

1 WHAT IS BUSINESS ACTIVITY?

LEARNING OBJECTIVES

- Understand the nature of business activity and the reasons why businesses exist
- Understand the role played by different stakeholders
- Understand that businesses operate in a changing business environment

GETTING STARTED

Some people try to make money by setting up a business. They might do this because they want to work for themselves. Or they think they can make more money than working for someone else. Or perhaps they have been made redundant and cannot find another job. Running a business is hard work but the rewards can be worth it. Look at the example below.



▲ Maintaining and repairing old bicycles is hard work

GENERAL VOCABULARY

tool a piece of equipment that is useful for doing your job

SUBJECT VOCABULARY

premises buildings and land used by a shop or business

CASE STUDY: THE KANDY CYCLE SHOP

In 2015, Tharanga Perera opened a second-hand bicycle shop in the city of Kandy in Sri Lanka. He had always wanted to run his own business because he wanted to be his own boss. He worked for 12 years in a tea factory and saved LKR 100 000. Tharanga had a passion for bicycles and spent a lot of his spare time as a hobby restoring old bicycles and selling them to local people. The shop, located in a Kandy backstreet, had a small garage at the rear where he carried out repairs. Tharanga employed his younger brother as a shop assistant while he spent most of the time repairing, maintaining and restoring old bicycles. Before the shop was opened Tharanga had to:

- obtain a LKR 300 000 loan from his grandmother
- buy some new **tools** and equipment
- find suitable **premises**, ideally with somewhere to carry out repair work
- refurbish the premises
- find a reliable supplier of spare parts for his repair and restoration work
- learn how to keep financial records
- advertise the shop.

Tharanga worked very hard. However, it was worth it because in 2016 the Kandy Cycle Shop made a profit of LKR 900 600. Tharanga thought he might start to sell new bicycles in the future if he could get a bank loan to buy some stock.

In groups, discuss the following:

- 1 Why do you think Tharanga opened a second-hand bicycle shop?
- 2 What are three resources used by Tharanga when setting up his business?
- 3 Why do you think businesses exist?

BUSINESS ACTIVITY

WHAT IS BUSINESS ACTIVITY?

BUSINESS ACTIVITY

SUBJECT VOCABULARY

business organisation that produces goods and services
 organisation group, such as a club or business, that has formed for a particular purpose
 goods physical products, such as a mobile phone, a packet of crisps or a pair of shoes
 services non-physical products, such as banking, car washing and waste disposal
 output amount of goods or work produced by a person, machine or factory
 human resources in some businesses, the department that deals with employing, training and helping people

A business is an organisation that provides goods and services. The Kandy Cycle Shop example illustrates many features of business activity.

- 1 Business activity produces an **output** – a good or service. Tharanga is selling second-hand bicycles (goods) and offering a repair and maintenance service.
- 2 Goods and services are consumed. Customers buy the second-hand bicycles or consume the repair and maintenance service provided by Tharanga.
- 3 Resources are used. Spare parts (such as tyres, wheels and chains), oil, tools, equipment and electricity are just a few of the resources used by the Kandy Cycle Shop. Money, such as the LKR 300 000 loan from his grandmother and his LKR 100 000 savings, is also a resource. The resources used by businesses are often called the *four factors of production* – these are explained in Chapter 44, pages 368–374.
- 4 A number of business functions may be carried out. Production, marketing, **human resources** and financial control are examples of these functions. Production in the case of the Kandy Cycle Shop involved the sale of second-hand bicycles and a repair and maintenance service. Marketing involved advertising the shop in the local area.
- 5 External factors affect businesses. Things that they cannot control have an impact on businesses, such as government laws, changes in consumer tastes and the actions of competitors. The Kandy Cycle Shop has to compete with similar shops in the area.
- 6 Businesses aim to make a profit. Most people setting up a business do so as they wish to make money for themselves. In this case, the Kandy Cycle Shop made a profit of LKR 900 600 for Tharanga in 2016.

GOODS AND SERVICES

SUBJECT VOCABULARY

consumer goods goods and services sold to ordinary people (consumers) rather than businesses
 producer goods goods and services produced by one business for another

Businesses provide a wide range of goods and services. Some are produced for consumers – ordinary people. These are called **consumer goods**. Products sold by one business to another are called **producer goods**. Examples are shown in Table 1.1. Some businesses serve both consumers and producers. For example, the Taj Mahal hotel in Mumbai serves both tourists and business people.

► Table 1.1 Consumer and producer goods

CONSUMER GOODS		PRODUCER GOODS	
GOODS	SERVICES	GOODS	SERVICES
Smartphone	Health care	Delivery van	Market research
Magazine	Banking	Office furniture	Insurance
Crisps	Air travel	Tools	Software design
Handbag	Education	Sugar cane	Industrial cleaning
Computer game	Garden design	Tractor	Printing

SATISFYING NEEDS AND WANTS

SUBJECT VOCABULARY

needs basic requirements for human survival
 wants people's desires for goods and services

Businesses have to satisfy people's **needs and wants**.

Needs are the requirements for human survival. Some are physical such as water, food, warmth, shelter and clothing. If these needs cannot be satisfied humans will die.

SUBJECT VOCABULARY

infinite without limits in space or time
 finite having an end or a limit
 scarce resources with limited availability

THE PURPOSE OF BUSINESS ACTIVITY

SUBJECT VOCABULARY

private sector business organisations owned by individuals or groups of individuals
 public sector business organisations owned by central or local government

DID YOU KNOW?

In the UK there are over 5.4 million privately owned businesses. Most of these are small (10–49 employees) or medium (50–249 employees) in size, they make up 99% of all businesses.

KEY POINT

Many goods and services provided in the public sector are free at the point of use. They are paid for through tax revenue.

WHAT IS BUSINESS ACTIVITY?

Humans also have other desires. These are called wants and include holidays, a better house, a bigger car, a better education and a cleaner environment. These wants are infinite. Most people want more than they already have. It is human nature. Unfortunately, the resources available to businesses are finite. This means there is a limited amount. Economists say such resources are scarce.

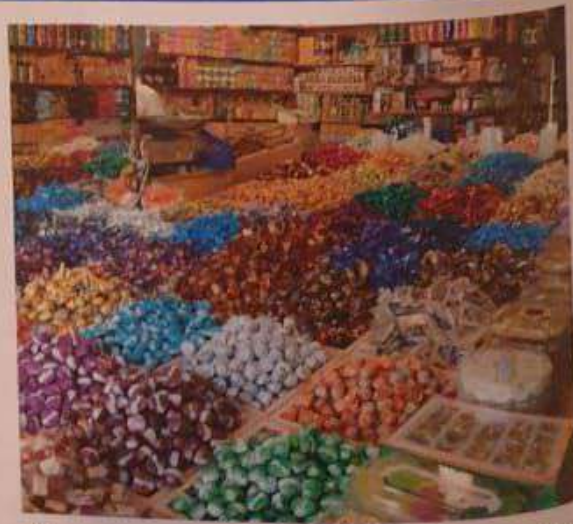
Businesses exist to provide goods and services. However, different types of organisation provide goods and services for different reasons. Each type of organisation has a different purpose.

- **Private enterprise:** Most businesses are owned privately by individuals or groups of individuals. They are **private sector** businesses. The objective of a private enterprise is often to make money – a *profit* for the owners. The objectives of private sector businesses are discussed in Chapter 2, pages 11–18.
- **Social enterprise:** Some organisations in the private sector are non-profit making. Organisations, such as charities, pressure groups, clubs and societies exist for reasons other than profit. For example, charities, such as UNICEF, exist to raise money for 'good' causes. Clubs and societies, such as youth groups and sports clubs, provide opportunities and facilities for people with common interests. Social enterprises are discussed in Chapter 3, pages 19–26.
- **Public enterprise:** Some goods and services are provided by organisations owned by central or local government. These are public sector organisations. In many countries **public sector** organisations often provide health care, education, mail delivery, policing, the fire service and environmental services. The main purpose of a public enterprise is to provide the goods and services that private enterprise fails to provide adequately. Public enterprises are discussed in more detail in Chapter 5, pages 35–43.

ACTIVITY 1

CASE STUDY: GULF CONFECTIONERY AND BISCUIT CO.

The Gulf Confectionery and Biscuit Co. (LLC) manufactures high quality sweets such as toffees and lollies. It has a factory that employs sophisticated, up-to-date technology and it is committed to the production of high quality products.



▲ Some products produced by the Gulf Confectionery and Biscuit Co.

- 1 Does the Gulf Confectionery and Biscuit Co. supply products that satisfy needs or wants?
- 2 The Gulf Confectionery and Biscuit Co. is a private enterprise. What does this mean?

BUSINESS STAKEHOLDERS

SUBJECT VOCABULARY

stakeholder an individual or group with an interest in the operation of a business

Any individual or group that has an interest in the operation of a business is called a **stakeholder**. Owners have a financial 'stake' in the business. This is because they have invested some of their own money and usually a lot of their time. Some stakeholders, such as employees, rely on the success of a business for the income to meet their needs and wants. Figure 1.1 shows the different business stakeholders.

► Figure 1.1 Business stakeholders



SUBJECT VOCABULARY

entrepreneur person who takes risks and sets up businesses; individual who organises the other factors of production and risks their own money in a business venture

OWNERS

A business belongs to its owners. Many small businesses are owned by individuals, families or small groups of people. These people are often called **entrepreneurs**. They are responsible for setting up and running the business. Larger businesses, such as limited companies (see Chapter 4, pages 27–34), are owned by *shareholders*. Shareholders invest money in a business and get a share of the profit called a dividend.

CUSTOMERS

Customers buy the goods and services that businesses sell. Most customers are consumers who use or 'consume' goods and services. However, some may be other businesses. Customers want good quality products at a fair price. If they do not get them; they will spend their money elsewhere.

EMPLOYEES

Employees work for businesses. They depend on businesses for their salary. However, they have other needs. They will require training so that they can do their jobs properly. They want good working conditions, fair pay and benefits, job security and opportunities for promotion.

MANAGERS

Managers help to run most businesses. They are often employed to run the different departments in businesses, such as marketing, production, finance and human resources. Managers have to lead teams, solve problems, make decisions, settle **disputes** and **motivate** workers. Managers are likely to help

GENERAL VOCABULARY

dispute serious argument or disagreement
motivate encourage someone to do something

plan the direction of the business with its owners. They also have to control resources, such as finance, equipment, time and people. Managers are also accountable to the owners. This means they have to take responsibility if things go wrong.

FINANCIERS

Financiers lend money to a business. They may be banks but could be individuals, such as family members, or private investors, such as *venture capitalists* (see Chapter 25, pages 210–217). Clearly these stakeholders have a financial interest in a business and will be keen for it to do well.

SUPPLIERS

Businesses that provide raw materials, parts, commercial services and utilities, such as electricity and water, to other businesses are called *suppliers*. Relations between businesses and their suppliers must be good because they rely on each other. Businesses want good quality resources at reasonable prices. In return suppliers will require prompt payment and regular orders.

THE LOCAL COMMUNITY

Most businesses are likely to have an impact on the local community. A business may employ a lot of people who live in the local community. If the business does well the local community may benefit. There may be more jobs, more overtime and possibly higher pay. In contrast a business may be criticised by the local community. For example, if the owners of a noisy factory decide to introduce night shifts, there may be complaints from local residents.

THE GOVERNMENT

The government has an interest in all businesses. They provide employment, generate wealth and pay taxes. Taxes from businesses and their employees are used to finance government spending.

THE CHANGING BUSINESS ENVIRONMENT

All businesses operate in a changing business environment. This means that they may be affected by external factors that are likely to change over time. Such factors include the strength of competition, the economic climate, government legislation, population trends, demand patterns, world affairs and social factors.

To survive, businesses must produce goods and services that satisfy people's needs and wants. They must have clear objectives and be aware that the changing environment can bring new opportunities and impose new limitations.

DID YOU KNOW?

In 2008/09 there was a global recession. In some countries the recession lasted for many years. This meant that many businesses had to deal with very difficult trading conditions. Many adapted by freezing wages, closing down unprofitable divisions, reducing staff numbers and improving efficiency.

ACTIVITY 2

CASE STUDY: STAKEHOLDERS

► Different stakeholders in a store



- 1 What is meant by the term business stakeholder?
- 2 Name the two groups of stakeholders in the photograph.
- 3 The goods sold in the store above are bought from suppliers. What are the possible needs of suppliers.

MULTIPLE-CHOICE QUESTIONS

- 1 Which of these products is designed to satisfy a need?
 - A Potato crisps
 - B Cricket bat
 - C Bread
 - D Smartphone
- 2 Which of the following is a business stakeholder?
 - A Lawyer
 - B Tax collector
 - C Customer
 - D Police officer
- 3 Which of the following business activities is a service?
 - A House construction
 - B Dental treatment
 - C Coconut farming
 - D Gold mining
- 4 An example of a producer good is:
 - A Tractor
 - B Newspaper
 - C Package holiday
 - D Meal at a restaurant

CHAPTER REVIEW

GENERAL VOCABULARY

machinery equipment with moving parts that uses power, such as electricity, to do a particular job

► Figure 1.2 JCB earnings before interest, tax, depreciation and amortisation (EBITDA), 2011–14

SUBJECT VOCABULARY

EBITDA earnings before interest, tax, depreciation and amortisation

► An example of a machine (digger)

CASE STUDY: JCB

JCB, a private sector business, was formed in 1945 and produced trailers for use on farms. Today, it is one of the top three manufacturers of construction equipment in the world and produces a wide range of **machinery**, such as engines, diggers and forklift trucks. The business employs around 11 000 people in locations over four continents and sells its products through more than 750 dealers worldwide. Figure 1.2 shows the earnings before interest, tax, depreciation and amortisation (EBITDA) made by JCB between 2011 and 2014. During this time, the construction industry has performed poorly in many countries.



CHAPTER QUESTIONS

- 1 JCB makes producer goods. What is meant by the term producer goods?
- 2 What is meant by the term private sector?
- 3 Name two possible stakeholders in JCB.
- 4 Describe the role played by managers in a business such as JCB.
- 5 JCB operates in a changing business environment. What does this mean?
- 6 Assess whether the owners of JCB would be happy with the financial performance of the business between 2011 and 2014.