did the owner's capital?

Case brief: Nexa Refill

Amina founded Nexa Refill in Lahore with PKR 1.1m of her own savings. Nexa mixes concentrated cleaning liquids, fills reusable bottles and runs a refill and collection service for households and hotels.

Each 500 ml refill sells for PKR 480. Bought-in ingredients and the cap cost PKR 170. Labour and delivery (PKR 95), selling charges (PKR 55) and overheads (PKR 80) take most of the rest.

A hotel wants an order that needs PKR 700,000 of ingredients and bottles. The hotel pays 45 days after delivery. A customer-service worker has designed a returnable hotel dispenser and wants to test it.

Amina has PKR 600,000. She can buy a second mixing tank, hire a hotel sales team, fund the dispenser trial, or keep the money as a cash reserve. Her bank wants a business plan before it lends anything more.

Business activity and the factors of production

Business activity the organised use of resources to produce goods and services that satisfy needs and wants.

Land

natural resources and sites:
water, the premises site

Labour

effort and skills: mixers,
drivers, sales staff

Capital

man-made resources: tanks,
scales, bicycle, laptop (not
money)

Enterprise

organising the other three
and taking the risk: Amina

Purpose: satisfy wants and earn a reward. Profit pays owners and funds growth, but a business may also aim for survival, growth or social and environmental goals. Nexa's purpose: convenient cleaning with fewer single-use bottles, at a profit.

Added value is not profit

Added value selling price – cost of bought-in materials and components.

Measure	Nexa calculation	Result
Added value	480 – 170	PKR 310
Profit before tax	480 – (170 + 95 + 55 + 80)	PKR 80
Difference	labour, selling, overheads	PKR 230

How to add value

Branding · design · convenience · quality · speed · customisation · packaging · service. Nexa: reusable bottles, hotel-sized deliveries, a collection system. Customers must value the feature enough to pay for it.

Scarcity, choice and opportunity cost

Opportunity cost the benefit of the next best alternative given up when a choice is made.

Mixing tank
more reliable output

Hotel sales team
more hotel customers

Dispenser trial
an innovation

Cash reserve
pays bills while the hotel
delays

Scarcity forces choice

Wants are unlimited, resources are limited. Nexa's PKR 600,000 can only be spent once.

The opportunity cost is NOT PKR 600,000: it is the benefit of the best option Amina does not choose. It changes as the alternatives change.

Check 1

1

Define added value.

Answer: Selling price minus the cost of bought-in materials and components.

2

Nexa's added value is PKR 310 but profit is PKR 80. Why?

Answer: Labour, selling charges and overheads must also be paid out of added value.

3

Is "capital" as a factor of production the same as money?

Answer: No: it is man-made resources such as machinery; money is finance.

Why businesses succeed or fail

Success is more likely with...

- + understanding customer needs
- + cost control and enough cash
- + capable leadership and quality
- + adapting to change

Failure can come from...

- weak demand, poor quality
- weak management, high costs
- overexpansion, lack of finance
- not responding to change

Profit is not cash: Nexa pays PKR 700,000 for ingredients now, but the hotel pays 45 days later. If Amina cannot finance that gap, production stops, even though the order is profitable.

A dynamic environment and geographical scope

Dynamic business environment

Technology, competition, tastes, laws and the economy change all the time. Change creates opportunities (hotels want refills) and threats (new water rules raise costs).

Local

one town or city
e.g. a repair shop

National

across one country
e.g. a bakery in four regions

International

exports, produces at home
e.g. a firm selling to three
countries

Multinational

produces in more than one
country
e.g. a retailer with stores abroad

Watch out: exporting alone does not make a business multinational. It must produce or operate in more than one country.

Entrepreneurs

Entrepreneur identifies an opportunity, organises resources to start or develop a business, and accepts the risk of loss.

Risk-taking

Amina invested PKR 1.1m of savings

Creativity

a refill model, not just a product

Determination

long hours, setbacks

Self-confidence

convincing hotels and banks

Communication

suppliers, staff, customers

Role in starting a business

Research demand · choose products · raise finance · find premises · meet safety rules · recruit · decide how to sell.

Entrepreneurs also bear opportunity cost: Amina gave up a salary, savings and leisure time.

Check 2

1

Give two reasons why a profitable business might fail.

Answer: Lack of cash/working capital; overexpansion; customers paying late; high debt.

2

A firm exports to three countries but produces only at home. Is it multinational?

Answer: No: it is international/exporting. An MNC produces in more than one country.

3

Give two qualities of a successful entrepreneur.

Answer: Risk-taking, creativity, determination, self-confidence, communication.

Intrapreneurs: enterprise inside a business

Intrapreneur an employee who acts entrepreneurially inside an existing business, developing new ideas, products or processes.

Nexa's intrapreneur

A customer-service worker designs a returnable hotel dispenser, tests it with one client and redesigns the refill schedule.

Uses Nexa's resources; does not bear the financial loss.

Why it matters

- + Keeps an established business innovative
- + Less packaging, happier hotels
- Needs time, permission, recognition and tolerance of failure

Exam link: "Intrapreneurship is the most important factor for success..." is a 12-mark Paper 1 view to evaluate. Weigh it against finance, leadership and demand.

Barriers, risk, uncertainty and development

Barriers to entrepreneurship

Finance and collateral · missing skills · licences and rules · weak infrastructure · competition · low customer trust

Risk vs uncertainty

Risk: outcomes and chances can be estimated (a 60% chance a promotion lifts sales).

Uncertainty: cannot be measured (a new law, a new rival).

How enterprise helps a country develop

Jobs and incomes · tax revenue for public services · innovation and new products · competition lowers prices · exports earn foreign currency · work for local suppliers (Nexa buys bottles, transport and design locally)

Business plans

Business plan a written document setting out objectives and how they will be achieved, with marketing, operations, HR and financial forecasts.

Executive summary
the offer and funding
request

Objectives
e.g. 1,200 households in
two years

Market research
customers, rivals,
demand

Operations and HR
premises, equipment,
staff

Financial forecasts
sales, costs, cash flow,
break-even

Benefits

- + Needed to obtain finance
- + Tests assumptions before money is spent
- + Sets targets to monitor progress

Limitations

- Forecasts may be wrong
- Cannot remove uncertainty
- Takes time; can give false confidence

Applying it to Nexa Refill

Concept	What the case shows	What it means
Added value	PKR 310 per refill, profit only PKR 80	Costs beyond materials matter
Opportunity cost	PKR 600,000: tank, sales team, dispenser or reserve	The best option rejected is the cost
Failure risk	PKR 700,000 paid now, hotel pays in 45 days	Cash, not profit, could stop Nexa
Enterprise	Amina risks savings; a worker designs a dispenser	Entrepreneur and intrapreneur together

Check 3

1

Define the term intrapreneur.

Answer: An employee who acts entrepreneurially inside an existing business.

2

Give one difference between risk and uncertainty.

Answer: Risk can be measured or estimated; uncertainty cannot.

3

Give one benefit and one limitation of a business plan.

Answer: Helps obtain finance / forecasts may be inaccurate.

Back to Nexa: make the decision

A

Buy a second mixing tank for more reliable output

B

Hire a hotel sales team to win more contracts

C

Fund the worker's returnable dispenser trial

D

Keep PKR 600,000 as a cash reserve for the hotel order

Discuss: Which ONE option should Amina choose? Justify it, and name the opportunity cost.

Use the case: PKR 700,000 paid now, hotel pays in 45 days, profit up only 44%, the bank wants a plan.

Judge: what could make Nexa fail first: no cash, no capacity or no customers?

How you earn the marks



Define	[2]	Full, precise definition; an example alone is not enough
Identify	[1]	One valid point
Explain	[3]	AO1 1 + AO2 2: one point, developed (in the case for Paper 2)
Analyse	[5]	AO1 1 + AO2 2 + AO3 2
Analyse two...	[8]	AO1 2 + AO2 2 + AO3 4 (levels): two developed chains
Evaluate	[12]	AO1 2 + AO2 2 + AO3 2 + AO4 6: two sides, then a supported judgement in context

Worked answer: Analyse two... [8]

Exam-style question Analyse two qualities that Kofi will need to be a successful entrepreneur. [8]

The business: Kofi plans to open a bicycle repair shop in a small town. He will use \$6000 of his own savings. A national chain has just opened a branch nearby.

Quality 1: Risk-taking: Kofi must put his \$6000 of savings into the shop, so he can start without a loan, but he must accept he could lose it all, which keeps him focused on making the shop profitable.

Quality 2: Creativity: he must offer something the national chain does not, such as same-day repairs, which gives customers a reason to choose him, so he wins repeat business despite the bigger rival.

Level 2 analysis: each quality needs a full chain to an effect on Kofi's business, not just a list.

Worked answer: Evaluate this view [12]

Exam-style question 'Intrapreneurship is the most important factor that will ensure the success of a computer games business.' Evaluate this view. [12]

Note: This is a Paper 1 question: no case. Apply your answer to computer games businesses, where tastes change fast and new titles drive sales.

Intrapreneurs develop new ideas inside a business; in games, staff who create new titles or features keep players interested, so sales keep coming as old games lose popularity.

But finance and marketing matter too: a new game can cost millions to develop and launch, so a great idea fails without the funds to finish it or the promotion to sell it.

Overall, intrapreneurship is the most important factor because games depend on constant innovation, but only if the business has the finance and leadership to turn ideas into finished games. It depends on the size of the business.

AO4: a judgement that says what it depends on. The full answer develops each side further.

Where students lose marks

X Added value = profit

Added value must still pay wages and overheads.

X Opportunity cost = money spent

It is the benefit of the next best alternative.

X Capital = money

As a factor of production it means machinery and buildings.

X Exporting = multinational

An MNC produces in more than one country.

X Risk = uncertainty

Risk can be measured; uncertainty cannot.

X One-sided “evaluate”

Weigh both sides, then judge with “it depends on...”.

Exam drill: try it under time

Exam-style question

Maya runs MP, a print shop. She sells 2000 posters a year at \$12 each; paper and ink cost \$5 per poster. She works alone and turned down a job paying \$15 000 a year to start MP.

- (a) Explain the term opportunity cost. [3]
- (b) Calculate MP's total added value for the year. [3]
- (c) Analyse two ways MP could increase its added value. [8]

Timing rule

About 1.5 minutes per mark.

- (a) + (b): 9 minutes
- (c): 12 minutes

Swap and mark each other's answers with the AO1–AO4 grid.

Homework: the Part 1 practice paper.

Exit ticket

- 1 Define the term intrapreneur. [2]
- 2 Calculate Nexa's added value per refill, and say why it is not profit.
- 3 Which option should Amina choose for the PKR 600,000, and what is the opportunity cost?

Next lecture: business structure and size of business (AS 1.2–1.3).

Summary: key terms from Part 1

Factors of production

Land, labour, capital,
enterprise

Added value

Price – bought-in materials

Scarcity

Limited resources, unlimited
wants

Opportunity cost

Next best alternative
forgone

Dynamic environment

Constant change

Multinational

Produces in 2+ countries

Entrepreneur

Spots opportunity, takes
risk

Intrapreneur

Entrepreneurial employee

Risk vs uncertainty

Measurable vs not
measurable

Business plan

Objectives, research,
forecasts