Understanding Business Activity

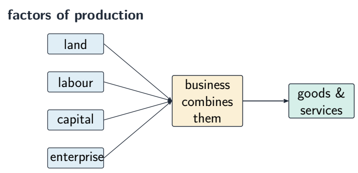
IGCSE Business Studies ▪ Topic 1

IGCSE Business Studies

What we will cover

1 Purpose

Purpose and factors of production



- Goods are physical things you can touch – bread, phones, cars.
- Services are useful actions done for you – a haircut, a bus ride, a doctor's visit.

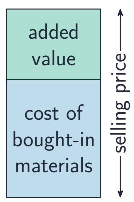
The economic problem

But resources are **scarce** 稀缺 – there are not enough of them for everything.

> Because resources are scarce, you must always choose.

Scarcity and added value

- raising the price, often through a strong **brand** 品牌 or better design,
- lowering the cost of materials, for example by finding cheaper suppliers,
- improving the product so customers will pay more.



added value
= selling price
− materials cost

Worked example – added value, and the distractor

A furniture maker buys wood and fabric for a chair for £40 and sells the chair for £110. Factory rent is £6,000 a month. Find the added value.

- added value = selling price − cost of bought-in materials
- $= \$110 - \$40 = \$70$
- the rent is a deliberate distractor

Added value counts only the bought-in materials. Rent, wages and other running costs stay *out* of it – they come off later, when you work out profit.

Why businesses succeed or fail

A business is more likely to succeed when it has:

- good **management 管理** – skilled leaders who plan well,
- enough **finance 资金** – money to pay bills while it grows,
- a product customers want, and an edge over the **competition 竞争** (the other businesses selling similar things).

The three sectors

primary
farming, mining
↓
secondary
factories, building
↓
tertiary
shops, banks

- **primary** 第一产业 – takes natural resources
- **secondary** 第二产业 – makes goods
- **tertiary** 第三产业 – provides services

2 Ownership and growth

Entrepreneurs and ownership

the entrepreneur 企业家
takes **risk** 风险, is **innovative** 创新; writes a **business plan** 商业计划书 to raise finance

two sectors
private 私营部门 aims for **profit** 利润; **public** 公共部门 provides services

Business organisation

Owners split by **liability** 责任:

- **sole trader** 独资 & **partnership** 合伙 – unlimited liability
- **limited company** 有限公司 – limited liability

business legal structures
- unincorporated (unlimited liability)
  - sole trader
  - partnership
- incorporated (limited liability)
  - private (Ltd)
  - public (plc)

Government support for start-ups

A **start-up 初创企业** is a brand-new business.

- **grants 补助金** – money given that does not have to be paid back,
- low-interest **loans 贷款** – money lent on easy terms,
- training and advice for new owners,
- lower taxes in the first years.

Franchises, and the public sector

franchise 特许经营	the **franchisee** 加盟商 pays to use the name, products and methods of an existing successful business (the **franchisor** 特许人)
why take one	a known brand and a proven method – so the risk of failure is far lower
the cost	a fee plus a share of the revenue, and little freedom to change anything
public corporation 国有企业	owned and run by the government – a national rail or postal service
its aims	a service to everyone rather than the largest profit – which is why it may run routes no private firm would

> A public corporation is judged on different objectives from a private firm. Comparing them on profit alone misses the point of the question.

Staying small or growing

Some businesses stay small on purpose: the owner wants to keep control, the market is small, or the product is specialised.

- **Internal growth 内部增长** (also called organic growth): the business grows by itself, by selling more, opening new branches, or adding new products. It is slower but lower-risk.
- **External growth 外部增长**: the business joins with another business. This is faster.

Four ways to measure a business's size

number of employees	simple to count – but a factory full of machines may employ very few people
value of output	how much it produces – but output is not the same as what it sells
capital employed 资本使用额	the money invested in it – but a capital-heavy firm may be small in every other sense
value of sales	turnover – but high sales can come with low profit
the point	every measure has a limitation, so a question asking "how big is this business?" wants at least two

> Use more than one measure and say why they disagree. That comparison is the answer; a single number is not.

Objectives of a social enterprise

A social enterprise aims for three kinds of objective together:

- economic – earn enough money to survive and grow,
- social – help people, for example by giving jobs to those who find work hard to get,
- environmental – protect the planet, for example by cutting waste.

What businesses actually aim at

profit	earning more than it spends – the main aim of most private firms
survival	the first aim of a new business, and of any business in a downturn
growth	more sales, more sites, more staff – often at the cost of short-term profit
market share 市场份额	the share of total sales in a market that one business holds
customer service 顾客服务	keeping customers happy so they come back
social objectives	helping society or the **environment** 环境 – the defining aim of a social enterprise

> Objectives change over time. A firm that aimed at survival in year one may aim at market share in year five, and the exam asks you to say why.

Business growth

internal growth 内部增长
grow by itself – new branches & products; slower, safer

external growth 外部增长
merger 合并 or **takeover** 收购: horizontal, vertical or conglomerate

Three kinds of integration

horizontal 横向一体化	two firms at the same stage of the same business – two car makers join
vertical 纵向一体化	two firms at different stages of the same business – a car maker buys a tyre maker
conglomerate 混合一体化	two firms in completely different businesses – a car maker buys a food company
why horizontal	more market share, and economies of scale in the same activity
why vertical	control of supply or of the route to the customer
why conglomerate	spreading risk – if one market falls, the other may not

Name the type first, then give its *reason*. "Vertical, so it controls its own supply of tyres" earns both marks in one line.

Integration, and the sectors it crosses

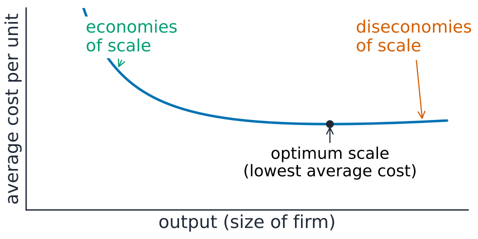
Horizontal integration	**Horizontal integration** 横向整合: joining a firm at the same stage of the same industry.
Vertical integration	**Vertical integration** 纵向整合: joining a supplier or a customer – forward towards the market, backward towards the input.
Conglomerate integration	**Conglomerate integration** 混合整合: a different industry altogether, to spread risk.
Joint venture	A **joint venture** 合资 shares one project's costs and risks without a merger – often how a firm enters a foreign market.

Growth means new **debts** 债务 as well as new revenue. Say how it is financed before judging whether it was wise.

Economies of scale

As a business grows, the cost per unit falls – **economies of scale** 规模经济. Grow too big & it can rise again (**diseconomies of scale** 规模不经济).

Economies of scale, in detail



LRAC: economies → min AC → diseconomies

As a business grows, the cost per unit falls – **economies of scale** 规模经济.

The five economies of scale

purchasing	buying in bulk lowers the cost of each unit
financial	large firms can borrow money more cheaply, because lenders see less risk
managerial	the firm can afford expert managers for each function
technical	it can use large, efficient machines that a small firm could never fill
marketing 营销	the cost of **advertising** 广告 is spread over more goods, so each unit carries less of it

All five lower the average cost per unit. Diseconomies – poor communication, low morale, slow decisions – push it back up when the firm grows too large.

Stakeholders

- internal
- external

the business — owners, employees, customers, community, suppliers, government, banks

A **stakeholder** 利益相关者 is anyone affected by the business.

- internal: owners, workers, managers
- external: customers, suppliers, government, community

The entrepreneur

entrepreneur
sets up the business, takes the risk

- takes **risks** — with their own money
- **hard-working** — does not give up
- **innovative** — full of new ideas
- **confident** — good at decisions
- **well organised** — time, money, people

> What successful entrepreneurs are usually like

What business activity is for

> Shops competing on a high street: businesses make goods and services to meet people's wants.

What business activity is for, continued

people's needs & wants → a business → goods & services

> Businesses make goods and services to meet people's needs and wants

Types of business organisation

> A company headquarters: businesses range from sole traders to giant public limited companies.

The four main types of business organisation

sole trader	one owner, easy to set up, keeps all profit – but unlimited liability and hard to raise money
partnership	easy to set up and more capital; but partners can disagree, and one partner's mistake affects everyone
private limited company 私人有限公司	"Ltd": owned by **shareholders** 股东, shares cannot be sold to the public. Limited liability, control stays in a small group – but accounts must be filed with the government
public limited company 公众有限公司	"plc": shares sold on the stock exchange, so it can raise very large amounts of capital – but it is expensive and complex to set up, and control can be lost
the payment	shareholders may receive a share of the profit, called a **dividend** 股息

> Limited liability is the dividing line: an owner of a limited company risks only what they invested, never their house.

Incorporated and unincorporated

- An **incorporated 法人** business has a separate legal identity from its owners. The business itself can own things and be taken to court. Its owners get limited liability.
- An **unincorporated 非法人** business is not separate from its owner in law. Sole traders and partnerships are unincorporated.

Opportunity cost

the money to spend $\xrightarrow{\text{chosen}}$ buy a new **machine** ✓

the money to spend $\xrightarrow{\text{given up}}$ a bigger **shop** ← the **opportunity cost**: the next best choice you give up

> The opportunity cost is the next best choice you give up

The three sectors, continued

primary raw materials	→	**secondary** manufacture	→	**tertiary** services
farming, mining		factory, building		shops, banks

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

The sectors, and how they shift

Primary	Farming, fishing, mining – extraction, and the largest employer in a **developing economy** 发展中经济体.
Secondary	The **secondary sector** 第二产业: **manufacturing** 制造业 and construction – turning materials into goods.
Tertiary	Services: retail, transport, finance, health – and the largest sector in a **developed economy** 发达经济体.
De-industrialisation	**De-industrialisation** 去工业化 is the fall in the secondary sector's share as an economy develops – jobs move to services, and often abroad.

> The **private sector** 私营部门 is owned by individuals, the public sector by the state, and both operate in all three sectors.

Exam tips

- **Added value** = selling price − cost of bought-in materials. A business raises it with a strong brand, better design, or cheaper materials.
- Know the three sectors: **primary** (extracts raw materials), **secondary** (makes goods), **tertiary** (services). As a country develops, employment shifts from primary towards tertiary.
- **Unlimited liability** (sole traders, partnerships) puts the owner's personal things at risk; **limited liability** (Ltd, plc) limits any loss to the money invested.
- A **stakeholder** is anyone affected by the business, and their objectives often **conflict** – owners want profit, workers want higher pay, the community wants less pollution.
- **Economies of scale** cut the cost per unit as a firm grows; growing *too* big brings diseconomies of scale (cost per unit rises).

3 Recap

Worked example – the three sectors

A farm sells wheat to a mill, which sells flour to a bakery, which sells bread in its own shop. Name each sector.

- Primary: taking natural resources from the earth ⇒ the farm.
- Secondary: making or processing goods ⇒ the mill and the bakery.
- Tertiary: providing a service ⇒ the shop that sells the bread.
- Each stage adds value to what it bought from the stage before.

As a country develops, employment shifts primary → secondary → tertiary. One firm can sit in several sectors at once – a bakery with a shop does.

Topic 1 – key takeaways

1 **Factors**

land, labour, capital, enterprise

2 **Added value**

selling price minus bought-in materials

3 **Sectors**

primary, secondary, tertiary

4 **Growth**

internal vs external (merger/takeover)

Check yourself

1. Name the four factors of production.
2. What is opportunity cost?
3. Which sector provides services?
4. What does a limited company give its owners?

Answers **1.** land, labour, capital, enterprise **2.** the next best choice given up **3.** the tertiary sector **4.** limited liability