ENTERPRISE (1.1)

(Chapter 1 - AS level 1.1)

The purpose of business activity

A business uses the **factors of production** to create products and provide services that will satisfy the needs and wants of consumers in order to generate profit.

The factors of production are as follows :

- **Labour** : The human effort used to produce goods or provide services to customers
- **Capital** : The finance needed to set up a business, that is used to purchase **capital goods** such as machinery and equipment
- **Land** : The location that a business operates from, as well as the natural resources of nature like oil and water obtained from said land
- **Enterprise** : The risk taking and decision making undertaken by the entrepreneur to bring all factors of production together in order to run a business effectively to produce profit

Consumer goods are the physical and tangible goods sold to the general public – they include durable consumer goods, such as cars and washing machines, and non-durable consumer goods, such as food, drinks and sweets that can be used only once

Consumer services are the non-tangible products sold to the general public – they include hotel accommodation, insurance services and train journeys

Capital goods are the physical goods used by industry to aid in the production of other goods and services, such as machines and commercial vehicles.

The concept of creating/adding value

Creating/adding value means increasing the difference between the cost of purchasing bought-in materials and the price the finished goods are sold for. It requires the effective management of resources.

In order to profit, a business must ensure that the price of a product is more than the cost it took to produce it, and that consumers are willing to pay said price.

Added Value = The selling price of a product - the cost of bought-in materials

Ways of adding value

- **Raising the selling price but keeping the cost of materials the same** - but will consumers still buy or will they find a cheaper option?
- **Purchasing cheaper materials but keeping the price the same -** but will the drop in quality be noticed?
- **Using raw materials more efficiently so there is less wastage and lower cost** - but wont this require more accurate machines and better trained staff? (+ costs)
- **Making your product more desirable by making the packaging nicer**, or **offering additional services** to set it apart from competitors, allowing you to raise the price as well as the quality - but what about the cost of raising the quality?

The nature of economic activity and the problem of choice

The basic economic problem is that humanity has unlimited wants but limited resources, this results in **scarcity**, where the demand for a good or service is greater than the availability of the good or service.

Due to scarcity, people are often forced to make choices. When choices are made it leads to an **opportunity cost,** which is the benefit of the next most desired option which is given up.

For example, if the government only has a certain amount of funds, and they must choose between building a new hospital or fixing the roads on a highway, then the benefits that would come with fixing the roads would become an *opportunity cost* if they choose to build a new hospital instead. (Less accidents, happier drivers etc.)

Business environment is dynamic. This phrase refers to the fact that the environment of business is constantly changing. This means that in order to run a successful, profitable business, one must be able to adapt to the ever changing needs and wants of consumers. Keeping on top of trends and what's popular is vital in remaining competitive.

What a business needs to succeed

- **Adequate factors of production -** enough money to afford materials, enough land to operate on, enough skilled labour to produce and a good entrepreneur etc.
- **Customers -** businesses need customers to purchase goods and services in order to profit, they need profit to justify staying in operation

- **Suppliers** - Businesses need reliable suppliers to supply products/material at a fair price at agreed upon times
- **Government** - to provide a legal framework (laws for the business to operate under), education and in some cases provide financial support. Governments will want to encourage new businesses as it will lead to economic growth

Why many new businesses fail early on

Success with a new business can never be guaranteed. In fact, many new businesses fail within a year of starting their operations. This can be due to the reasons listed below :

- **Lack of record keeping** - not keeping good track of deliveries, bills, hours an employee worked etc.
- **Lack of finance or working capital** - not enough finance to start up operations or not enough working capital for it's day to day operations
- **Poor management skills** - a business requires a leader with the skills necessary to make the right calls, take the right risks and manage activities well
- **Changes in the business environment** - new competitors, legal changes, recession or changes in technology making old tech outdated
- **Competition** - most new businesses are small and struggle to compete with larger rivals who may try to "squeeze them out of business".

The role of the entrepreneur

An **entrepreneur** is someone who takes the financial risk of starting and managing a new venture. They are people who are determined to create their own business, rather than work as an employee for another firm.

This means they have :

- A business idea
- Savings to invest
- Willingness to take risks and accept responsibilities
- Accepted the possible risks of failure

New business ventures started by entrepreneurs can be based on a totally new idea or a new way of offering a service. It can also be a new location for an existing business idea or an attempt to adapt a good or service in ways that no one else has tried before.

Characteristics of successful entrepreneurs

The personal qualities and skills needed to make a success of a new business venture include :

- **Innovative** - able to think out of the box
- **Multi-skilled** - be able to create something, promote it, sell it and keep track of business actions
- **Self-confident** - be sure of themselves and not be afraid of failure
- **Risk takers** - entrepreneurs must take risks to see results, a risk they take is by investing their own savings in the new business
- **Good leaders** - be able to lead, communicate with and motivate employees
- **Committed and self motivated** - setting up and running your own business is no easy task, it requires hard work and a willingness to succeed

Some challenges faced by (new) entrepreneurs

- **Identifying successful business opportunities** - possibly the most difficult part of being an entrepreneur, a new business idea could come from an entrepreneur's hobby or maybe building off of a different business's idea etc.
- **Sourcing capital (finance)** - may not have sufficient funds to finance business, banks and investors are hesitant to loan new businesses as they are seen as risky
- **Determining a location** - It is important to choose a location that will minimise costs and is convenient
- **Competition** - a new business entering an already established market will have to be able to differentiate their business from existing competitors
- **Building a customer base** - a new business can offer good customer service, low prices etc. in order to quickly develop a loyal customer base

The role of business enterprise in the development of a country

All governments around the world create and follow policies that help encourage people to start their own businesses, the reasons for this are as follows :

- **Reduces unemployment -** new businesses create jobs, which means government doesn't have to pay welfare and people will have an overall better standard of living
- **Increases economic growth -** any increase in the output of goods or services will lead to an increase in a country's gross domestic product (GDP)

- **Creates competition for existing firms** - forcing them to be better - higher quality products, lower prices etc.
- **Increases government tax revenue -** governments can tax businesses, the bigger the business becomes the more they can tax (this tax revenue will be spent on roads, schools etc.)
- **May develop and expand into large corporations -** bigger businesses mean more jobs, higher tax and even more GDP

Social enterprises

Social enterprise is a business with mainly social objectives that reinvests most of its profits into benefiting society rather than maximising returns to owners

These forms of businesses are not charities, but they do often have very different goals and aims than a business that is profit driven. These aims are often grouped together into 3 sections and are referred to as the **triple bottom line.** (Economic, social and environment)

- **Economic objectives** - making profits to reinvest back into the business as well as provide some return to owner, mostly more focused on running the business rather than receiving self-gain

- **Social objectives** - providing jobs, supporting minority groups (refugees and the disabled) and just overall helping to give back to the community

- **Environmental objectives -** to protect the environment and to manage the business in an environmentally sustainable way, this can often allow them to charge higher prices as they can market themselves as a sustainable business

Example of a social enterprise

SELCO in India. This social enterprise provides sustainable energy (**environmental obj.**) solutions to low-income households and small businesses (**social obj**.) In one scheme, solar-powered lighting was provided by SELCO to a silkworm farmer who depended on dangerous and polluting kerosene lamps. The farmer could not afford the upfront cost, so SELCO helped with the finance, too. (**social obj.)**