



Cambridge (CIE) IGCSE Business



Your notes

1.1 Business Activity

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- * The Process of Adding Value



Your notes

The Nature of Business Activity

Needs, Wants, Scarcity and Opportunity cost

- Businesses thrive when they are able to **meet customer needs and wants**
 - Needs are considered to be **essential**, e.g. shelter or food
 - Wants are desires which are **not essential**, even if consumers consider them to be essential, e.g. Nike trainers
- Due to the problem of **scarcity**, there is a **basic economic problem**
 - **Choices have to be made** by producers, consumers, workers and governments, about the most **efficient use of resources**
 - Resources, known as the factors of production, are **land, labour, capital** and **Enterprise**
- **Opportunity cost** is the loss of the next best alternative when making a decision
- There is an **opportunity cost** in the allocation of resources:
 - When a **consumer** chooses to purchase a **new phone**, they may be **unable to purchase new jeans**
 - The jeans represent the loss of the next best alternative (**the opportunity cost**)
 - When a **producer** decides to allocate all of their resources to **producing electric vehicles**, they may be **unable to produce petrol vehicles**
 - The petrol vehicles represent the loss of the next best alternative (the **opportunity cost**)
 - When a **government** decides to **provide free school meals** to all primary students in the country, they may be **unable to fund some rural libraries**, which may have to close
 - The libraries represent the loss of the next best alternative (**the opportunity cost**)

The Importance of Specialisation

- **Specialisation** occurs when workers focus on one particular role or task and thereby gain significant skill in doing it
 - It is now more common due to specialised **technology** and **increasing global competition**
- **Specialisation** occurs on several different levels
 - On an **individual** level, through the **division of labour**
 - **Division of labour** is the separation of work processes into tasks that are completed by separate people or groups of people

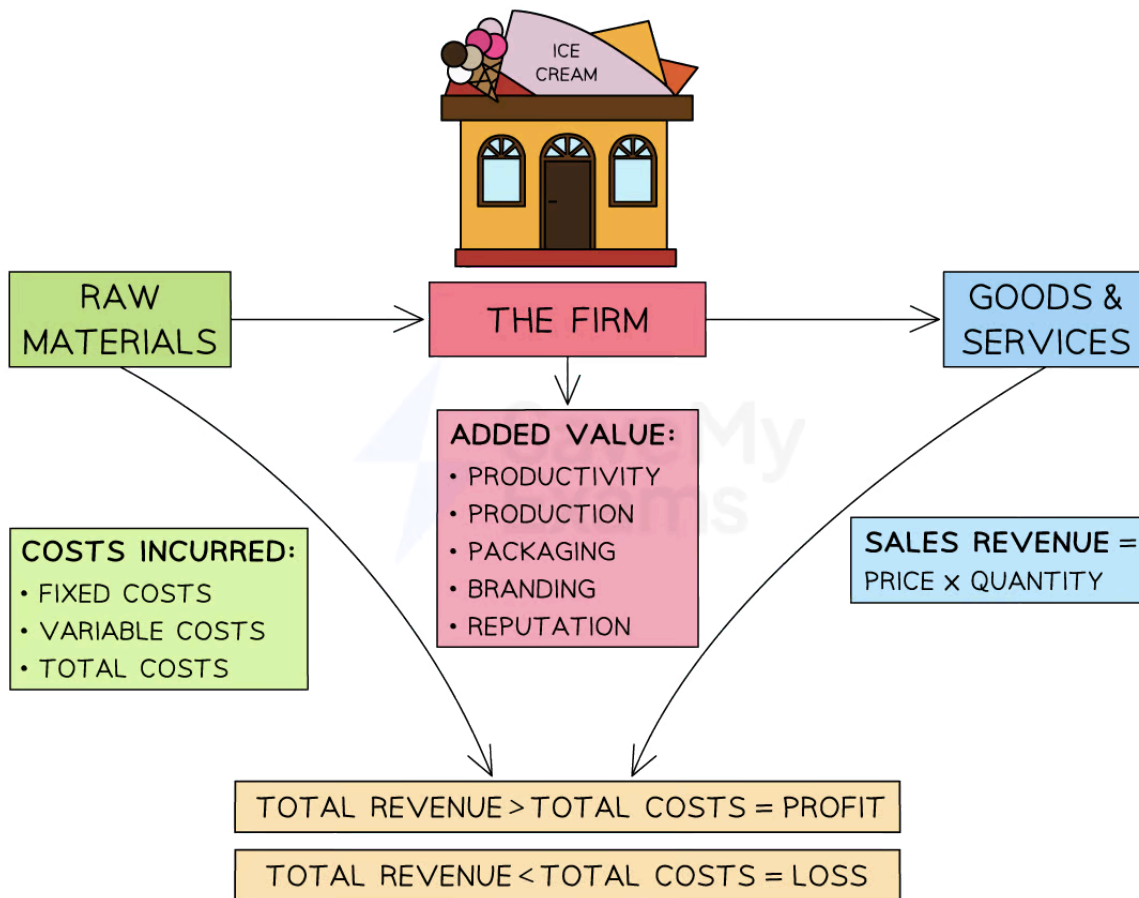


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- On a **business** level, e.g. one firm may only specialise in manufacturing drill bits for concrete work
- On a **regional** level, e.g. Silicon Valley has specialised in the tech industry
- On a **global** level, as countries seek to trade, e.g. Bangladesh specialises in textiles & exports them to the world
- It results in higher **output per worker**, which increases productivity

The Purpose of Business Activity

- The purpose of business activity is to **produce goods or services** that **meet customer needs** while **adding value**



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The purpose of business activity is to take inputs, add value to them, and create products which meet customer needs

To produce goods or services

- The primary purpose of business activity is to **produce goods or services** that satisfy a need or demand in the market
 - Goods are physical products, such as bicycles and T-shirts
 - Services are non-physical items such as hairdressing, tourism and manicures



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Meeting customer needs

- The ultimate goal is to create products that **meet the needs and preferences of customers** and provide value to them
- By meeting customer needs, businesses can **build customer loyalty**, increase brand awareness, and generate revenue

To add value

- The third purpose of business activity is to **add value** to products or services
- Value-added features can **differentiate** products from competitors, create a **unique selling point**, and increase customer satisfaction
 - E.g. A product that is easier to use, has a better design, or is of higher quality than competitors can create a competitive advantage for a business



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The Process of Adding Value

The Process of Adding Value

- Adding value is the process of **taking raw materials and using them in such a way that the end product created is worth more than the cost** of the raw materials used to create it – value has been added
- The added value is the **difference between the price that is charged to the customer and the cost of inputs** required to create the product or service
 - E.g. Customers are prepared to pay more for potatoes when they are packaged as oven chips than they would be willing to pay for a bag of potatoes
 - If value is not added to the materials and components that a business buys then fixed costs cannot be paid and no profit will be made
- The greater the added value, the more successful the business is likely to be and the higher their **profits**



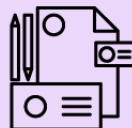
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WAYS OF ADDING VALUE



CONVENIENCE

PRODUCTS WHICH OFFER A MORE CONVENIENT OPTION TO THE CUSTOMER CAN SELL FOR A HIGHER PRICE E. G. CHOPPED FRUIT & VEG SELLS FOR MORE THAN SINGLE FRUIT & VEG ITEMS



BRANDING

CREATING A UNIQUE IDENTITY THAT DISTINGUISHES IT FROM COMPETITORS INCREASES CUSTOMERS LOYALTY, TRUST, AND RECOGNITION WHICH TRANSLATES INTO HIGHER SALES AND PROFITABILITY



QUALITY

CUSTOMERS ARE WILLING TO PAY PREMIUM PRICES FOR PRODUCTS OR SERVICES THAT ARE OF HIGH QUALITY BECAUSE THEY OFFER GREATER VALUE AND SATISFACTION



DESIGN

DESIGN ADDS VALUE BY ENHANCING THE AESTHETICS AND FUNCTIONALITY OF A PRODUCT/SERVICE. IT CAN ALSO IMPROVE THE USER EXPERIENCE AND INCREASE THE PERCEIVED VALUE OF THE PRODUCT/SERVICE



USP'S

BY IDENTIFYING A UNIQUE AND COMPELLING BENEFIT OR ADVANTAGE, COMPANIES CAN ATTRACT NEW CUSTOMERS, INCREASE SALES AND

PROFITABILITY, AND BUILD A
LOYAL CUSTOMER BASE

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Some of the methods of adding value allow for product differentiation, which allows the business to charge a higher selling price

- **Product and marketing teams** will constantly explore ways in which to increase the added value
 - The most common methods have been summarised in the diagram and include branding, offering more convenience to customers, improving the product quality or design, and building out the unique selling points

Examples of Added Value

Method	Example
Branding	<ul style="list-style-type: none">▪ Apple has built a brand that many customers believe is superior to other brands▪ They have achieved this through the use of quality materials, innovative design and good marketing▪ This branding allows the firm to charge a higher price for its products, thus increasing the added value
Convenience	<ul style="list-style-type: none">▪ Persil initially provided a bottle of dishwashing liquid for dishwashing machine use▪ This resulted in spillage as customers added the liquid to their machines, so Persil then created tablets▪ The tablets offered a much more convenient option and Persil was able to charge a higher selling price for them
Quality	<ul style="list-style-type: none">▪ Jo Malone perfume products are well known for their beautiful packaging, which creates an exciting opening experience for the customer▪ This allows the firm to charge a higher price for its products, thus increasing the added value



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Unique selling points (USPs)	<ul style="list-style-type: none">▪ MoonPig birthday cards can be completely customised (size, colour, design etc.) and the level of customisation has helped them gain a competitive advantage▪ This customisation allows the firm to charge a higher price for its cards, thus increasing the added value
Design	<ul style="list-style-type: none">▪ Samsung Galaxy Watch 5 has robust health tracking tools built into it, along with an amazing screen, which has helped it gain a competitive advantage▪ These features allow the firm to charge a higher price for its products, thus increasing the added value



Examiner Tips and Tricks

Businesses may use several methods of adding value. It's important to understand that adding value raises costs, but it is worth it if the increase in selling price outweighs the costs associated with the method. e.g. if improving the packaging costs £1 per unit and the firm is able to raise its selling price by £1,40 per unit, then the firm can improve its profitability by changing the packaging.