

1.4 Making the business effective

Key word	Definition
Limited liability	The level of risk is limited to the amount of money that has been invested in the business or promised as investment
Assets	Property, such as a house or car
Incorporated	A business that is registered as a company, so the business and the owners are separate in the eyes of the law
Unlimited liability	The level of risk goes beyond the amount invested, so the personal assets of the business owner can be used to pay off the business's debts
Unincorporated	A business that is not registered as a company, so the owners and the business are the same body in the eyes of the law
Sole trader	A type of unincorporated business that is owned by just one person
Partnership	A business that is owned by a group of two or more people who share the financial risk, the decision-making and the profits
Deed of partnership	A legal document that defines the terms of a partnership
Private limited company	An incorporated business that is owned by shareholders
Shareholders	Investors who are the part-owners of a company. They invest in the business in return for a share of the profits and voting rights at the AGM
Franchise	When one business gives another business permission to trade using its name and products in return for a fee and share of its profits
Franchisor	An established business that gives permission to an entrepreneur to trade using its name and products
Franchisee	An entrepreneur who pays a fee to trade using the named and products of an established business
Labour	Workers or the workforce
Footfall	The number of people passing a particular location within a given time period
Demographics	The characteristics of the population, such as gender, age, religion and wealth
National Living Wage	The minimum amount that a business is legally allowed to pay its employees
Bulk-gaining product	A product that is bigger than the raw materials used to make it, such as a bicycle
Bulk-reducing product	A product that is smaller than the raw materials it uses, such as paper
Convenience good	A product that a customer buys frequently or routinely
Shopping good	A product that a customer takes time to

	consider before purchasing, by looking at or weighing up a number of options before choosing one
Topography	The physical characteristics of a landscape, such as being flat or hilly
Inertia	A tendency to keep things as they are rather than change
E-commerce	Using the internet to carry out business transactions
M-commerce	Using mobile technologies, such as smartphones and tablets, to carry out business transactions
Multi-channel	Using a number of methods to reach a customer, including physical stores and e-commerce
Undercut	Sell the same product for a lower price than competitors
Price war	When competing businesses try to undercut each other by lowering prices. This leads to an ongoing battle where only the customer benefits, not the businesses
Product differentiation	Designing a product with some unique features that distinguish it from similar products sold by competitors
Brand loyalty	A customer's willingness to buy a product from a particular business rather than from its competitors
Market share	The percentage of the total sales of a product in a market that is taken by one business in that market
Recession	A period of economic decline characterised by the fact the economy has failed to grow for 6 consecutive months
Promotional mix	The combination of promotional activities that a business uses to make customers aware of a product, with the aim of increasing sales
Business plan	A document that outlines how an entrepreneur is going to set up a new business
SMART objectives	Objectives that are Specific, Measurable, Achievable, Realistic, and Time-bound
Market research	The process of gathering information about the market and customers' needs and wants in order to help inform business decisions, including product design and marketing
Target market	That group of people that a business has identified as potential customers
Revenue	The money that will come into a business from sales
Profit	The amount of revenue left over once costs have been deducted
Cash flow	The amount of money coming in and going

	out of the business and the timing of its movement
Budgets	Pre-set financial targets for a business to achieve, like a sales budget, or abide by, such as an expenditure budget, in a given period of time
Negative cash balance	Occurs if the business's opening balance results in the negative amount at the end of the period, leading to a cash shortage
Overdraft	A facility provided by a bank allowing a current account holder to withdraw more money than there is in the account
Bank loan	A fixed sum of money lent by a bank to an individual or a business for a specific purpose, which must be repaid with interest in set payments over an agreed period of time