

## Chapter 1: The purpose of Business Activity

### The economics problem: needs and wants.

Basically, all humans have **needs** and **wants**. Needs are things we **can't** live without, while wants are simply our desires that we **can** live without. We all have **unlimited wants**, which is true, since all of us want a new PC, a car, new graphics card, etc. that we actually do not need to live. Businesses produce **goods** and **services** to satisfy needs and wants.

Although we have unlimited wants, there are not enough **resources** for everyone. Resources can be split into 4 **factors of production**, which are:

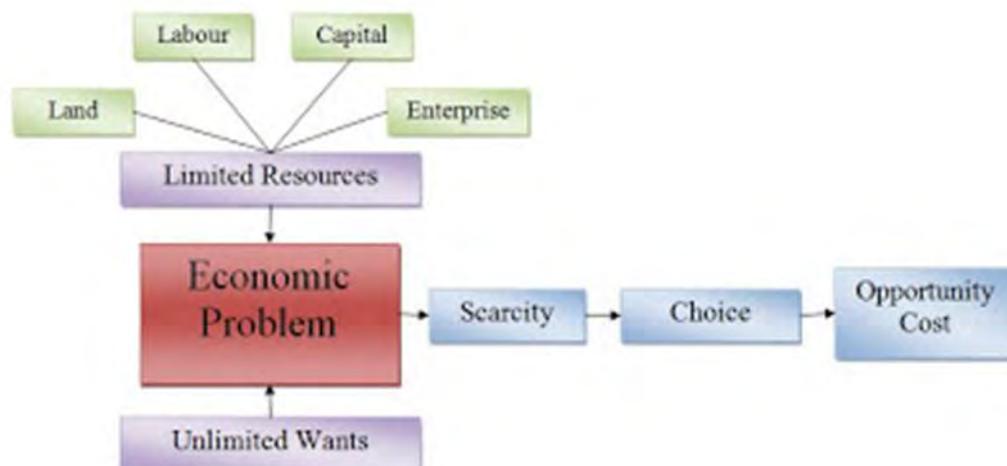
- **Land**: All natural resources used to make a product or service.
- **Labour**: The effort of workers required to make a product or service.
- **Capital**: Finance, machinery and equipment required to make a product or service.
- **Enterprise**: Skill and risk-taking ability of the **entrepreneur**.

**Entrepreneurs** are people who **combine** these factors of production to make a product.

With these discussed, lets move on to the **economic problem**. The economic problem results from **limited resources** and **unlimited wants**. This situation causes **scarcity**, when there are not enough goods to satisfy the wants for everybody. Because of this, we will have to **choose** which wants we will satisfy (that will be of more benefit to us) and which we will not when buying things. For any choice, you will have to would have obtained if you didn't spend that money. For example, you would have got a book if you didn't buy the pen, or you would have a burger if you didn't buy the chips. Basically, item that you didn't buy is the **opportunity cost**. Make sure that the opportunity cost isn't higher than what you bought!

"**Opportunity cost**: the next best alternative given up by choosing another item."

Here is a diagram showing the whole economic problem:



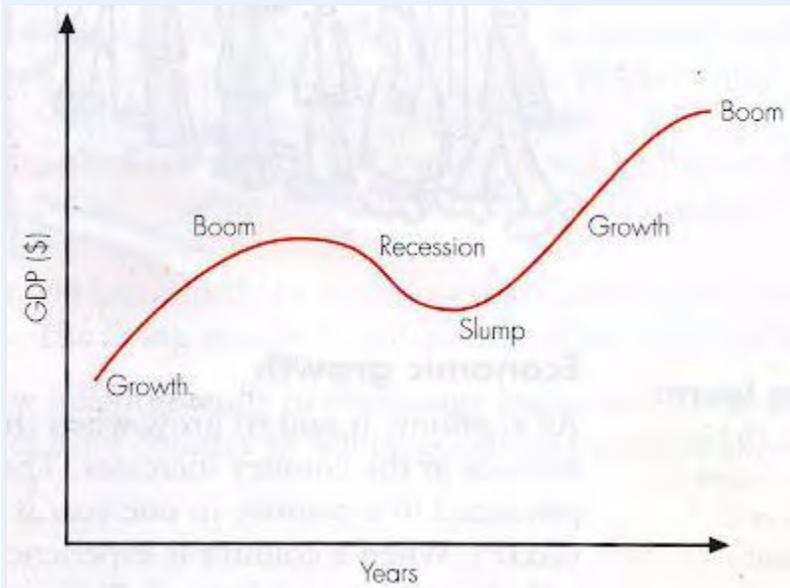
If the level up unemployment is low, it will increase national output and improve standards of living for workers.

## Economic growth

A country is said to grow when its **GDP** (Gross Domestic Product) is increasing. This is the total value of goods produced in one year. The standards of living tends to increase with economic growth. Problems arise when a country's GDP fall:

- The country's output is falling, fewer workers are needed and **unemployment** occurs.
- **Standards of living** will fall.
- Businesses will **not expand** because they have less money to **invest**.

Economic growth is not achieved every year. There are years where the GDP falls and the **trade cycle** explains the pattern of rises and falls in national GDP.



The trade cycle has 4 main stages:

- **Growth:** This is when GDP is rising, unemployment is falling, and the country has higher standards of living. Businesses tend to do well in this period.
- **Boom:** Caused by overspending. Prices rise rapidly and there is a shortage of skilled workers. Business costs will be rising and they are uncertain about the future.

- They set **objectives** for managers and workers to work towards, increasing their **motivation**.
- They can be used to see how well a business is doing by comparing the budget with the result in the process of **variance analysis**. The **variance** is the difference between the budget and the result.
- If workers get a say in choosing the objectives for a budget, the objectives would be more **realistic** since they are the ones that are going to do it and it also gives them better **motivation**.
- Helps control the business and its **allocation of resources/money**.

All in all, budgeting is useful for:

- reviewing **past** activities.
- controlling **current** business activity - following objectives.
- planning for the **future**.

## Job Description

### Shop Assistant

#### Main tasks

- To open the shop in the morning
- To be responsible for ordering all goods from suppliers
- To arrange all shelf displays
- To help serve customers
- To assist the manager in other ways directed by him

#### Working conditions

- Five days a week
- Eight hours a day
- Four weeks' holiday – by negotiation, but not at same time as the manager

When there are more than one person in a small business and they all do different things, it means that they are **specialising** in different jobs.

## Delegation

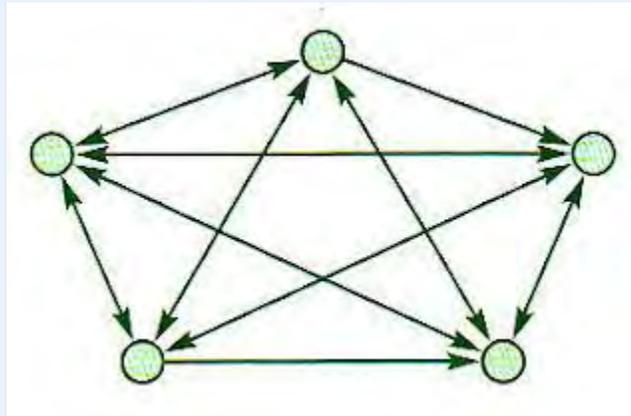
**Delegation** refers to giving a subordinate the **responsibility** and **authority** to do a given task. However, the **final responsibility** still lies with the person who delegated the job to the subordinate. Here are the advantages of delegation for managers and employees, as well as why some managers choose not to delegate.

### **Pros for the manager:**

- By letting subordinate do smaller tasks, managers have **more time** to do more important tasks.
- Managers are less likely to make **mistakes** if tasks are done by **specialist** employees.
- Managers can **measure** the **success** of their task more easily.

### **Pros for the subordinates:**

### Connected network:



- + This is used to **create** or **discuss new ideas**.
- + It specialises in **two-way communication**.
- Can be **time-consuming**.
- There is no **clear leader** or **sender** of messages.

### Which network works best?

There is again, no best network. A company is likely to use different network at **different times** or for **different groups**.

- The **chain network** is for communicating **important business policies**.
- The **wheel network** is used for sending different messages to different **departments**.
- The **connected network** is used to generate new **ideas** or **solutions** to problems where **group discussion** is the most effective.

### The direction of communications

Applicants who are invited to interviews will have provided the names and addresses of their **references**. These people can give their opinions on the reliability, honesty and skills of the applicants and they will be likely to tell the truth because the applicants will not know what they have said.

Interviews are the most popular form of **selection**. However, interviews are not always the most reliable process of selection. They aim to find out these things:

- The applicant's ability to do the job.
- Personal qualities that are advantageous and disadvantageous.
- General characteristics – whether they can "fit in"?

These are the likely questions in an interview:

- Why have you applied for the job?
- What do you know about this company?
- What qualities do you have to offer the company?
- What ambitions do you have?
- What are your hobbies and interests?
- Do you have any questions to ask us?

Interviews can be one-to-one, two-to-one, or a **panel** of people to interview people which is used to select people for important jobs. Some businesses include tests in their selection.

- **Skill tests:** To test the skills of the candidates.
- **Aptitude tests:** To test how easily candidates can be trained/learn new things.
- **Personality tests:** To test for people who have specific personal qualities which will fit into jobs – e.g. that has a lot of stress; requires you to work with a team.
- **Group situation tests:** To test how well applicants work with other people.

There are two ways to **segment** markets. By the **type of product** or the attributes of the **customers** buying it. Here are two types of markets which are segmented based on the product:

- **Mass market:** Where there is a **large** number of sales of a product. (e.g. Pepsi can be bought anywhere)
- **Niche market:** A **small** market for **specialised** products. (e.g. Ferrari cars)

Here is how a market can be segmented regarding people buying the product:

- **Income**
- **Age**
- **Region**
- **Gender**
- **Use of product**
- **Lifestyle**

It is very important to **target** the right market segment since it can **increase sales** by a lot. If a business can analyse all of these market segments, they may find a market segment whose **needs** are **not** being **met**. This is when the business finds a **gap in the market**, and it could produce goods to take advantage of this gap and again increase sales.

## **The marketing mix**

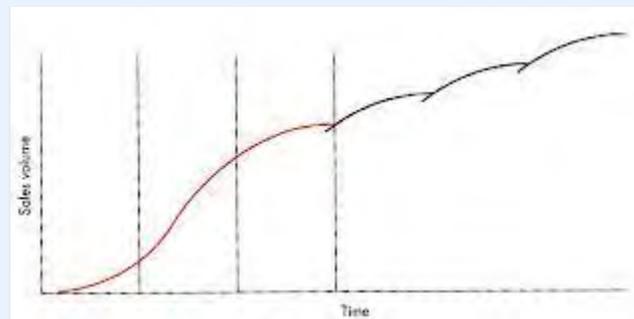
The length of each stage varies with products. The business needs to identify which stage their products are in so that they can use a suitable marketing strategy for it.

### Extending the product life cycle

When a product has reached its maturity or saturation stage a business may adopt **extension strategies** to stop sales from falling which **extends** the product life cycle. Sales are given a **boost** by these strategies.

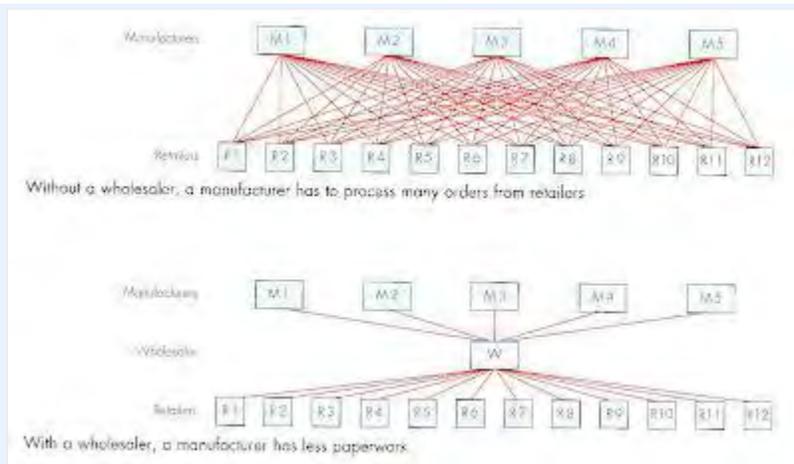
- Introducing **new variations** of the product.
- Sell into **new markets**.
- Make small **changes** to the products **design** and **packaging**.
- Sell through **additional, different** retail outlets.
- **Update** the product (make it better)
- Use a new **advertising campaign**.

Extension strategies aim to prolong the **maturity** stage of a product. Successful extension strategies may result in something like this:



Nevertheless, it must be noted that businesses manufacture more than one product. They should have a product in **growth** stage to **counteract** an older one which is declining.

- Breaks **bulk**.
- Reduces **storage costs** for retailers and producers.
- Fewer **transactions** are needed for the producers. (only a few wholesalers) they no longer need to do as many **deliveries**.
- Gives **credit** to small retailers.
- May deliver to small retailers reducing their **transport costs**.
- **Promotion** carried out by wholesaler instead of producer.
- They give **advice** to retailers/producers on what is selling well.



## Cons

- More **expensive** for small retailers.
- May not have the **full range** of products to sell.
- **Takes longer** for perishable products to reach the retailer.
- Wholesaler may be **far** from small shops.

## Selecting the channel of distribution to use

When selecting the channel of distribution to use producers need to consider a few things:

- Raw material costs.
- **To extract raw materials not found elsewhere.**
- **To produce goods nearer to the market.**
- **To bypass trade barriers.**
- **To expand and spread risks.**

### Advantages of multinationals operating in a country

- **Jobs** are created.
- New investment increases **national output**.
- **Imports** are **reduced** since there are more goods in the country. More **exports**.
- More **taxes** are paid to the government.

### Disadvantages of multinationals operating in a country

- Jobs created are usually **unskilled jobs**.
- **Local firms** are forced **out of business** since they can't compete with multinationals.
- **Profits** flow **out** of the country.
- Multinationals use up **scarce resources**.
- May **influence** the **government**.