Business Studies Notes
Year 9 & 10

Chapter 1
The purpose of Business Activity

A **NEED** is a good or service essential for living (food, water, shelter, education etc.). A **WANT** on the other hand is something we would like to have but is not essential for living (computer games, designer clothing, cars etc.). people's wants are unlimited. The Economic Problem results from an unlimited amount of wants and a limited amount of resources to produce those goods and wants.

Click here for further reading on this subject....

There are several things that cause the Economic Problem. These factors are known as Factors of Productions (*resources of production*) and a lack of them causes scarcity. These factors are as follows:

- **Land:** This term refers to all the natural resources provided by nature and includes fields, forests, oil, gas, coal, metals and other mineral resources.
- **Labour:** This is the efforts of the people required to produce the final product. Examples: the police, lawyers, doctors, teachers etc.
- **Capital:** This is the finance, machinery, and equipment required to produce the goods. **The 'price' of acquiring capital is referred to as interest**. Examples: computers, cranes, cement mixers, coffee makers, specialist machinery for factories etc.
- **Enterprise:** This is the skill and risk taking ability of the person who brings the other resources or factors of production together to produce the goods or provide a service. **The return for enterprise is called profit**. For example the owners of a business. These people are referred to as entrepreneurs.

As there are never enough of the above factors to produce all the needs and wants of people we continually face the economic problem of scarcity.

When there is a lack of resources it is impossible to satisfy all our wants, therefore, we must decide which wants we wish to satisfy and which we intend to sacrifice. Those that we sacrifice automatically become known as the **OPPORUNITY COST**. The **OPPORTUNITY COST** is the next best alternative to the good that we are buying.

Factors of Production are always in limited supply therefore it is important to use these resources in the most efficient way.

Refer to page 4 in textbook for example

Over time production methods change. Machinery is now more widely used to produce goods than before, and large firms are more common than they used to be. These firms employ specialised workers for special tasks.

Specialisation and Division

The reason these large firms are so successful is because they employ the production methods of **SPECIALISATION** and **DIVISION**. A firm using this method employs a large labour workforce and then distributes the work equally amongst them. This can lead to a rise in production levels. However, this method has advantages as well as disadvantages.

Advantages	Disadvantages
✔ Workers are trained in one task and specialise in it – this leads to increased efficiency and output.	✖ Workers may become bored doing one job – efficiency may fall.
✔ Less time is wasted moving from one workbench to another.	✖ If one worker is absent and no one else can do his job then production may stop.

Summary

- People have unlimited wants.
- The four factors of production are in limited supply.
- Scarcity is a result of limited resources and unlimited wants.
- Choice is necessary when resources are limited and this leads to opportunity cost.
- Specialisation and Division lead to improved efficiency and high production output.

Links

[Click here to revise at BBC Bitesize.]

Chapter 3
Forms of business organisation

There are five main types of business organisations in the private sector:

1. Sole Traders
2. Private Limited Companies
3. Public Limited Companies
4. Partnerships
5. Co-operative
6. Franchises
7. Joint Ventures
8. Close Corporations

Sole Trader

A sole trader is a very common form of business organisation. It is owned and operated by a single person. The sole proprietor can employ more people if he wants. One of the main reasons it is very common is because it requires very few legal formalities. Only the following regulations must be followed:

1. The name of the business is very important. In some countries it must be registered with the Registrar of Business Names. In the UK it is sufficient enough that all the business's documents have the firm's name on them. It is also required a notice with the name of the owner be placed at the main office.
2. The sole trader must register with and submit an annual record of accounts to the Tax Office
3. In some industries it is necessary that the sole trader follow certain regulations like health and safety laws. The sole trader may also have to obtain a licence to operate a car or sell alcohol.

Advantages of a sole trader:

1. Few legal formalities
2. Complete control
3. Freedom of how to manage business
4. Personal contact with customers.
5. Profit motive provides incentive to work harder.
6. Secrecy where concerned with business matters.

Disadvantages of a Sole Trader:

1. There is no one to discuss business matters with.

2. The owner does not benefit from limited liability. The business is not a separate legal unit. The business's accounts cannot be separated from the owner's accounts. This means the owner is responsible for any of the debts the business may run into. If the owner can't pay the money his creditors can force him or her to sell their personal property to pay their debts.

3. There is limited capital available to expand the business. The business's financial sources are limited to the owner's profits, savings and small bank loans. Banks usually hesitate to give large sums of money to such small firms.

4. Due to the size of the business the owner cannot afford to employ specialists to perform certain tasks; like managing the accounts of the business. As a result the owner may be forced to do certain things he is not skilled at.

5. The business is likely to stay small without any capital. It will not benefit from economies of scale. Due to the small size of the business it is very hard to find good recruits; no training or opportunities can be provided for their future careers.

6. After the death of the owner the business will cease to exist; since after the death of the owner there is no business continuity.

Partnership

A partnership is an association of between 2 or 20 people. The various partners will take a share of any of the profits, have a say in how the business is managed and contribute to the capital. A partnership can be formed quite quickly. For example a sole trader could simply ask a friend to become his partner in a business. This is a verbal agreement. The sole trader would be advised to draw up a written agreement known as a Deed of Partnership or Partnership agreement. Without a Deed of Partnership the owners may disagree with other about who contributed the most capital or who deserves the most amount of the profit. A written agreement settles all these matters.

A Limited Liability Partnership (LLP) could be formed after the year 2000 in the UK. However, shares in the business can't be sold. The business is a separate legal unit and its accounts are separate from that of the owner. As a result the business continues to function even if one of the owners die and the partners of a business have limited liability.

Private Limited Company

The main difference between an unincorporated business and a company is that the company is a separate legal unit. This means:

1. The company can make contacts and legal agreements.
2. The company's accounts are kept separate from the owners.
3. The company exists separately from the owner and there is business continuity even if one owner dies.

Companies are jointly owned by people who invest in the business. These people buy shares and are known as shareholders. They in turn elect directors to run the business. The directors are usually the most important or majority shareholders. This is not the case in a public limited company.

Advantages

- Shares sold to relatives or friends of owners
- Large sums of capital raised
- Business expands rapidly

- Shareholders have limited liability
- Shareholders encouraged to buy more shares due to this
- Shareholders only lose money invested into business if business fails
- Important to know what kind of organisation you are dealing with i.e. private limited, public limited etc
- UK= Limited or Ltd. Other countries= Pty (Ltd.) Proprietary Limited

- Original owners can maintain control over business
- Must take care to sell too many shares to others

Public Limited Company

This type of business organisation is well suited to large businesses. Most businesses which are well known to the public because they own many factories and large chains of shops are public limited companies.

In the UK a:

1. Private Limited Company uses the short form of **Limited or Ltd.**
2. Public Limited Company uses the short form **Plc.**

In other parts of the world like South Africa a:

1. Private Limited Company uses the short form **Proprietary Limited or (Pty) Ltd.**
2. Public Limited Company uses the short form **Limited**.

Conversion from a Private Limited Company to a Public Limited Company

1. A statement in the Memorandum of Association must state that the company is now a Public Limited Company.
2. The accounts must be drawn up in a certain way and submitted to the Registrar of Companies; the public will have access to these accounts.
3. An amount of shares of a certain value must be issued (£50,000 in UK).
4. The company will apply to be listed on the Stock Exchange so as to allow its shareholders to buy and sell shares easily. The Stock Exchange will check the company's trading history and accounts to make sure the business is run properly.

Once these steps are followed then the company must issue a prospectus. This is a formal and detailed document that invites the public to buy shares in the business. It contains detailed information on the past of the business and the future plans of the business. Reasons for how the capital is to be raised and spent must be stated.

Control and ownership of a Public Limited Company

In all sole trader organisations and partnerships the business is controlled buy the owners. They decide how to manage and run the business so as to accomplish their aims. This is also true in Public Limited Companies as there are very few shareholders. The directors are the majority shareholders and can ensure that decisions are passed at each meeting.

In a public limited company things are quite different. There are often thousands even millions of shareholder (in the largest companies) and it is impossible for all these people to take part in a decision. However, they do congregate at the Annual General Meeting (AGM). The only real impact the shareholders can have at this meeting is the election of the company directors. They are tasked with running the business and taking decisions. They can't possibly run the business alone so they appoint managers to take day to day decisions.

The shareholders own but the directors and managers control. This is known as the *divorce between ownership and control*. This is very important for the shareholders who have risked there money by investing into the business. The managers and directors may start to run the business to satisfy their own aims. These could be increased status, growth of the business to justify higher management salaries and reduction of dividends so as to pay for expansion projects. The shareholders have no control over these decisions other than electing new directors. This could provide bad publicity for the company and lead to n unstable business since the new directors maybe inexperienced.

Many companies have a divorce of ownership and control, meaning the owners and those who control the firm (managers) are different groups with different objectives.

The owners will more than likely wish to pursue a profit maximising objective; however the managers will more than likely have their own agenda. Managers may wish to have an easy life or maximise their prestige, the pursuit of these goals will lead to increasing costs and therefore profits will fall. This behaviour is described as profit satisfying; the managers make enough profit to keep the shareholders happy, while enjoying as many perks as possible.

Co-operatives

Co-operatives are groups of people who agree to work together and pool their resources. They can take various forms but they all have similar features:

1. Each member has one vote no matter how many shares he owns.
2. Profits are shared equally.
3. All members help in running the business. The work load and decision taking are shared equally. In larger co-operatives a manager is appointed to take day to day decisions.

There are two types of co-operatives that exist in the UK:

1. *Producer Co-operatives*: are groups of workers who design and manufacture products like many other manufacturing businesses.
2. *Retail Co-operatives*: aim at providing customers with high quality goods and services at a reasonable price.

In other parts of the world co-operatives exist mainly in the agriculture business. The various members try to secure the purchase of materials in bulk so as to benefit from economies of scale. They also collect all of the member's produce at sell at attractive prices to big customers. The farmers who are part of such co-operatives would not gain from these benefits if they traded individually.

Close Corporations

Such corporations do not exist in the UK; however, they are actively encouraged in other countries like South Africa. They are similar to Private Limited Companies but can be set up quite easily. There are fewer regulations to follow and much less rules governing how they are to be managed.

1. The number of members is limited to ten people.
2. Only a simple founding statement needs to be sent to the Registrar of Companies.
3. The members are also the managers (no separation between ownership and control).
4. The business is a separate legal unit. Thus, there is business continuity even if one of the owners dies and the owners have limited liability.

Disadvantages

1. The amount of members is limited to 10 people making it unsuitable for large businesses.
2. The various partners may disagree on many decisions.

Joint Ventures

A joint venture is when two or more companies start a project together. They share the risks, profits and capital. Many European companies have begun joint ventures with Chinese companies in China. The local managers have good experience in the local tastes and needs.

Franchise

This is now a widespread way of doing business. The franchisor is a business with a product or idea that it does not want to sell directly to the customer. Instead it authorises a franchisee to sell its product or idea directly to the customer. Examples are McDonalds and The Body Shop.

http://www.bbc.co.uk/schools/gcsebitesize/business/aims/limitedcompaniesrev2.shtml

Business Organisations: the public sector

The public sector is an important part of any nation's economy. The public sector includes all the businesses owned and controlled by the government and state, public services like schools, hospitals, fire services etc and government departments.

There are two main types of business organisations in this sector:

1. Public Corporations
2. Municipal Enterprises

Public Corporations

These are wholly owned by the state or government. They are usually businesses that have been nationalised. This means they used to be owned by private individuals before the government bought them. Examples: water supply and rail service. Public corporations are owned by the government but they do not directly operate them. Instead the ministers of the government appoint a board of directors to run and manage the business. The government also provides a set of objectives which the directors are expected to follow.

These objectives have changed over time in most countries. In the past corporations used to be given social objectives, like:

1. To keep the prices of the products provided low so that everyone can afford them.
2. To keep people in jobs so as to prevent a rise in unemployment.
3. To offer the service in all parts of the country.

However, by following these aims these public corporations began to make heavy losses. To cover these losses the government provided subsidies. The government realised it couldn't continue to provide these subsidies. Thus, they made certain changes to the corporation's objectives, like:

1. To reduce costs by making some workers redundant.
2. To stop servicing loss making areas.
3. To increase efficiency and operate more like a business in the private sector.

This policy of operating more like a business in the private sector (corporatisation) meant these corporations were being readied for privatisation.

Chapter 11
Managing a Business

All organisations have managers. They may not be called managers but instead have different titles; headmaster, director, leader etc. The following are the tasks that all mangers will take over a period of time:

- Planning for the future of the organisation involves setting aims or targets. These aims give the organisation a sense of direction. There will be a common feeling of having to work towards something. A poor manager will not plan for the future. In addition to setting these aims managers must plan for the resources that will be needed.

- Managers cannot do everything by themselves. Tasks must be delegated to subordinates and they must have their correct resources to complete their tasks effectively. Hence, managers must organise resources and people effectively.

- Co-ordinating means bringing together. A manager may excel at planning and organising but he/she may fail to bring the organisation together. This a real danger to the functional form of the organisation. For example, what is the use of the Marketing Department planning the release of a new product without informing the Production Department? In the end it will be up to the Production Department to make the product at the right time in the right quantities. A good manager will ensure that the departments work together to reach the set aims.

- Commanding where managers provide guidance, lead and supervise employees. Managers ensure they reach their targets and that instructions reach all employees.

- Controlling where the manager evaluates and measures the progress of employees. They ensure that they meet the set aims and if not they will be disciplined appropriately. However, there maybe reasons for poor performance other than inefficient workers.

With a poor management a business will lack:
- A sense of control and purpose.
- Coordination between departments
- Control over workers
- Organisation of resources leading to low output and sales.

The qualities of a good manager include:
1. Initiative
2. Intelligence
3. Self confidence
4. Communication skills
5. Enthusiasm and energy

Strategic decisions: are vital to the organisation's overall success. These are taken by the senior management and include takeovers, mergers and acquisitions.
Tactical Decisions: taken more frequently and of less importance.

Operational Decisions: are day to day decisions taken by lower levels of management.

Decision Making Process:
1. Set objectives for the business.
2. Identify and analyze problem at hand.
3. Collect data
4. Consider options and implement final decision.
5. Review and evaluate success.

Chapter 12
Communication in a business

Communication is the transmission of a message by one person to another who understands the contents of that message. This message is the instructions or data being passed onwards. We communicate with people everyday. However, it is vital that we communicate effectively with others. Ineffective communication can have grave consequences.

The communication process:
- *Sender:* - this is the person who has chosen to transmit the message.

- *Medium of communication:* - this is the method of communication chosen e.g.: via the telephone or the company notice board.
- *Receiver:* - this is the person who the message is intended for.
- *Feedback:* - this shows that the message has been received, understood and acted upon. Effective feedback can provide valuable information for future decisions.

<u>One-way communication:</u>
This is where a message is transmitted to the receiver with no chance for feedback being called on or provided.

<u>Two-way communication:</u>
This is where communication takes place with the receiver being given a chance to respond with feedback.

<u>Advantages of two-way communication:</u>

- ✓ Both people are involved in the communication process. The receiver feels part of the process and he/she can provide real-time feedback. This may motivate the receiver.
- ✓ It will become apparent if the receiver has understood and acted upon the message. If not, then the receiver may have to resend it and make it clearer. Until the receiver understands the message effective communication has not taken place.

Internal communication: this is communication within an organisation. E.g.:

1. A manager sends an internal memorandum to his subordinates.
2. An employee is given a redundancy letter.

External communication: is the communication between different organisations or with outside people. E.g.:

1. A delivery notice is sent to a firm's supplier.
2. Letters are delivered to debtors reminding them of their due payments.

External communication is very important to the image and efficiency of a business. If, for example, a business fails to communicate effectively with their suppliers then they may end up receiving the wrong materials.

<u>Verbal Communication:</u>

- *One-to-one talks* between sender and receiver.
- *Telephone* conversations.
- *Videoconferencing* whereby people can see and hear each other via video link.
- *Meetings* are an easy way to get across information to many people.

<u>Advantages:</u>

- ✓ Information can be given out quickly; this is especially effective with meetings.
- ✓ There is chance of immediate feedback from the receiver; therefore, two-way communication comes into play.
- ✓ The message is usually reinforced by the body language of the sender.

<u>Disadvantages:</u>

- ✗ In a big meeting it is not possible to determine of everyone is listening or comprehending the message being communicated.
- ✗ It takes longer to respond with feedback verbally; the feedback may not be accepted.

- ✗ In some cases where a record of the communication (a warning being given to an employee) needs to be kept verbal communication is inappropriate.

Written Communication:

- ➢ Letter: these are usually formal and are mediums for internal or external communication. They should follow a set style.
- ➢ Memorandums: these are mainly used for internal communication. They contain messages which are circulated around the business. In some cases a local intranet may be used.
- ➢ Reports: these are written documents containing very detailed ideas about a certain issue. These may be read by a manager before going into a meeting to discuss the particular issue. The details are usually too complicated to be understood by subordinates.
- ➢ Notices: these are small messages usually pinned onto the notice-board for all to see. There is no guarantee that everyone will read these notices.
- ➢ Faxes: (facsimile messages) are written documents transmitted electronically.
- ➢ E-mails: these are electronic letters sent via the use of computers.

Advantages:

- ✓ There is hard evidence which can be referred to in the future in case of any disagreements between the sender and receiver.
- ✓ In the case of complicated issues it is better to communicate them via written documents as they might be misunderstood.
- ✓ A written message can be copied and forwarded to several people.
- ✓ Electronic communication can be used as a cheap and effective manner of communication with many people.

Disadvantages:

- ✗ Direct feedback is not possible or easy enough unless an electronic medium is used.
- ✗ It is not easy to determine whether the message has been received or acted upon.
- ✗ The document may be too long and complicated, thus, losing the interest of the reader.
- ✗ The message can't be reinforced by using body language.

Chapter 19
Product and Packaging

Products are classified into different types:

- **Consumer goods:** these are goods produced for people. They are either durable (last long) or non durable (don't last long).
- **Consumer services:** these are services carried out to satisfy people's wants. Example: car repairs, education etc.
- **Producer goods:** these are goods produced so as to be used by other businesses to aid the production process. Eg: lorries, lathes, screwdrivers etc.
- **Producer services:** are provided to help other businesses; banking, accounting, insurance etc.

A successful product should:

1. Satisfy consumer's wants and needs otherwise it won't sell.
2. Be of the right quality and price so that consumers are willing to buy it.
3. Incur low production costs and earn high revenues so that a substantial profit may be earned.
4. Have excellent design and reliability features; this is paramount to brand image.

The process of production development is as follows:

1) Ideas are generated by consumers, employees, the R&D as well as production department.
2) The best ones are identified for further research.
3) The marketing department determines whether the business can produce the product/s by estimating probable sales level, market share and by carrying out a break-even analysis. Potential profits will be estimated too.
4) The production department then produces a prototype for testing. This helps determine if there will be any production problems later on and it gives a general idea of the end product.
5) The product is launched in a small part of the country so as to see how it fairs. If it doesn't fair well it can be easily altered scrapped without much harm to the business.
6) If all goes well it is launched on a larger scale and then its eventually exported.

In the past products used to be sold directly to the consumer. This made it easy to inform them of the products qualities and good points. Sales persons could be used to persuade them to purchase the product.
Nowadays products are sold to retailers who in turn sell the product to the end consumer. The qualities and features of the product are conveyed in a different manner; brand image and names. A branded product will need a unique brand name and a lot of advertising to persuade consumers to buy it. Branded products are marketed as of higher quality to unbranded products. It is the assurance of standard quality that encourages consumers to buy branded products.

Over time brand loyalty is built up where by consumers only purchase products from one brand rather than from its competitors. Brand image is also vital to success; products are given an identity of their own and develop their own personality.

Packaging is the physical container/wrapper a product is placed in. It has two functions:

1) It should be suitable to place the product in. It should be enable easy access to the product. It should protect it so as to prevent it spoiling. It should be robust enough to stand up to transport.
2) It is also used to promote a product. The packaging should be eye-catching and create a sense of appeal.

Product Life Cycle

- First a product is developed. A prototype is tested and market research carried out before launching it. No sales are made during this stage.
- The product is introduced to the market. Sales will climb slowly as few consumers will know of its existence. Advertising will be mainly informative.

Price skimming may be used if the product is a new development with no competitiors. No profits made as development costs have yet to be covered.

- During the growth stage sales increase rapidly. Some competitors have enterd the market and prices are lowered a little. Advertising is persuasive and pricing is competitive or promotional oriented. Profits are being mad as all development costs are covered.
- At saturation sales stabilise. Profits are at the highest level. High levels of advertising, many competitors, competitive pricing.
- Now the product declines along with sales. Product has lost appeal or there are new products in the market. Product becomes unprofitable and is withdrawn. Advertising reduces and is finally stopped.

Chapter 23
Factors affecting Production

Production is making of goods and services, by producers, using the factors of production to satisfy human wants and needs. It involves firms adding value to these commodities.

Productivity is a measure of the output against the inputs used to create it; usually labour.

As employees become more efficient output rises and so does productivity. With increased productivity average costs fall – economies of scale are attained.

Job production is where one product is made at a time. Examples; cinema films, cars, building houses and bridges etc.

Pros:

- Meets the exact requirements of the customer.
- Employees have to perform very varied tasks and this increases job satisfaction (motivation).

Cons:

- It is very labour intensive; hence expensive.
- A labour pool of skilled labourers has to be found.

Batch production is a method of production whereby a quantity of a certain product is produced over a certain period of time. Then the next batch of similar products are made.

Pros:

- It is a flexible form of production allowing for adaptability according to consumer demands.
- If some machinery breaks down the production line wouldn't affected badly; different products would use different machinery not the same one.
- Employees still gain job satisfaction as the more mundane jobs are performed by machines leaving them to do the slightly complex and interesting ones.

Cons:

- Finished products have to be stored in a warehouse; increased costs.
- The unfinished products must be transported around the factory to be assembled fully; time wasted.

Flow production is where large quantities of a particular product are mad continuously.

Lean production makes use of various techniques to reduce waste and increase efficiency. It aims to reduce the time needed to develop a product and sell it.

- Kaizen aims to reduce waste. It does this not by introducing new technologies but by making use of the experiences of its employees. Small groups of workers meet to discuss problems and ways to improve. Kaizen works well because no one knows how to improve the production process than the workers who are involved in it. With kaizen the production line is reorganized into self contained cells. This improves the production flow.
- JIT is a production method that reduces or eliminates the need to keep large stocks of components for production. With JIT an order is placed for the components only when it is needed. This reduces warehouse costs and keeps the production line efficient.
- Kanban see TB.

Advantages of technology:
1. Greater productivity.
2. Quick communication.
3. Computers help reduce paperwork.
4. Information circulated better.

Disadvantages of new technology:
1. Unemployment may rise.
2. Expensive to invest in new technology.
3. Workers may not want to change working practices.
4. The new technology will rapidly become obsolete.

Traditionally a firm would have a quality control department to search for defects in manufactured products. If any were found a whole batch might be scrapped or reworked. This is very expensive.

With QA high quality standards are set and enforced rigorously. This aims to get the job done the first time correctly.The purpose is to satisfy customers, increase value added and hence profits.

TQM is the continuous improvement or products and processes by focusing on quality at each stage.