

# A Level Business Model Answer

## Evaluate the importance of profit to a small business start-up. (20 marks)

**Structure used: Introduction + 3 PEACH paragraphs + DISCO-M final judgement**

*PEACH = Point, Effect, Apply, Context, However | DISCO-M = Depends on, Impact, Short-term/Long-term, Context, Objectives, Most important factor*

### Planning framework

Section	Main argument	Application focus	Evaluation focus
<b>Intro</b>	Define profit and set up the debate	Small start-up with limited resources	Profit is vital, but not always the first priority
<b>PEACH 1</b>	Profit supports survival and viability	Costs such as rent, wages, stock and marketing	Depends on early-stage demand and cash flow
<b>PEACH 2</b>	Profit provides finance for growth	Retained profit used for equipment, staff or promotion	Depends on size/timing of profit and access to finance
<b>PEACH 3</b>	Profit rewards risk and attracts finance	Owner savings, personal risk and lender confidence	Cash flow, survival and customer base may matter more initially
<b>Conclusion</b>	Make a supported judgement	Start-up context throughout	Use DISCO-M to weigh the answer

### Model answer

**Introduction:** Profit is the surplus left after a business deducts total costs from total revenue. For a small business start-up, profit is likely to be very important because it can indicate that the business idea is commercially viable and that the entrepreneur is not simply relying on personal savings, overdrafts or loans to stay open. However, the importance of profit should not be overstated in the earliest stages of trading, because a start-up may initially prioritise survival, customer awareness and cash flow before it can realistically generate meaningful profit.

#### Each main paragraph below follows PEACH

*Point -> Effect -> Apply -> Context -> However*

#### PEACH Paragraph 1: Profit helps survival and shows viability

**P - Point:** One reason profit is important to a small business start-up is that it shows the business model is beginning to work.

**E - Effect:** If the start-up can generate revenue that is consistently higher than its costs, it is more likely to survive because it can cover day-to-day expenses and reduce its dependence on borrowing.

**A - Apply:** For example, a new independent coffee shop, mobile car valeting business or online clothing start-up will have early costs such as stock, equipment, website fees, rent, insurance and local marketing. If profit is being made after these costs, this suggests that customers value the product enough to pay a price above the cost of supplying it.

**C - Context:** This is especially important for a small start-up because it is likely to have limited cash reserves, a limited trading history and less bargaining power with suppliers than an established competitor. Profit can therefore provide evidence that the start-up has a realistic chance of moving beyond the high-risk launch stage.

**H - However:** However, profit may not be immediate. A start-up may deliberately accept low or negative profit at first while it builds awareness, encourages trial, gains repeat customers or invests in equipment. Therefore, profit is important, but in the first few months survival and cash flow may be more urgent indicators of whether the business can keep operating.

#### PEACH Paragraph 2: Profit provides finance for growth

**P - Point:** Profit is also important because it can provide an internal source of finance for growth.

**E - Effect:** If profit is retained in the business, the start-up can reinvest it into activities that improve future performance, such as increasing capacity, improving quality, expanding promotion or taking on extra staff.

**A - Apply:** For instance, a start-up bakery could use retained profit to buy a larger oven, improve packaging or pay for targeted social media advertising. Similarly, a small online tutoring business could reinvest profit into a better booking system, subject resources or paid search advertising to attract more students.

**C - Context:** This is significant because many start-ups struggle to raise external finance. Banks may be cautious because the business has no long record of sales, limited assets to offer as security and a greater risk of failure. Retained profit therefore gives the owner more control and reduces interest costs compared with relying heavily on loans.

**H - However:** However, the usefulness of profit as a source of finance depends on how much profit is actually made and how quickly it is received as cash. A small start-up may only make modest profit, which may not be enough to fund major expansion. In some cases, external finance or owner capital may still be needed if the business wants to grow quickly.

### **PEACH Paragraph 3: Profit rewards risk and attracts confidence, but cash flow may matter more**

**P - Point:** A further reason profit is important is that it provides a reward for enterprise and may improve confidence among lenders, investors and the owner.

**E - Effect:** A profitable start-up is likely to appear less risky because it suggests that the entrepreneur has found a market, controlled costs and set prices effectively. This may make it easier to secure future finance or persuade the owner to continue investing time and effort into the business.

**A - Apply:** This matters because many small business owners risk their own savings, give up paid employment and work long hours without the security of a regular salary. If the business eventually produces profit, the owner gains a return for taking that risk. Profit may also reassure a lender that future repayments are more likely to be affordable.

**C - Context:** However, a start-up's financial position is often fragile. Customers may pay late, suppliers may demand upfront payment and the owner may need to hold stock before revenue is received. This means the business can look profitable on paper but still face serious liquidity problems.

**H - However:** Therefore, profit is not the only priority. Cash flow may be more important in the short term because a business can survive a temporary lack of profit, but it cannot survive if it cannot pay wages, suppliers or rent when they fall due. Non-financial objectives, such as building a loyal customer base or establishing a strong reputation, may also be important during the launch phase.

## Final judgement using DISCO-M

**Overall judgement:** Profit is highly important to a small business start-up, but its importance depends on the stage of the business and the financial pressures it faces.

<b>D - Depends on</b>	The importance of profit depends on whether the start-up is in its first few months of trading or whether it has moved into a more established stage. In the launch phase, low profit may be acceptable if the business is building demand and learning what customers want.
<b>I - Impact</b>	The impact of profit can be significant because it improves survival chances, provides a reward for the entrepreneur and gives the business money to reinvest without increasing debt.
<b>S - Short term vs long term</b>	In the short term, cash flow is likely to be more important because bills must be paid on time. In the long term, however, profit becomes essential because a business that never makes profit will eventually struggle to justify continued investment.
<b>C - Context</b>	The context of a small start-up matters because it usually has limited reserves, little brand loyalty and weaker access to external finance than larger competitors. This makes profit valuable, but also harder to achieve quickly.
<b>O - Objectives</b>	The owner's objectives also affect the judgement. If the aim is survival, independence or building a local reputation, immediate profit may be less important. If the aim is rapid growth, profit and retained profit become more central.
<b>M - Most important factor</b>	The most important factor is whether the start-up can balance profit with cash flow. A profitable start-up has a stronger long-term future, but without enough cash it may fail before profit has time to develop.

**Final answer to the question:** Profit is essential for the long-term success of a small business start-up because it proves commercial viability, supports reinvestment and rewards risk-taking. However, it is not always the most immediate priority. In the early stages, cash flow, survival and customer demand may matter more because the business must stay open long enough to become profitable. Therefore, profit is very important, but its importance increases as the start-up moves from launch and survival towards stability and growth.

## Why this would access the higher levels

- Knowledge: accurate use of profit, retained profit, cash flow, survival and finance terminology.
- Application: repeated reference to small start-up constraints such as limited reserves, owner savings, weak trading history and early marketing costs.
- Analysis: clear chains of reasoning explaining how profit affects survival, reinvestment, confidence and growth.
- Evaluation: regular “however” counterbalances and a final DISCO-M judgement that weighs short-term and long-term priorities.