

Learn these by heart before the exam.

Business activity

Opportunity cost: the next-best choice given up when a decision is made

Business adds value: sells a product for more than the cost of the inputs used to make it.

Sectors: primary (extract raw materials), secondary (make goods), tertiary (provide services).

Stakeholder: anyone affected by a business – owners, workers, customers, suppliers, government, the local community

Ownership: sole trader, partnership (unlimited liability), private/public limited company (limited liability).

People in business

Motivation: the reason people work hard; boosted by pay, bonuses, praise, promotion and interesting work (Maslow, Herzberg)

Recruitment: job description and person specification → advertise → shortlist → interview → select.

Organisation: a tall structure has many layers and a narrow span of control; a flat one has few layers.

Communication needs a sender, message, medium and receiver; barriers cause mistakes and low morale.

Marketing

Marketing mix (4 Ps): Product, Price, Place, Promotion – must work together for the target market.

Market segmentation: splitting customers into groups by age, income, gender or lifestyle to target them better

Market share: a firm's sales as a percentage of the total market's sales

Pricing methods: cost-plus, penetration (low to enter), skimming (high for new products), competitive, promotional.

Market research: primary (new data – surveys) vs secondary (existing data – reports).

Operations and finance

$$\text{productivity} = \frac{\text{output}}{\text{number of workers}}$$

$$\text{break-even} = \frac{\text{fixed costs}}{\text{price} - \text{variable cost per unit}}$$

$$\text{profit} = \text{revenue} - \text{total costs}$$

Cash flow: money flowing in and out over time; a business can be profitable but still fail if it runs out of

cash

Working capital: current assets – current liabilities; the money available for day-to-day running

Finance sources: internal (retained profit, selling assets) and external (loans, share issue, overdraft).

External influences

Governments set the minimum wage, taxes, consumer and employment laws that businesses must follow.

Inflation: a general rise in prices; raises a business's costs and can reduce customers' spending

Exchange rate: the value of one currency in another; a weaker home currency makes exports cheaper and imports dearer

Ethics and the environment: acting responsibly can raise costs but improves reputation and customer loyalty.

Globalisation opens new markets and cheaper supplies but brings more foreign competition.