

# Business and its environment

## A-Level Business

### Why businesses exist

People have **needs** 需要 (things you must have, like food and shelter) and **wants** 欲望 (things you would like, like a phone or a holiday). A business exists to meet these needs and wants by making **goods** 商品 and **services** 服务.



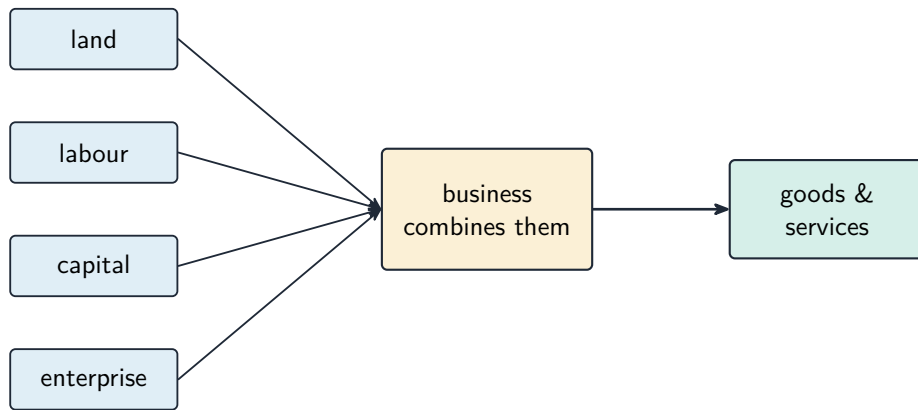
*Shops competing on a high street —the market a business operates in.*

Image: John Baker, CC BY-SA 2.0 (commons.wikimedia.org)

To do this, a business uses **resources** 资源. We sort resources into four **factors of production** 生产要素:

- **land** 土地—natural things, such as soil, water and minerals.
- **labour** 劳动力—the work done by people.
- **capital** 资本—the machines, tools, buildings and money used to produce.
- **enterprise** 创业精神—the skill of bringing the other three together and taking the **risk** 风险 to start a business.

### factors of production



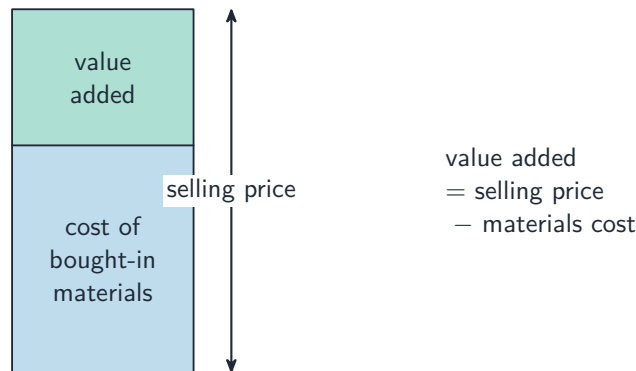
*Land, labour, capital and enterprise are the four factors a business combines to make goods and services*

Resources are **scarce** 稀缺—there are not enough to meet everyone's wants. So every business must choose how to use them well.

## Adding value

**Adding value** 增值 means the selling price of a product is higher than the cost of the **inputs** 投入 (the bought-in materials) used to make it.

$$\text{value added} = \text{selling price} - \text{cost of bought-in materials}$$



*Value added is the selling price minus the cost of bought-in materials*

A business can add value by **branding** 品牌, better quality, good design, fast service, or convenience. More value added can mean more **profit** 利润, but only if costs stay under control.

## Entrepreneurs and intrapreneurs

An **entrepreneur** 企业家 is a person who takes the risk to set up and run a business. They have the idea, organise the factors of production, and make the decisions. If the business fails, they can lose their money.

An **intrapreneur** 内部创业者 is an employee inside a larger business who acts like an entrepreneur. They build new ideas, products or ways of working, using the company's resources.

## Characteristics of successful entrepreneurs

Successful entrepreneurs are usually:

- **innovative** 有创新精神的—full of new ideas.
- willing to take risks, but in a careful way.
- hard-working and **determined** 有决心的—they do not give up easily.
- **self-confident** 自信的 and good at making decisions.
- good leaders who can plan ahead and manage money.

## Why enterprise matters to a country

When people start new businesses (**business start-ups** 初创企业), the whole country can gain:

- new jobs are created, which lowers **unemployment** 失业.
- more goods and services are made, which raises **output** 产出 (and the country's **GDP** 国内生产总值).
- more **competition** 竞争, giving customers lower prices and more choice.
- some firms grow and **export** 出口, bringing money into the country.
- **economic growth** 经济增长 and a higher standard of living.

## The business plan

A **business plan** 商业计划书 is a written document that describes the business idea and how it will work. It usually contains:

Part of the plan	What it covers
The idea	the product, and what makes it different
The market	target customers, market size, competitors
Marketing	price, promotion and place
Operations	how the product is made or delivered
Finance	start-up costs, a <b>cash-flow forecast</b> 现金流量预测, expected profit
People	the owners and key staff

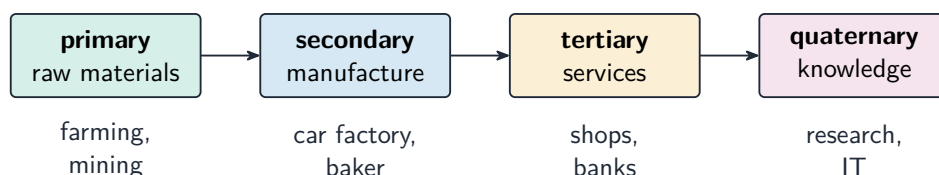
A business plan is useful because it helps the owner:

- get **finance** 融资 from a bank or an **investor** 投资者.
- set clear goals and lower the risk of failure.
- guide decisions as the business grows.

# Sectors of business activity

Every business works in one of four sectors:

Sector	What it does	Example
<b>primary sector</b> 第一产业	takes raw materials from nature	farming, mining, fishing
<b>secondary sector</b> 第二产业	makes (manufactures) goods	car factory, baker
<b>tertiary sector</b> 第三产业	provides services	shops, banks, transport
<b>quaternary sector</b> 第四产业	knowledge and information services	research, IT, consulting



*Business activity runs from the primary sector through to the quaternary sector*

Here **raw materials** 原材料 are the natural inputs a business starts with, and to **manufacture** 制造 means to make goods in large amounts. As a country develops, it usually moves from mostly primary work towards more tertiary and quaternary work.

## Private and public sectors

- The **private sector** 私营部门 is made up of businesses owned by private people. Their main aim is usually profit.
- The **public sector** 公共部门 is made up of organisations owned by the government, such as state schools and public hospitals. Their aim is usually to provide a service, not to make profit.

# Legal structures of business

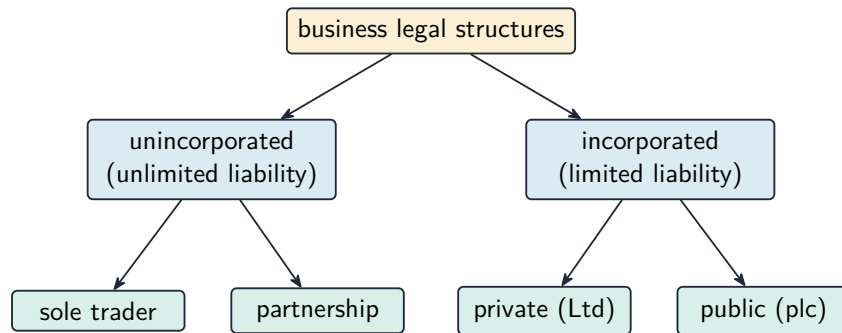


*A company headquarters: businesses range from sole traders to giant public limited companies.*

Image: Dietmar Rabich, CC BY-SA 4.0 (commons.wikimedia.org)

A business must choose a legal form. The main ones are below.

- A **sole trader** 个体经营者 is owned by one person. It is easy to set up and the owner keeps all the profit, but raising money is hard.
- A **partnership** 合伙企业 is owned by two or more partners who share the work and profit. They often sign a **deed of partnership** 合伙协议 that sets out each partner's share.
- A **private limited company** 私人有限公司 (Ltd) sells **shares** 股份 to a small group, such as family and friends. Its owners are **shareholders** 股东. Its shares are not sold to the public.
- A **public limited company** 上市公司 (plc) sells its shares to the public on the **stock exchange** 证券交易所. It can raise large amounts of money, but it must follow more rules and faces the risk of a **takeover** 收购.
- A **franchise** 特许经营 lets one firm use another firm's brand and business model. The **franchisor** 特许方 owns the brand; the **franchisee** 加盟方 pays a fee and a **royalty** 提成 to run a branch.
- A **joint venture** 合资企业 is when two businesses join to run one project and share the costs and risks.
- A **social enterprise** 社会企业 trades like a normal business but aims to do social or **environmental** 环境 good, and reinvests most of its profit.



*Legal forms split by liability: unincorporated (unlimited) and incorporated (limited)*

## Limited and unlimited liability

**Liability** 责任 means who must pay the business's **debts** 债务 if it cannot pay them itself.

- **limited liability** 有限责任—the owners can only lose the money they put in. Their personal things, like a house or car, are safe. Companies have limited liability.
- **unlimited liability** 无限责任—the owners are personally responsible for all the debts. They could lose personal things. Sole traders and most partnerships have unlimited liability.

A company is a **separate legal identity** 独立法人—it can own things, owe money, and be taken to court in its own name, apart from its owners.

## The size of a business

There is no single best way to measure how big a business is. Common measures are:

- the number of **employees** 员工.
- **revenue** 营业收入 (also called sales turnover) —the value of what it sells.
- **capital employed** 所用资本—the total money invested in the business.
- **market share** 市场份额—the firm's sales as a percentage of the whole market.
- **market capitalisation** 市值—the total value of a company's shares (for a plc).

Different measures can give different answers, so it is best to use more than one.

## Why small businesses matter

Small businesses create jobs, serve local **communities** 社区, give personal service, react quickly to change, bring new ideas, and supply parts and services to large firms.

## Business growth

A business can grow in two ways.

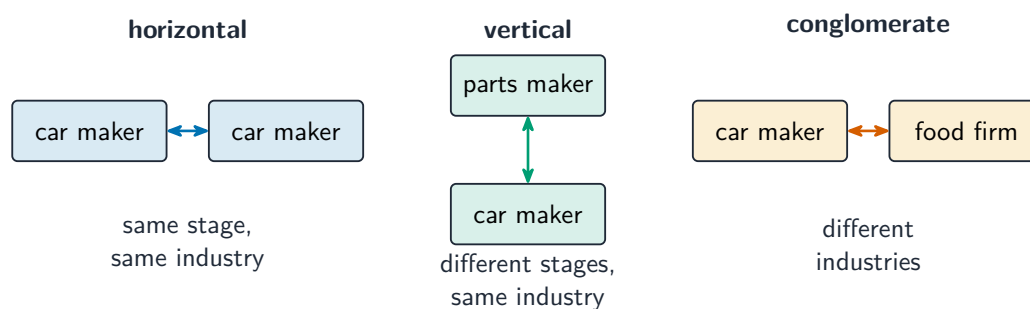
**Internal growth** 内部增长 (organic growth) —the business grows by itself: selling more, opening new branches, or adding new products. It is slower but lower risk.

**External growth** 外部增长—the business joins with another firm. This is called **integration** 整合, and it happens by:

- a **merger** 合并—two firms agree to join together as one.
- a **takeover** —one firm buys control of another.

There are three types of integration:

- **horizontal integration** 横向整合—joining a firm at the same stage in the same industry (e.g. two car makers).
- **vertical integration** 纵向整合—joining a firm at a different stage in the same industry. **Forward integration** 前向整合 is towards the customer (e.g. buying a shop); **backward integration** 后向整合 is towards the supplier (e.g. buying a parts maker).
- **conglomerate integration** 混合整合—joining a firm in a completely different industry. This spreads risk, which is called **diversification** 多元化.



*The three types of integration when one firm joins with another*

Firms grow to lower their costs, win a bigger market share and more **market power** 市场支配力, raise profit, and spread risk. But growth also brings problems: higher average costs, harder management and communication, different company **cultures** 企业文化 that may clash, and a need for a lot of finance.

## Economies and diseconomies of scale

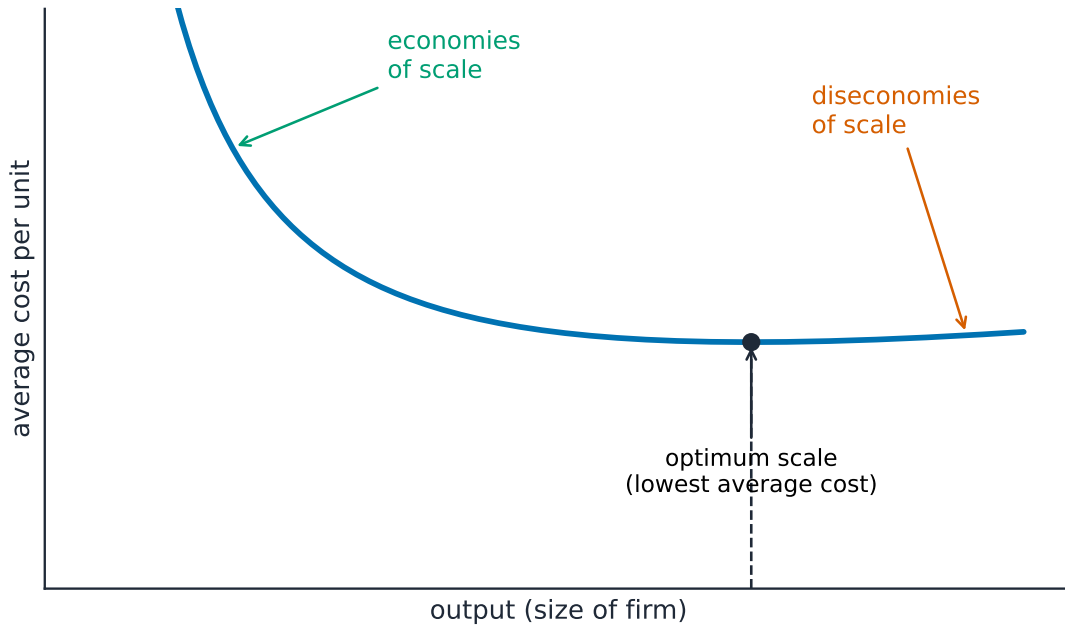
**Economies of scale** 规模经济 are the cost savings a business gets as it grows larger. The **average cost** 平均成本 of each unit falls as output rises. The main types are:

Type	How it lowers cost
purchasing	buying in <b>bulk</b> 大批量 earns discounts
technical	large machines are more efficient
financial	large firms borrow at lower <b>interest</b> 利息
managerial	the firm can employ expert specialist managers
marketing	advertising cost is spread over more units

**Diseconomies of scale** 规模不经济 happen when a firm grows too big and the average cost starts to rise again. The usual causes are:

- **communication** 沟通 becomes slow and unclear.

- the **coordination** 协调 of many departments is hard.
- workers may feel unimportant and lose **motivation** 激励.



*Average cost per unit falls (economies of scale) then rises (diseconomies of scale) as a firm grows*

## Aims, objectives and mission

A **mission statement** 使命宣言 is a short sentence that says why the business exists and what it wants to be. It guides everyone in the firm.

From the mission come **aims** 目的 (broad, long-term goals), and then **objectives** 目标 (the specific targets that help reach the aims).

Good objectives are **SMART** —the first letters of:

- **Specific** 具体的—clear and exact.
- **Measurable** 可衡量的—you can check it with numbers.
- **Achievable** 可实现的—it is possible to reach.
- **Realistic** 现实的—sensible for the resources you have.
- **Time-bound** 有时限的—it has a deadline.

A **strategy** 战略 is the long-term plan to meet objectives. **Tactics** 策略 are the short-term actions that carry out the strategy. Objectives are shaped by the size and age of the firm, who owns it, the company culture, and conditions in the market.

## Types of business objective

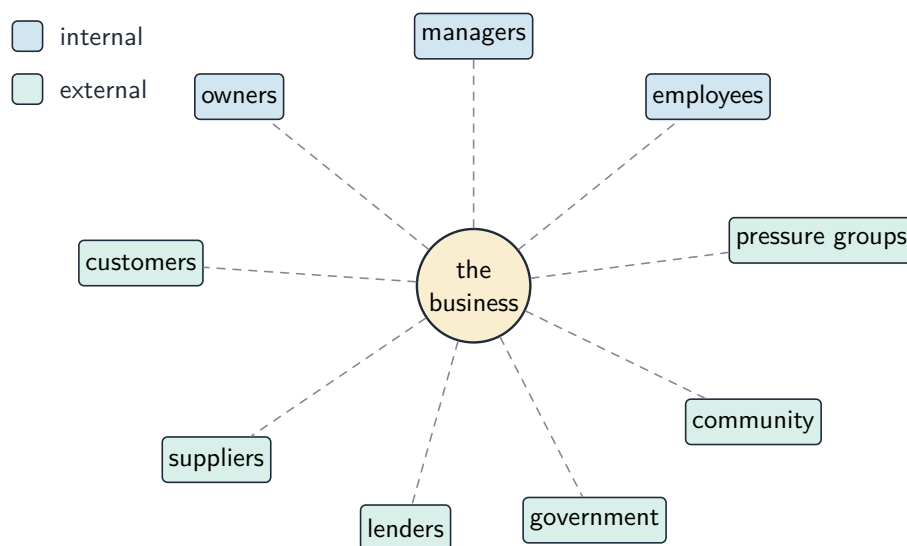
Objective	What it means
<b>profit maximisation</b> 利润最大化	making the largest possible profit
growth	getting bigger —more sales, more branches
<b>survival</b> 生存	staying in business, vital for new firms and in hard times
market share	winning a larger share of the market
social and <b>ethical</b> 道德 objectives	doing what is morally right, such as fair pay

**Corporate social responsibility** 企业社会责任 (CSR) is the idea that a business should act in the best interests of society and the environment, not just make profit. Examples are treating workers fairly, cutting **pollution** 污染, and helping the local community.

A firm's objectives can change over time. A new firm may aim to survive; later it may aim to grow; a large, safe firm may focus on profit or CSR.

## Stakeholders

A **stakeholder** 利益相关者 is any person or group with an interest in a business and how well it does.



*Internal and external stakeholders all have an interest in the business*

**Internal stakeholders** 内部利益相关者 are inside the business:

- **owners** and shareholders —want profit and a good return.
- **managers** 管理者—want growth, job security and bonuses.
- **employees** —want fair pay, safe work and job security.

**External stakeholders** 外部利益相关者 are outside the business:

Stakeholder	Main objective
<b>customers</b> 顾客	good quality at a fair price
<b>suppliers</b> 供应商	regular orders, paid on time
<b>lenders</b> 贷款方 (banks)	to be repaid with interest
the government	tax, jobs, and that the firm obeys the law
local community	jobs, but little pollution or noise
<b>pressure groups</b> 压力团体	to protect a cause, such as the environment

## Why stakeholder objectives conflict

Stakeholders often want different things, so their objectives can **conflict** 冲突 (clash). For example:

- owners want higher profit, but employees want higher pay —and higher pay lowers profit.
- customers want low prices, but owners want a high profit margin.
- the local community wants less pollution, but cutting pollution can raise costs.

## How conflict can be managed

- keep good communication with every group.
- **compromise** 妥协—give each group part of what it wants.
- **negotiation** 谈判—talk until the groups reach an agreement.
- decide which stakeholders matter most for each decision, and act on that.