Business Study Material: Section 1: Understanding Business Activity

Chapter 1: Business Activity

Examples of what makes a good business: good hospitality/marketing/customer service, price range for selected buyers, profit, feedback from public, packaging, advertisement, financial, communication, risk taking, respect, negotiation, efficiency, strategy, passion…

5 Economic needs: food, water, shelter, clothing, warmth

Need: a good or service essential for living

Want: a good or service which people would like to have, but which is not essential for living. People's wants are unlimited.

The Economic Problem: There exists unlimited wants but limited resources to produce the goods and services to satisfy those wants. This creates scarcity. Unlimited wants but limited resources -this creates scarcity.

Scarcity: The lack of sufficient products to fulfil the total wants of the people.

Goods: tangible item

Service- intangible item (thought process or actions)

Demand and Supply- the amount of goods a service is required – the needs of the customers. The amount sellers are willing to sell is the market price of where the demand curve and supply curve meet so both groups are happy.

Competition

Perfect competition Oligopoly Monopoly

Purpose of business activity: to increase the economy of the country by making money by selling goods and services.

Resources: all items needed to make a product

Factors of Production: those resources needed to produce goods or services. There are four factors of production and they are in limited supply. Resources needed to produce goods and services – land, labour, capital and enterprise.

Land – all-natural resources. e.g.: oil, gas, forests

Labour: all mental and physical effort. E.g.: workers

Capital: all man-made resources including money. E.g.: machinery, equipment to manufacture goods

Enterprise: organization of the factors of production, risk taking. E.g.: a person like an owner of a business

Opportunity Cost: the next best alternative given up by choosing another item.

Specialisation: occurs when people and businesses concentrate on what they are best at.

Why Specialisation is common:

- Market share- more control over suppliers and in setting prices, publicity
- Shareholder returns- aim to keep shareholders happy
- Discourage them from selling shares
- Returns in form of dividends and higher share prices
- Community service- social enterprise aims are environmental, social and financial
- Public sector organisations- objectives set by government, financial, customer service, social

Stakeholder objectives Summary:

- Owners- security of investment, profit to pay returns, business growth
- Consumers- safe and reliable products, value for money, after sales service, reliability, quality
- Workers- job security, reasonable and regular pay, contract, job satisfaction and motivation
- Government- successful and growing business, pay all taxes due, operate legally
- Suppliers- quick payment for goods/services supplied, regular orders
- Managers- high salaries, job security, business growth-offers higher pay and status
- Banks- repayment of loans on time, payment of interest on loans, business must remain liquid

Community- jobs, protection of environment, social responsibility eg safe products.

- Importance of Feedback – quickly? Then verbal or on a sheet, written?

Advantages of Verbal Communication:

- Information given quickly – efficient for a large amount of people
- Opportunity for immediate feedback and 2 way communication
- Body Language and facial expression – not for telephone conversations

Disadvantages:

- In a big meeting, there isn't a way of telling if everyone's listening or understood the message
- Can take longer to use verbal methods of feedback than written
- Doesn't provide an accurate, permanent record of the message needed

Written Communication Methods:

- Business Letter – follow set structure either internal or external communication
- Memos – only internal
- Reports – detailed documents on a topic or issue/problem
- Notices pinned on boards – display information to everyone – not guaranteed they're real
- Text message – quick and convenient, easy, discrete, record but can't know mood of reader
- Email, social network sites, IT – Hard copy can be required, easy, effective

Advantages of Written Communication:

- Hard evidence, facts that can be used later
- Essential for detail or if someone forgets
- Written work can be copied instead of telephoning everyone individually – quicker
- Electronic is cheap and quicker and be sent to many people

Disadvantages:

- Direct feedback isn't always possible – emails can block up important emails
- Not easy to make sure emails have been received and acted upon unlike verbal.
- Language can be difficult and bore reader if too long
- No body language

Advantages of Visual Communication:

- Appealing and attractive –more interesting
- Easier to read figures
- Make written messages more clearer to illustrate point

Disadvantages:

- No feedback and may use other form of communication to check if message was understood
- Charts/graphs are sometimes difficult to interpret

Formal Communication - When messages are sent through established channels using professional language.

Informal Communication – When information is sent and received casually using everyday language.

Communication Barriers – Factors that stop effective communication of messages.

Summary of Barriers to Effective Communication:

- **Sender**: Poor attitude/body language wrong, unclear message, message too long, sent to wrong person.
- **Medium**: Too many people pass on message, message may be lost, wrong channel used, technical breakdown
- **Receiver**: Lack of trust, poor attitude, doesn't listen
- **Feedback**: Not sent, unclear, not asked for

#Note: Must come up with ways to tackle these problems.

Chapter 7: Technology and the marketing mix

Presents new opportunities for businesses to market their products and services.

Social media marketing – form of internet marketing involving creating and sharing content on social media networks in order to achieve marketing and branding goals.

Viral marketing – when consumers are encouraged to share information online about the products of a business.

Advantages of advertising on social media networking sites ie Facebook:

- Target specific demographic groups who will share product information through viral marketing
- Target customers will see adverts
- Information can be updated regularly
- Cheap to use – low advertisement costs
- Reaches groups that are difficult to reach other ways

Disadvantages:

- Can alienate customers if find adverts annoying
- Business have to pay for advertising if using pop-ups
- Potential customers may not use social media networks
- Lack of control of advertising if used by others
- Messages may be altered or used in a bad way and forwarded on to other users giving the business bad publicity

Business advertising on own website Advantages:

- No extra costs
- Control of advertising
- Can change adverts quickly/update
- Can provide more information or links to other pages

Disadvantages:

- Potential customers may not see website as page may come up in a long list of results when in a search engine
- Relies on customers finding the website
- Design costs of the website may be high

E-commerce – the ‘online’ buying and selling of goods and services using computer systems linked to the internet and apps on mobile phones.

Dynamic Pricing – when businesses change product prices, usually when selling online, depending on the level of demand.

Chapter 2: Costs, scale of production and break-even analysis

Fixed costs – costs which do not vary in the short run with the number o items sold or produced. They have to be paid whether the business is making any sales or not. They are also known as overhead costs. Costs that doesn't change with output ie mortgages.

Variable costs – costs which vary directly with the number of items sold or produced ie raw materials.

Business costs:

- Needed to calculate profit and loss
- Help managers to make decisions

Total costs – fixed and variable costs combined

Total cost = Variable costs + fixed costs

Average cost per unit – the total cost of production divided by total output (unit cost)

Average cost of production = Total costs of production (in a time period) / Total output (in a time period)

Total cost = average cost per unit * output

Using cost data:

- Setting prices – if average cost per unit isn't known, business could charge a price that leads to a loss being made on each item sold.
- Deciding whether to stop production or continue – depends on whether the product has just been launched on the market – look to future sales or the fixed costs will have to be paid.
- Deciding of the best location

Economies of scale – the factors that lead to a reduction in average costs as a business increases in size.

The 5 economies of scale:

- **Purchasing economies** – could buy in bulk – save money, discounts
- **Marketing economies** – transport costs reduced by using lager vehicles, many advantages for marketing a product - advertising
- **Financial economies** – larger businesses often able to raise capital cheaper than smaller ones. Bank managers find large organizations less risky than lending to small ones – less interest often charged
- **Managerial economies** – smaller businesses usually can't afford to pay for specialist managers – tends to reduce their efficiency.
- **Technical economies –** transport costs be cut when using larger vehicles. Flow production, specialist machines…

Diseconomies of scale – the factors that lead to an increase in average costs as a business grows beyond a certain size.

- **Poor communication –** larger organization the more difficult for communication – mistakes can occur which leads to lower efficiency and higher average costs.
- **Lack of commitment from employees**
- **Weak coordination –** takes long for decisions to reach people in large businesses – employees can also take a long time to react to a decision once it has been done.

Break-even level of output – the quantity that must be produced/sold for total revenue to equal total costs (also known as break-even point) – so total costs are covered – profit is not being made but isn't being lost.

Break-even charts – graphs which show how costs and revenues of a business change with sales. They show the level of sales the business must make in order to break even.

Unemployment is bad for a country because people wouldn't be able to pay taxes so government can't help the country with government spending's and help the country. Also people wouldn't be buying goods or serves so the GDP of the country would decrease.

Real Income – the value of income and it falls when prices rise faster than money income.

High inflation affects a company as wages will need it increase as their real incomes will fall. If prices in other countries are cheaper business may purchase in different country so jobs in country may be lost. Less likely to expand businesses and create more jobs with high inflation.

Exchange rates – the value of one currency against another.

Currency Appreciation – when value of currency rises – buys more of another currency than before.

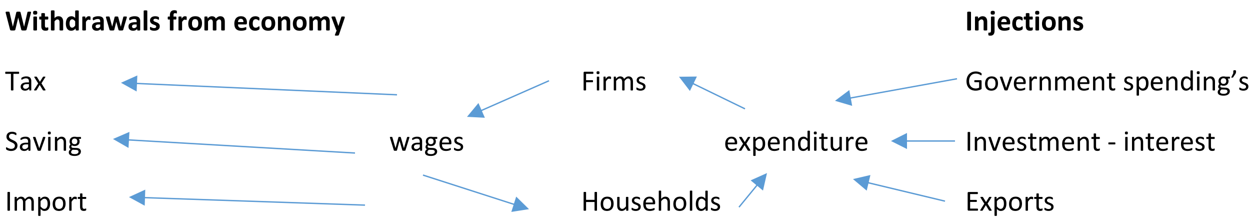
Currency Depreciation – occurs when the value of a currency falls – it buys less of another currency.
Import prices likely to rise. Export prices could fall.

Exports – goods and services sold from one country to another.

Imports – goods and services bought in by one country from other countries.

Governments will aim to get a balance between exports and imports over time. The difference between a countries exports and imports is called the balance of payments.

Circular flow of income



Government economic policies:

- Fiscal policy – taxes and government spending
- Monetary policy –interest rates
- Supply side policies

Fiscal policy – any change by the government in tax rates or public sector spending.

Two types of taxation:

- Direct Taxes – you are personally responsible to pay to the government ie income tax
- Indirect taxes – somebody else is responsible for paying the tax to the govt. ie sales tax

Disposable income – the level of income a taxpayer has after paying income tax.

Income tax flowchart:

Shows how businesses may be affected by an increase rate of income tax:

Increase rate of tax --- individual taxpayers have less disposable income – less money to spend – businesses see falling sales --- business produce fewer goods --- unemployment.

Import tariff – a tax on an imported product.

Import quota – a physical limit on the quantity of a product that can be imported.