3.1.1 - The purpose and nature of businesses

Businesses in the **Private Sector (owned by individuals)** usually exist to make a **profit** but may also exist for the **benefit of others**. Profit or other benefits are achieved through **producing a good** or **providing a service** where a **business opportunity exists** in the **business environment**. **Public Sector organisations (owned/run by government)** exist to provide services to the population, such as schools and hospitals.

Factors of Production - the elements needed for businesses to operate:

Land	Labour	Capital	Enterprise
Buildings/offices	Work of staff	Money / machinery	Ideas and risk-taking

Sectors of Industry - businesses divided by their **stage of production**:

Primary	Secondary	Tertiary
Extracting raw materials	Manufacturing	Providing a service

Needs	Wants
Products I need in order to survive	Products I want to have but don't need

Goods	Services
Physical items	Actions done for you by someone else

Opportunity Cost:
The value of the next best alternative, lost when we make a choice. For example; if our choices could generate a)£10, b)£100, or c)£1000. The opportunity cost of choosing option c is the value of b = £100

Enterprise & Entrepreneurship:
Enterprise is the act of doing business - investing and working in order to increase the value of raw materials or our actions.
Entrepreneurship is the act of creating new business ideas, taking opportunities, while being innovative and prepared to take risks in order to turn their money into more money.

3.1.2 - Business ownership

	Liability/Size	Advantages	Disadvantages
Sole Trader	Owner: Unlimited Liability Small	● Own Boss - Keep **control** ● Keep all profits ● Can employ people ● Cheapest to set up	● all liability / need insurance ● Not working = not earning
Partnership	Partners: Unlimited Liability Small/Medium	● Shared responsibility ● More investment ● Not working = business still earning ● Can have "sleeping partners" (Limited Liability but no say in how the business is run)	● Have to share profits ● Not in complete control ● More expensive to set up
Private Limited (Ltd.)	Shareholders: Limited Liability Small—Large	● Can keep control by keeping a majority of the shares ● Opportunity for additional investment	● Cannot sell on the stock market ● Selling more than 49% of the shares could see you lose control ● Profit likely to be shared through **dividends**
Public Limited (PLC.)	Shareholders: Limited Liability Medium-Very Large	● Can sell shares on the **Stock Market** - more investment ● Kudos / greater reputation	● Kudos / greater reputation ● **Share Price** controlled by the market - investment might increase or decrease depending on the **economy** ● Risk of a **Hostile Takeover** - could be voted out as **CEO** by the shareholders at an **AGM**
Not for Profit	Trustees: Limited Liability	● Opportunity to increase income/impact by publicising 'Charity' status	● Close scrutiny by the **Charity Commission**

3.1.3 - Setting business aims and objectives

Objective	Explanation
Survival	For the business to avoid going bust
Profit Maximisation	To achieve the most profit possible
Growth	Getting bigger / expansion through internal or external growth
Market Share	The % of a product sold in the UK sold by a single business
Social/Ethical	To meet or exceed customer expectations related to the environment / treatment of staff or other issues
Customer Satisfaction	How pleased a customer is with the product or service received
Shareholder Value	Improving performance of the business to raise the share price or the amount of profit that can be shared as dividends

Objectives give a business direction. Over time we achieve things and the world changes around us, so objectives change over time. **Business size** will affect their choice of objective in the same way that business ownership will change their objectives. Bigger businesses will have different aims to smaller ones, and those owned by shareholders will have be different to Sole Traders.

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3.1.4 - Stakeholders

A **Stakeholder** is a person or organisation with a **concern** (an investment) or an **interest** in (they might be affected by) a business.

Common **Stakeholder Groups** include:

Internal
- Workers
- Managers
- Owners
- Directors

External
- Shareholders
- Customers
- Local Community
- Government
- Banks / Creditors
- Suppliers
- Trade Unions
- Special Interest Groups

Different groups will have more or less of an interest and more or less influence over the business and its decisions. Groups like Shareholders will influence the business as they want the business to deliver them **Shareholder Value**, whereas **Directors** have significant influence as they control the business.

Different stakeholder groups may be **in conflict** with one another as their interests contradict each others. For example, the local community will want fewer lorries on the road, but managers want more sales.

3.1.5 - Business Location

Businesses location can be extremely important for the success of a business. How close you are to **raw materials** or to **customers** can have a significant impact on the costs of getting your product to market.
Some businesses will want to be close to their **competition** – such as casual dining restaurants, as it will bring more potential customers to the area. While others, such as small independent restaurants may want to be far from their big-chain rivals.
Manufacturing companies are likely to need skilled **labour**, and so being near to a suitable number of skilled workers will be important.
Most businesses will have some **essential services** they need to be near to, such as **the motorway network**, **high-speed internet** connection, or international **travel hubs**.

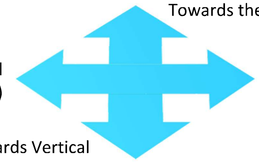
3.1.6 - Business Planning

A business plan is a written document that describes a business, its objectives, its strategies, the market it is in and its financial forecasts.
The business plan has many functions, from securing external funding to measuring success within the business.

A business plan needs to address the issues of interest to the reader and user. Assuming that the plan is meant to be read by potential finance providers (e.g. a bank, business angel or venture capitalist) then it ought to provide convincing and realistic answers to questions such as:

- What is the business?
- Who are the people?
- What is the product?
- Who are the target market?
- Is the market growing?
- Customers – what price will be acceptable?
- Costs / Profitability
- When will we break-even?
- What investment is needed?
- Who is financing the business?
- Risks / Solutions?

3.1.7 - Expanding a business



Takeover	Also called an acquisition, one company buys another. This could be by buying a majority of the shares, or by buying the company outright.
Merger	Two companies agree to join together – both original sets of owners keep some ownership.
Forwards Vertical	A business integrates (merges with or takes overs) a business **closer** to the customer. i.e. a manufacturer buying a retailer who sells their goods.
Backwards Vertical	A business integrates with a business **further away** from the customer. i.e. a retailer buying a manufacturer that supplies them with goods.
Horizontal	A business integrates with a business who operate in the same market as them, at the **same stage of production**. i.e. two car manufacturers like Jaguar and Land Rover.
Lateral	A business integrates with a business who operates in a different market, possibly at a different stage of production. i.e. Tata, who bought Jaguar Land Rover, and PG Tips.
Outsourcing	Paying another company to do some of your work for you, or perform certain jobs for you.
Franchising	Selling the right to use your brand – you (the **Franchisor**) allow other companies (**Franchisees**) to use your name, logo, products, in exchange for an annual fee and share of the revenue.

Economies of Scale: benefits of getting larger (Purchasing / Technical)
Diseconomies of Scale: drawbacks of getting larger (Communication / Coordination)

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Key Term	Definition
Acquisition / Takeover	One business takes control and ownership of another.
Business Environment	The range of external factors that influence a business: PESTLE-C – Political, Economic, Social, Technological, Legal, Environmental and Ethical, and Competition.
Capital	Investment in machinery, and the money required to start the business. One of the four **Factors of Production**.
Competition	The rivalry between businesses looking to sell their goods/services in the same market.
Competitive market	Businesses compete for the same customers, no one business has more than 25% market share.
Conglomerate	A business that owns brands in a range of different industries. For example, easyGroup own easyJet, easyHotel, easyPizza, easyGym, easyMoney, easyEnergy, and more.
Costs	The money spent by a business on goods and services. Fixed Costs: The costs that stay largely the same, regardless of the business' output. Variable Costs:
Creditor	These are people or organisations who have supplied goods or services to a firm but have not yet been paid for them.
Deed of Partnership	This is a legal document which shows how responsibilities, profits and workload are to be shared.
Diseconomies of Scale	When a business grows too large, leading to a possible increase in unit cost.
Dividend	A portion of the after-tax profit that is paid to shareholders according to the number of shares they own.
E-Commerce	Business transactions carried out electronically on the internet.
Economies of Scale	The cost advantage of producing on a large scale. As output increases the unit cost decreases. **Technical Economies of Scale**: Being a larger organisation allows you access to more capital, with which you can buy larger machines that enable you to increase you output while lowering unit costs. **Purchasing Economies of Scale**: Buying in larger quantities enables you to access higher **price breaks** which leads to a fall in the unit costs.
Enterprise	The ability to identify business ideas and opportunities to bring them to fruition and to take risks where appropriate. One of the four **Factors of Production**.
Entrepreneur	A person who is willing to take a risk by investing money into a business, organising the resources and hoping to make a profit. e.g. Richard Branson. Usually they do this because; they are ambitious, dissatisfied with working for other people, to pursue an interest, or because they have seen an opportunity,
Entrepreneurship	The act of being an entrepreneur – starting your own business and taking risks.
Footloose	A business that can be set up virtually anywhere – it has no specific need to be close to any specific resource or set of customers.

Key Term	Definition
Integration	Businesses joining together through either a **Merger** or **Acquisition / Takeover**
Intrapreneurship	Encouraging your employees to take risks and act **as if they were an entrepreneur** – but while working for you.
Labour	The work done by employees are those running the business. One of the four **Factors of Production**.
Land	Land and buildings. One of the four **Factors of Production**.
Liability	The extent of the owner's/owners' responsibility for the debts of the business. **Limited Liability**: The owners are not responsible for the debts of the business. The limit of their liability for the business' debts is the amount they have **already** invested.
Merger	When two or more businesses agree to join together.
Monopoly	Where a business has a market share of 25% or more. This allows them to dictate prices, their size in the market makes them difficult to compete with as they are able to achieve economies of scale.
Objective	A specific statement that defines a precise goal that can be measured and delivered within a given time.
Opportunity Cost	The cost of the next-best alternative that has to be given up when a choice is made.
Outsourcing	Contracting another business to carry out some of the business' activities, often to reduce costs.
Primary Industry	Industries which extract natural resources. e.g. farming, oil drilling & mining.
Private Sector	Businesses not owned by the state (government) but by individuals or groups.
Profit / Loss	**Profit**: Where income is greater than expenditure. **Loss**: Where expenditure is greater than income.
Public Sector	Organisations where the activities are carried out either by national or local government.
Raw Materials	Materials and resources that are found / grown / extracted in the form that they will be used.
Revenue	Income from the sale of goods and services over a period of time.
Secondary Industry	Industries which manufacture, assemble, process and construct goods.
Sleeping Partner	A partner who puts in finance but does not take part in running the business. They have limited liability.
Special Interest Group	A stakeholder in an organisation with a particular interest, such as the Environmental Lobby – a group with a specific interest in businesses operating in an environmentally friendly way.
Tertiary Industry	Industries which provide services both to individuals and other sectors of industry.
Trade Union	An organisation who work to ensure that the interests and rights of their members (a group of workers) are protected.
Unit Cost	The costs of the raw materials and components that have been combined to create a product.