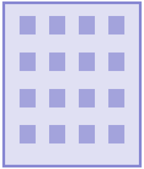
Business and its Environment

A-Level Business ▪ Topic 1

A-Level Business



What we will cover

1 Purpose and value

Why businesses exist

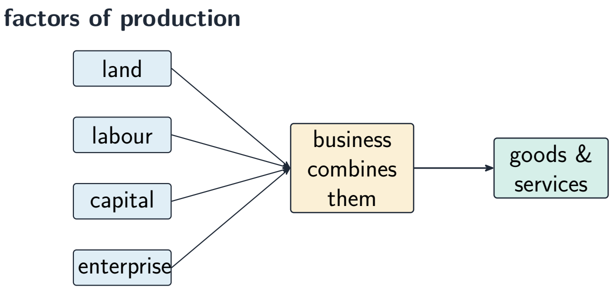
A business combines the four **factors of production** 生产要素 to satisfy a need or want and, usually, to make a profit.

land	labour	capital	enterprise
自然资源	劳动	资本	企业精神

The market a business operates in

People have **needs** 需要 – food, shelter, what you must have – and **wants** 欲望, what you would like. A business exists to satisfy them, and usually to make a profit doing it.

The four factors, drawn



Land 土地 is the natural things – soil, water, minerals; **labour** 劳动力 is the work people do; **capital** 资本 is the machines, tools, buildings and money used to produce; **enterprise** 企业家精神 is the person who brings the other three together and carries the risk.

Adding value

Added value 附加值 = selling price − cost of bought-in materials. Ways to raise it: better design, branding, convenience, quality, unique features.

> Added value is not the same as profit – profit also subtracts wages, rent and other costs.

2 Enterprise and plan

Entrepreneurs and enterprise

An **entrepreneur** 企业家 takes the risk to start a business; an **intrapreneur** 内部创业者 does so inside a firm. Traits: **innovative** 有创新精神的, risk-taking, determined, self-confident.

> Enterprise helps a country: more jobs, output (**GDP** 国内生产总值), competition and **economic growth** 经济增长.

A **business plan** 商业计划书 helps win finance & set goals.

3 Sectors and structures

Sectors of business activity

primary
raw materials – farming, mining

↓

secondary
manufacture – car factory

↓

tertiary
services – shops, banks

↓

quaternary
knowledge – research, IT

- **primary** 第一产业 – raw materials
- **secondary** 第二产业 – manufacturing
- **tertiary** 第三产业 – services
- **quaternary** 第四产业 – knowledge

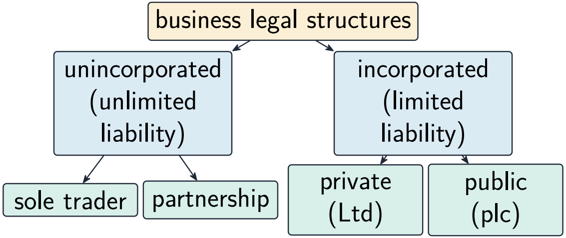
Private 私营部门 (profit) vs **public sector** 公共部门 (service).

The sectors, and the two halves of the economy

Primary sector	Takes from the earth: farming, fishing, mining, forestry.
Secondary sector	The **secondary sector** 第二产业 makes – manufactures – **goods** 商品: a car factory, a baker.
Tertiary sector	The **tertiary sector** 第三产业 provides **services** 服务: shops, banks, transport.
Private and public	The **private sector** 私营部门 is owned by private people; the **public sector** 公共部门 by the state. A **social enterprise** 社会企业 trades like a business but aims at social or **environmental** 环境 good – cutting **pollution** 污染, say – and reinvests most of its profit.

> As a country develops the jobs move primary $\rightarrow$ secondary $\rightarrow$ tertiary. The sector mix is a development statistic in its own right.

Legal structures and liability



Sole trader 个体经营者, **partnership** 合伙企业, **Ltd** 私人有限公司, **plc** 上市公司, **franchise** 特许经营.

> **Limited liability** 有限责任: owners lose only what they invest. Unincorporated = unlimited.

The legal forms, and how each is owned

sole trader	one owner, unlimited liability, keeps all the profit
partnership 合伙企业	two or more partners sharing work and profit, usually under a **deed of partnership** 合伙协议
private limited (Ltd)	shareholders, limited liability, shares not sold to the public
public limited (plc)	shares traded openly – large capital, and the risk of losing control
franchise 特许经营	one firm uses another's brand and model: the **franchisor** 特许方 owns the brand, the **franchisee** 加盟商 pays to use it
social enterprise	trades commercially but pursues a social objective with its surplus

> Liability is the dividing line, and it decides how much capital the firm can raise – which is why the two questions are always asked together.

The legal forms, and who carries the debt

Sole trader and partnership	Unlimited **liability** 责任: the owner must pay the business's **debts** 债务 from personal money if it cannot.
Private limited company	A **private limited company** 私人有限公司 (Ltd) sells **shares** 股份 to a small group – family, friends – and cannot advertise them.
Public limited company	A **public limited company** 上市公司 (plc) sells shares to the public on the **stock exchange** 证券交易所: more finance, less control.
Separate legal identity	A company is a **separate legal identity** 独立法人: it can own things, owe money and be taken to court in its own name, apart from its owners.
Franchise	The **franchisor** 特许方 owns the brand; the **franchisee** 加盟商 pays a fee and a **royalty** 特许权使用费 to run a branch.

> Limited liability is what separate legal identity buys: the shareholder can lose the money invested, and no more.

4 Size and growth

The size of a business

No single measure – use more than one:

employees

revenue 营业收入

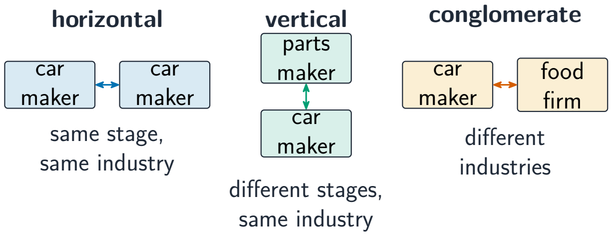
capital employed

market share 市场份额

market capitalisation 市值

Small businesses still matter – jobs, local service, quick to react, new ideas.

Business growth



Internal 内部增长 (organic) vs **external** 外部增长 (**merger** 合并/**takeover** 收购).

- **horizontal** 横向整合 – same stage
- **vertical** 纵向整合 – different stage
- **conglomerate** 混合整合 – diversify

How firms grow, and the four kinds of integration

organic growth	selling more, opening more sites – slow but controlled
a merger 合并	two firms agree to join together as one
a takeover 收购	one firm buys control of another, agreed or not
horizontal 横向一体化	same stage of the same industry – market share and scale economies
forward / backward 纵向一体化	vertical: toward the customer, or toward the supplier – control of the chain
conglomerate 混合一体化	unrelated industries – spreading risk

Growth by acquisition is fast and risky; organic growth is slow and safe. Which suits the firm depends on how quickly the market is moving.

How a firm grows, and in which direction

Internal growth	**Internal growth** 内部增长 (organic): the business grows by itself – selling more, opening branches, adding products. Slower, and it keeps control.
External growth	**External growth** 外部增长: it joins with another firm. Fast, and it buys capability it does not have.
Horizontal integration	**Horizontal integration** 横向整合: joining a firm at the *same* stage of the same industry – two car makers.
Vertical integration	**Vertical integration** 纵向整合: a different stage of the same industry. **Forward integration** 前向整合 is towards the customer (buying a shop), **backward integration** 后向整合 towards the supplier (buying a parts maker).
Conglomerate	**Conglomerate integration** 混合整合: a different industry – risk spread by **diversification** 多元化.

Growth also costs: higher average costs, harder communication, different company **cultures** 企业文化 that clash, and a need for a lot of finance. A **joint venture** 合资 gets some of that without the merger.

Economies of scale

Economies of scale 规模经济 lower **average cost** 平均成本 as a firm grows (purchasing, technical, financial, managerial, marketing).

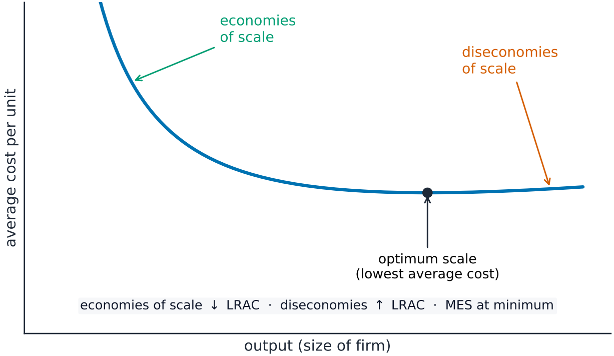
> Grow too big ⇒ **diseconomies** 规模不经济: poor communication, coordination, motivation.

Where economies of scale come from – and where they stop

purchasing	buying in **bulk 大批量** earns discounts
marketing	the advertising cost is spread over more units
technical	bigger machines run at a lower cost per unit
financial	a large firm borrows more cheaply
diseconomies	past a point, **communication 沟通** slows, **coordination 协调** of many departments gets hard, and workers lose **motivation 激励**

> The last row is what turns a 'state the economies' question into an evaluation.

Economies of scale, in detail



> Average cost per unit falls (economies of scale) then rises (diseconomies of scale) as a firm grows

5 Objectives and stakeholders

Aims, objectives and mission

Mission 使命宣言 → **aims** 目的 → **objectives** 目标 → tactics.

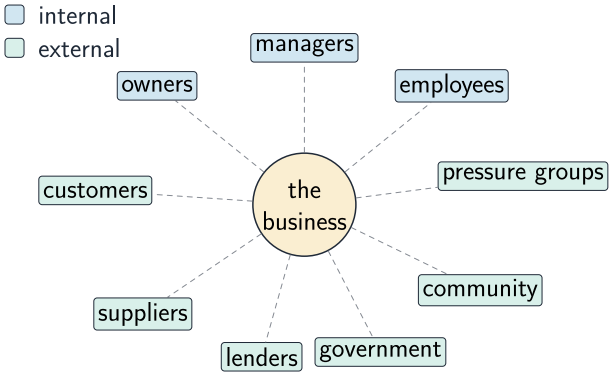
> Good objectives are SMART: Specific, Measurable, Achievable, Realistic, Time-bound.

Types: profit, growth, **survival** 生存, market share, **CSR** 企业社会责任.

How conflict can be managed

- keep good communication with every group.
- **compromise 妥协** – give each group part of what it wants.
- **negotiation 谈判** – talk until the groups reach an agreement.
- decide which stakeholders matter most for each decision, and act on that.

Stakeholders



A **stakeholder** 利益相关者 has an interest in the firm.

- internal: owners, managers, employees
- external: customers, suppliers, lenders, government, community

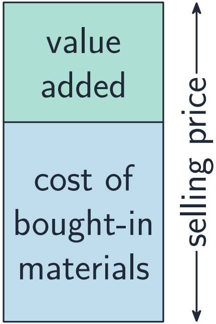
Their aims **conflict** 冲突; manage by communication & **compromise** 妥协.

Internal and external stakeholders

Internal stakeholders	**Internal stakeholders** 内部利益相关者: owners, managers and employees – inside the business, and paid by it.
External stakeholders	**External stakeholders** 外部利益相关者: customers, suppliers, lenders, government, local **communities** 社区, and **pressure groups** 压力团体.
Where they conflict	Higher wages against higher dividends; lower prices against supplier margins; expansion against the neighbourhood.

Name the stakeholder *and* the interest. "Stakeholders will be affected" scores nothing; "suppliers face longer payment terms" scores.

Adding value, continued



value added
= selling price
− materials cost

> Value added is the selling price minus the cost of bought-in materials

Entrepreneurs and intrapreneurs

> A food truck is enterprise you can see. The owner spotted a gap, spent their own savings on the van and stock, and now takes the daily risk of running it – the essence of being an entrepreneur

What enterprise does for a country

new jobs	which lowers **unemployment** 失业
export 出口s	some firms grow and sell abroad, bringing money into the country
economic growth 经济增长	more output, and a higher standard of living
tax revenue	which funds public services
competition and innovation	new firms force established ones to improve
the entrepreneur's own traits	determination, initiative, and willing to take risks – but in a careful way

> Resources are **scarce** 稀缺, so every business must choose how to use them well. Enterprise is the activity that makes that choice.

What a start-up needs, and what a country gains

Finance	Start-up costs, a **cash-flow forecast** 现金流预测 and an expected profit – and **finance** 资金 from a bank or an **investor** 投资者.
A plan	A business plan sets out the idea, the market, the operations and the numbers; a **strategy** 战略 is the long-term plan for meeting the objectives.
Why a country gains	**Business start-ups** 初创企业 create jobs, serve local communities, give personal service, react quickly, bring new ideas, and supply parts and services to large firms.

> Most start-ups fail on cash, not on the idea – which is why the cash-flow forecast is the document the bank reads first.

Types of business objective

SMART objective

S	Specific — clear and exact
M	Measurable — uses numbers
A	Achievable — possible
R	Realistic — sensible
T	Time-bound — has a deadline

SMART objectives: Specific, Measurable, Achievable, Realistic, Time-bound

The objectives a business can pursue

profit maximisation 利润最大化	the largest possible profit – the traditional assumption
survival 生存	staying in business: vital for a new firm, and in hard times
growth	more sales, sites and staff – often at the expense of short-run profit
market share	a larger share of total sales, which brings scale economies later
social and ethical 道德 objectives	doing what is morally right – fair pay, fair sourcing
CSR 企业社会责任	corporate social responsibility: acting in the interests of society and the environment, not only shareholders

> A **mission statement** 使命宣言 is one sentence saying why the business exists. Objectives are how that sentence is turned into something measurable.

Limited and unlimited liability

limited liability

companies

can lose: money put into the firm

safe: personal house, car

the firm is a **separate legal identity**

unlimited liability

sole traders, most partnerships

can lose: money put into the firm

can lose: personal house, car

the owner is **personally responsible** for all debts

> Limited liability risks only the money put in; unlimited liability risks the owner's personal things too

The size of a business, continued

how big is a business? - use more than one measure

employees
number of staff

revenue
value of sales

capital employed
invested

market share
% of the whole market

market capitalisation
value of all shares (plc)

different measures can give different answers

> Five ways to measure how big a business is; use more than one

Sectors of business activity, continued

primary raw materials	→	**secondary** manufacture	→	**tertiary** services	→	**quaternary** knowledge
farming, mining		car factory, baker		shops, banks		research, IT

> Business activity runs from the primary sector through to the quaternary sector

Exam tips

- Define **added value** = selling price − cost of bought-in inputs, and give a way to raise it (branding, quality, design).
- Distinguish **unlimited vs limited liability** and link it to sole trader/partnership versus Ltd/plc.
- Measure business **size** in more than one way (employees, revenue, capital employed, market share) – note each has limits.
- Distinguish **objectives** (SMART, specific) from a **mission** (overall purpose).
- In evaluation, use **stakeholder conflicts** (owners vs employees vs community) to argue both sides.

6 Recap

Worked example – added value

A maker buys wood for $£80$, pays $£120$ in labour, and sells the table for $£350$. Find the added value.

- Added value = selling price − cost of bought-in materials.
- $= 350 - 80 = £270$
- Labour is not deducted – it is one of the costs added value must cover.
- Raise it by branding, design or better service, not just by charging more.

The classic trap: added value is not profit. Profit deducts every cost; added value deducts only bought-in materials.

Topic 1 – key takeaways

1 Resources

four factors of production; add value

2 Structures

sole trader to plc; limited liability

3 Growth

integration; economies & diseconomies

4 Objectives

SMART; stakeholders' aims conflict

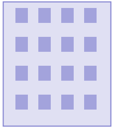
Check yourself

1. Name the four factors of production.

2. Which structure has unlimited liability?

3. What does the M in SMART stand for?

4. Give one internal and one external stakeholder.



Answers **1.** land, labour, capital, enterprise **2.** sole trader / partnership **3.** Measurable **4.** e.g. employee; customer