CHAPTER 1: BUSINESS ACTIVITY

Factors of production :

Resources needed to produce goods or services:

1. Lands: cover all the natural resources provided by nature
2. Labour: number of people available to make products
3. Capital: finance , machinery and equipment needed for the manufacture of goods
4. Enterprise: skill and risk-taking ability of the person who brings the other resources or factors of production together to produce a good or a service.

Limited resources: The need to choose

Opportunity Costs: Is the next best alternative given up by choosing another aspect

Specialization: The best use of limited resources:

Specialization: occurs when people and businesses concentrated on what they are best at

Factor of production is in limited supplies.

Nearly most workers specialised in only one skill.

Specialization very common because:

1. Specialised machinery and technology are now widely available
2. Increasing competition means that businesses have to keep costs low
3. Most people recognized that higher living standards can result from being specialised

Specialization and the division of workers

Adv	Dis
Workers are trained in one task and specialized with in this -this increase the efficiency and output	Workers can become bored of doing just one job - efficiently might fall
Less time is wasted moving from one workbench to another	If one worker is absent and/ none else can do the job, production can be stopped

Purpose of business activity

Issues:

- People have unlimited wants
- The four factors of production are in limited supply
- Scarcity results from limited resources and unlimited wants
- Choice is necessary when resources are scarce This leads to opportunity cost
- Specialization improves the efficient use of resources

Purpose of businesses: combine the factors of production to make products which will satisfy people's wants

Added value: Is the difference between the selling price of a product and the costs of bought in materials and components

How can they increase it ?

a) Increase the selling value, but manien the cost of the resources and components at the same value
b) Reduce the cost of the resources and components needed to create the product and maintain the selling price at the same value

CHAPTER 2: CLASSIFICATION OF BUSINESSES

Stages of economic Activity

1. Primary Stage: This stage involves earth natural resources.
2. Secondary stage: This stage involves taking the natural resources provided by the primary sector and converting them into manufactured products.
3. Tertiary Stage: Involves providing to both consumers and other businesses.

Relative importance of Economic Sectors: Compared by...

1. Percentage of the countries total number of workers employed in each sector
2. Value of outputs of good and services and the proportion this is of total national output

Types of economies

<u>Private Sector/ free market economy:</u>

- Businesses make their own decisions about what to produce, how to produce and how much charge

- Owners put their own money

- Their objective is to make money

pros	cons
Consumers have a lot of choice	Not all products would be available for everybody, especially the poors
High motivation for workers	No government intervention, means uncontrollable economic booms or recessions
Incentive for other businesses to set up and make profit	Monopolies could be set up limiting consumers choice and exploiting them
Competition keeps prices low	

<u>Public Sector/ planned economy</u>

- The government controls all the business

- Government takes the decisions about what to produce, how to produce and how much charge. Their objective is to make it accessible for all the people

- Money is taken from the taxes

Eliminates any waste from competition between businesses	Little motivation for workers
Employment for everybody	The government might produce things people don't want to buy
All need are met (although no luxury goods)	Low incentive for firms (no profit) leads to low efficiency

Mixed economy:
Businesses belong to the private and public sector. Government controls part of the economy
<u>Privatisation</u>
Public businesses are sold to private businesses, because they are more efficient.
Because: main objective is profit and therefore costs must be controlled
Because: private sectors may offer more capital than the public sectors can afford.

pros	cons
New incentive (profit) encourages the business to be more efficient.	Essential businesses making losses will be closed
Competition lowers prices	Workers could be made redundant for the sake of profit
Individuals have more capital than the government can offer.	Businesses could become monopolies, leading to higher price

Chapter 3: Enterprise, business growth and size

Entrepreneur: is the person who organises, operates and takes the risk for a new business venture

Benefits being an entrepreneur	**Disadvantages of being an entrepreneur**
Independence- able to choose how to use time and money	Risk- many new entrepreneurs businesses fail, especially if there is poor planning
Able to put own ideas into practise	Capital- entrepreneur will have to put their own money into the business, and possibly find other sources of material
May become famous and successful if the business growth	Lack of knowledge and experience at starting and operating a business
Able to make use of personal interests and skills	Opportunity cost-lost incomes from not being and employee of another business
May be profitable and the income might be higher than working as an employee for another business	

Characteristics of successful entrepreneurs:

Characteristic	**reason**
Hard working	Long hours and short holidays are typical for many entrepreneur to make their business successful
Risk taker	Making decisions to produce goods or services that people might buy is a potentially risk
Creative	A new business needs new ideas -about products services , ways of attracting customers -to make it different from others exiting firms
Optimistic	Looking forward to a better future is essential - if you think of only failure you will fail
Self confident	Being self confident is necessary to convince other people of your skills and to convince banks, other leaders and customers
Innovative	Being able to put new ideas into practice in interesting and different ways is also important

Why governments support businesses start-ups

Most governments offer support to entrepreneurs, to encourage them to set up a new business.

Because:

1. Reduce unemployment: create jobs
2. Increase competition: business give consumers more choice and compete with another business
3. Increase output: economy benefits from increased output of goods and services.
4. Benefit society: entrepreneurs may create social enterprises which offer benefits to society other than profit and jobs.

Business plan assist entrepreneurs
Bank will guide entrepreneurs for a plan, so as to know if their business will be successful or not. Entrepreneurs will have an idea and will think ahead and plan carefully. They will have to consider:

1. What products/services do they minted to provide and who are they aiming at?
2. What will be their main costs and will enough incomes be produced to cover them?
3. Where will be the firm located at?
4. What Machinery and how many employees are required in the business?

This is because the entrepreneur cannot show they have thought seriously about the future and planned to meet challenges that they will certainly meet.

Comparing the size of a business

1. Number of Employees:
    - Easy to calculate
      Limitations: some firms do not employ much people because of their production method (latest-controlled equipment).
      Should two part time employees who work half of a working week should be considered as 1 or 2 employees?

2. value of output
    - Common and easy way of comparing when both industries sell the same type of good or service
      Limitations: high level of output does not mean that a business is large.

3. Value of sales
    - Often use when comparing size of a retailing business
      Limitations: misleading compare the size of business that sell very differ products

4. Value of capital employed
    - Total value of capital invested into the business

Why do owners want their businesses to grow?

1. Possibility of higher profits for owners.
2. More status/prestige for owners and managers
3. Lower average costs
4. Large share of its market: the total of the market sales is bigger. This gives businesses more influence when dealing with distributors and suppliers, and often attract more customers because of the “big names”

Business growth, 2 types

1. Internal growth

This occurs when a business expands its existing operations. This is a slow means of growth but easier to manage than external growth

2. External growth

This is when a business takes over or merges with another business.

- Merger: two businesses join to form a new one, often under a new name
- Take over: one business buys control of another one

External growth can largely be classified into three types:

1. Horizontal integration:

one firm merges with or takes over another one in the same industry at the same stage of production.

Benefits:

Reduces the number of competitors in the market, since two firms become one.

Opportunities of economies of scale.

Merging will allow the businesses to have a bigger share of the total market.

2. Vertical integration:

one firm merges with or takes over

another firm in the same industry but at a different stage of production. Therefore, vertical integration can be of two types:

Backward vertical integration: When one firm merges with or takes over another firm in the same industry but at a stage of production that is behind the 'predator' firm.

Benefits:

Merger gives assured supply of essential components.

The profit margin of the supplying firm is now absorbed by the expanded firm.

The supplying firm can be prevented from supplying to competitors.

Forward vertical integration: When one firm merges with or takes over another firm in the same industry but at a stage of production that is ahead of the 'predator' firm.

Benefits:

Mergers give assured outlets for their product.

The profit margin of the retailer is now absorbed by the expanded firm.

The retailer can be prevented from selling the goods of competitors.

3. Conglomerate merger/integration:

one firm merges with or takes over a firm in a completely different industry. This is also known as 'diversification'.

Benefits:

allows businesses to have activities in more than one country. This allows the firm to spread its risks.

There could be a transfer of ideas between the two businesses even though they are in different industries. This transfer of ideas could help improve the quality and demand for the two products.

Problems of business growth and how to overcome them

Problem resulting from the expansion	Possible ways to overcome them
Large business, difficult to control	Operate the business in small units
Larger business leads to poor communication	Operate the business in small units
Expansion costs are high and this cause a short of finance	Expand more slowly
Integrating with another business, more difficult than expected	Introducing a different style of management requires good communication with the workforce.

Why do some businesses stay small?

1. Type of industry they operate in

give personal services and therefore cannot grow.
More easy for new firms to set up and this creates new competition.

2. Market size

if the firm operates in areas where the total number of customers is small, such as in rural areas, there is no need for the firm to grow and thus stays small.

3. Owners objectives

not all owners want to increase the size of their firms and profits. Some of them prefer keeping their businesses small and having a personal contact with all of their employees and customers, having flexibility in controlling and running the business, having more control over decision-making, and to keep it less stressful.

Why do some businesses fail?

1. Poor management:

common cause of business failure for new firms. The main reason is lack of experience and planning which could lead to bad decision making. New entrepreneurs could make mistakes when choosing the location of the firm, the raw materials to be used for production, etc, all resulting in failure

2. Failure to plan for change

demands of customers keep changing with change in tastes and fashion. Due to this, firms must always be ready to change their products to meet the demand of their customers.

3. Poor financial management

if the owner of the firm does not manage his finances properly, it could result in cash shortages. This will mean that the employees cannot be paid and enough goods cannot be produced. Poor cash flow can therefore also cause businesses to fail

4. Over-expansion

this could lead to diseconomies of scale and greatly increase costs, if a firms expands too quickly or over their optimum level

5. Risks of new business start-ups

Fail due to the lack of resources, experience, financial, poor planning and inadequate research.

Chapter 5: Business objectives and stakeholders objectives

Business objectives: a short term specific target that are set to help the business achieve its overall aims

Business aim: The long term outcome that is desired from undertaking business activity

Benefits setting objectives:

- They give workers and managers a clear target to works towards and his helps motivate people

- Taking decisions will be focused on : will it help achieve our objectives ?
- Clearing ans measurable objectives help unite the whole business towards goal
- Business managers can compare how the business has performed with their objectives - to see if they have been successful or not

<u>Business objectives :</u>

1. Survival : when a business has recently been set up or when the economy is going through ressesion

2. Profit : when a business is owned by a private individual rather than the government it is usually when a business operates with this objective
   Owners will take a share of this profit
   Profits are needed to:

   - Pay a return to the owners of the business for the capital invested and the risk taken
   - Provide finance for further investment in the business

   Without any profit at all the owners would have to close the business
   Will a business try to make as much profit as possible? They are a danger to this aim, as supposed the firm puts up its prices to generate more profit, and the consumers decide to stop buying. Their profits would decrease in long terms

3. Returns to Shareholders; increase returns to shareholders, to discourage shareholders from selling their shares and it helps managers to keep their job
   Returns to them can be done in two forms;
1. Increasing the profit
2. Increasing the share price

4. Growth: managers and owners may decide to grow in terms of business size usually measured of value of sales or outputs
   Reasons;
   - To make jobs more secured if the business is larger
   - To increase the salaries and the statues of managers as the business expands
   - To open up new possibilities and help to spread the risk of the business by moving onto new products and new markets
   - To obtain a higher market share from growth in sales to obtain cost advantages, called economies of sales from business expansion

5. Increase Market share: is the proportion of total market sales achieved by one business

6. Providing a service to society

Why could business objectives change ?

Internal factors:

- Because of the business performance
- Change in management

External factor

- Changes in market conditions
- Changes in technology
- Actions of competitor
- Changes in legislation