

Understanding business activity

IGCSE Business Studies

What business activity is for



Shops competing on a high street: businesses make goods and services to meet people's wants.

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

A **business** 企业 is an organisation that makes **goods** 商品 or provides **services** 服务 for **customers** 顾客.

- Goods are physical things you can touch —bread, phones, cars.
- Services are useful actions done for you —a haircut, a bus ride, a doctor's visit.

The purpose of business activity is to use **resources** 资源 to make goods and services, so that people's **needs** 需要 and **wants** 欲望 are met.

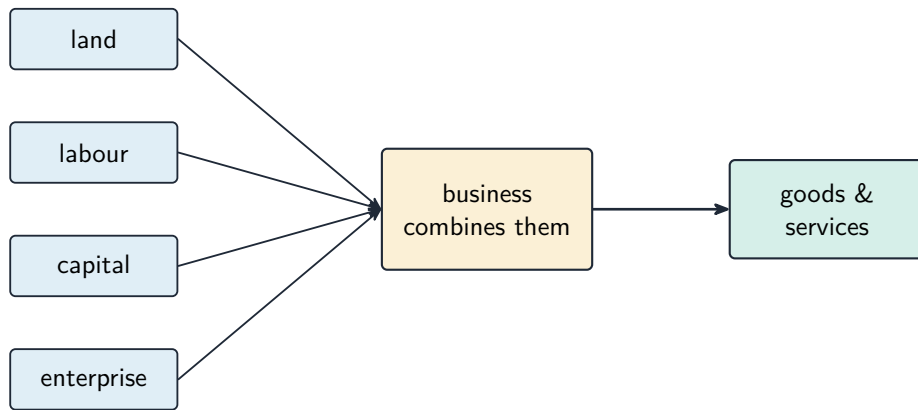
- Needs are things you must have to live: food, water, shelter, clothes.
- Wants are things you would like but can live without: a holiday, a games console.

Factors of production

To produce anything, a business brings together four **factors of production** 生产要素—the resources needed to make goods and services.

Factor	What it means	Example
land 土地	natural resources	farmland, water, oil, minerals
labour 劳动力	the work of people	workers, managers
capital 资本	money and the man-made tools bought with it	machines, factories, vehicles
enterprise 企业家才能	the skill to bring the other three together and take risks	the owner's idea and effort

factors of production



The four factors of production are combined to make goods and services

The economic problem

People's needs and wants are unlimited. But resources are **scarce** 稀缺—there are not enough of them for everything. This is the **economic problem** 经济问题.

Because resources are scarce, you must always choose. You cannot have everything.

Opportunity cost

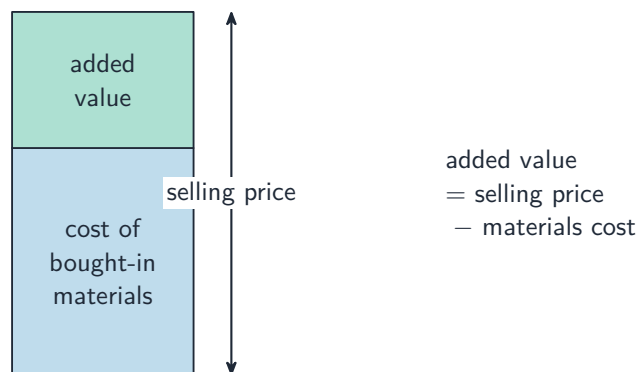
When you choose one thing, you give up the next best thing. The **opportunity cost** 机会成本 is the next best choice you give up.

Example: a business has some money and spends it on a new machine. Now it cannot also spend that money on a bigger shop. The bigger shop is the opportunity cost.

Added value

Added value 增值 is the difference between the price a business sells a product for and the cost of the **raw materials** 原材料 bought in to make it.

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



Added value is the selling price minus the cost of bought-in materials

A business can increase added value by:

- raising the price, often through a strong **brand** 品牌 or better design,
- lowering the cost of materials, for example by finding cheaper suppliers,
- improving the product so customers will pay more.

Why businesses succeed or fail

A business is more likely to succeed when it has:

- good **management** 管理—skilled leaders who plan well,
- enough **finance** 资金—money to pay bills while it grows,
- a product customers want, and an edge over the **competition** 竞争 (the other businesses selling similar things).

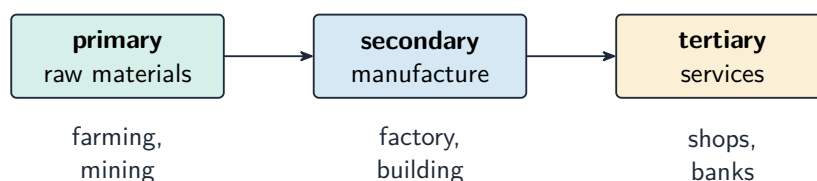
A business may fail and close down when it runs out of cash, manages money badly, or cannot compete. Weak management and poor cash control are the most common causes.

Classifying businesses

The three sectors

We sort all business activity into three groups, by how far the work is from the final customer.

Sector	What it does	Examples
primary sector 第一产业	takes natural resources from the earth	farming, fishing, mining, oil drilling
secondary sector 第二产业	makes goods from raw materials	building, manufacturing 制造业, food processing
tertiary sector 第三产业	provides services	shops, banks, transport, tourism



Business activity runs from the primary sector through to the tertiary sector

How the sectors change

The importance of each sector changes as a country grows richer.

- In a **developing economy** 发展中经济体 (a poorer country building up its industry), the primary sector is often large —many people farm.
- As the country grows, the secondary sector grows too.
- In a **developed economy** 发达经济体 (a rich, industrialised country), most people work in the tertiary sector.

De-industrialisation 去工业化 is when the secondary sector shrinks and the tertiary sector grows. This has happened in many developed economies as factories move abroad.

Private sector and public sector

The **private sector** 私营部门 is made up of businesses owned by private people and groups. Most aim to make a **profit** 利润. The **public sector** 公共部门 is made up of organisations owned by the government, which aim to provide a service to the public.

	Private sector	Public sector
Owner	private people and companies	the government
Main aim	usually profit	provide services to everyone
Examples	shops, factories, private firms	state schools, public hospitals, the army

Enterprise, business growth and size

The entrepreneur

An **entrepreneur** 企业家 is a person who sets up a business and takes the risk of running it. Successful entrepreneurs usually:

- are willing to take **risk** 风险—to risk their own money on a new idea,
- work hard and do not give up,
- are **innovative** 创新—full of new ideas,
- are confident and good at making decisions,
- are well organised, able to manage time, money and people.

The business plan

A **business plan** 商业计划书 is a document that describes the business and its future. It usually contains the business idea and objectives, the product, the **market** 市场 it will sell to, who will run it, and a plan for the money.

A business plan has two main uses:

- it makes the owner think carefully and plan ahead,
- it helps the business **raise finance** 筹集资金—banks and investors want to see a plan before they lend or invest.

Government support for start-ups

A **start-up** 初创企业 is a brand-new business. New businesses create jobs and help the economy grow, so governments often support them with:

- **grants** 补助金—money given that does not have to be paid back,
- low-interest **loans** 贷款—money lent on easy terms,
- training and advice for new owners,
- lower taxes in the first years.

Measuring the size of a business

You can measure how big a business is in several ways. Each one has a weakness.

Measure	How it works	Limitation
number of employees 员工	count the staff	a high-tech firm can have few staff but large output 产量
revenue 收入 (sales)	the value of everything sold	a firm selling cheap goods may sell a lot yet be small
capital employed 所用资本	the total money invested in the business	hard to compare between different industries

Staying small or growing

Some businesses stay small on purpose: the owner wants to keep control, the market is small, or the product is specialised.

Businesses that want to grow bigger —to achieve **growth** 增长—can do it in two ways.

- **Internal growth** 内部增长 (also called organic growth): the business grows by itself, by 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 business. This is faster. It happens through a **merger** 合并 (two businesses agree to join into one) or a **takeover** 收购 (one business buys control of another).

External growth is classified by the kind of business that is joined.

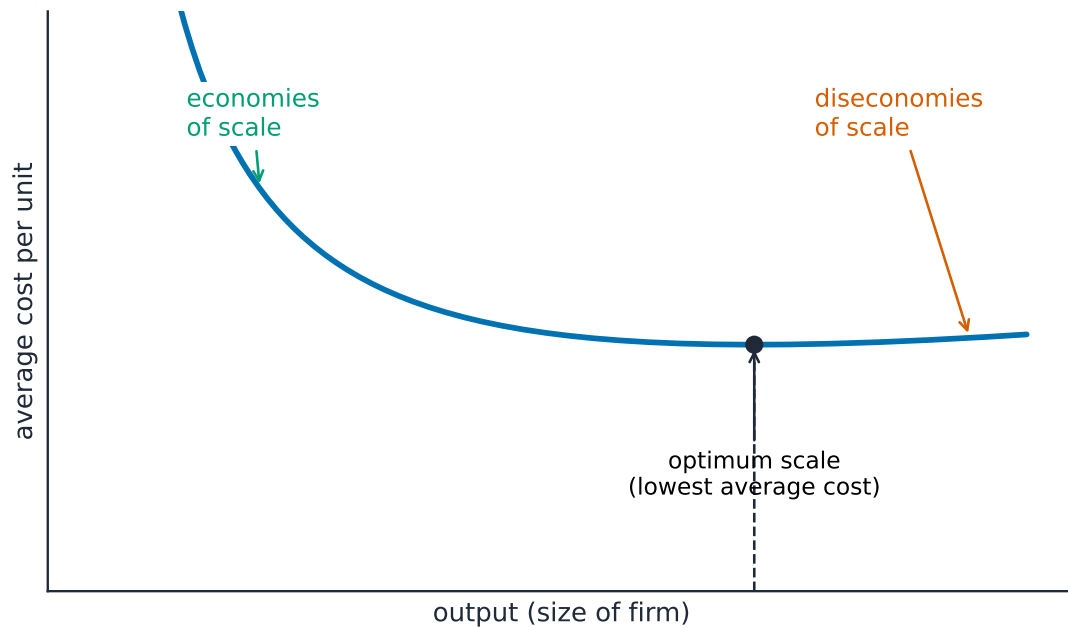
Type	What joins	Example
horizontal integration 横向一体化	two firms at the same stage of the same business	two car makers join
vertical integration 纵向一体化	two firms at different stages of the same business	a car maker buys a tyre maker
conglomerate integration 混合一体化	two firms in completely different businesses	a car maker buys a food company

Economies and diseconomies of scale

As a business grows, its cost per unit can fall. These savings are called **economies of scale** 规模经济.

Type	How the cost per unit falls
purchasing	buying large amounts of materials brings a lower price
financial	large firms can borrow money more cheaply
managerial	the firm can afford expert managers
technical	the firm can use large, efficient machines
marketing 营销	the cost of advertising 广告 is spread over more goods

If a business grows too big, the cost per unit can start to rise again. These are **diseconomies of scale** 规模不经济. They happen because **communication** 沟通 in a huge firm gets worse, workers feel less important and work less hard, and managers find the firm hard to control.



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

Types of business organisation



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

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Liability

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

- With **unlimited liability** 无限责任, the owner is personally responsible for all the debts. If the business fails, the owner may lose personal things, like a house or car, to pay them.

- With **limited liability** 有限责任, the owner can only lose the money they put into the business. Their personal things are safe.

Incorporated and unincorporated

- An **incorporated** 法人 business has a separate legal identity from its owners. The business itself can own things and be taken to court. Its owners get limited liability. Companies are incorporated.
- An **unincorporated** 非法人 business is not separate from its owner in law. Sole traders and partnerships are unincorporated.

The four main types

A **sole trader** 独资企业 is a business owned by one person.

Advantages	Disadvantages
easy and cheap to set up	unlimited liability
the owner keeps all the profit	hard to raise finance
the owner makes all decisions	long hours, no one to share the work
private (accounts stay secret)	the business ends if the owner stops

A **partnership** 合伙企业 is owned by two or more people who share the work, the decisions and the profit. They usually sign a written agreement.

Advantages	Disadvantages
more owners bring more capital	unlimited liability (in most cases)
work and ideas are shared	the profit is shared
easy to set up	partners can disagree
	one partner's mistake affects everyone

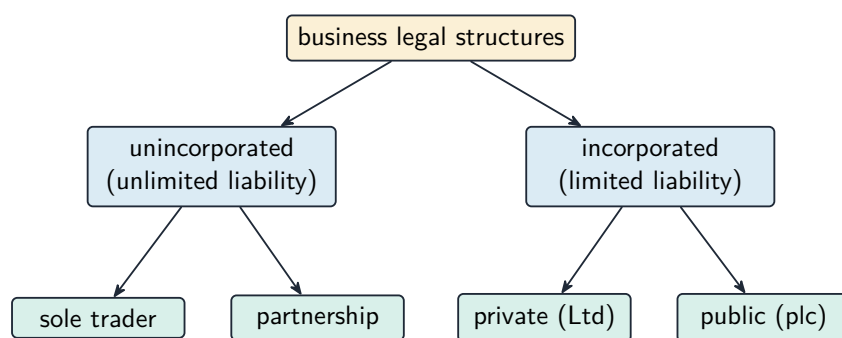
A **private limited company** 私人有限公司 (often "Ltd") is owned by **shareholders** 股东, but its shares cannot be sold to the public. The owners are often family and friends.

Advantages	Disadvantages
limited liability	more legal rules and paperwork
easier to raise capital than a sole trader	shares cannot be sold to the public
control stays in a small group	accounts must be shared with the government

A **public limited company** 公众有限公司 (often "plc") is a large company whose **shares** 股份 can be bought by the public on the **stock exchange** 证券交易所.

Advantages	Disadvantages
can raise very large amounts of capital	expensive and complex to set up
limited liability	accounts are fully public
well known, so easy to borrow	anyone can buy shares, so there is a risk of takeover
	the original owners may lose control

Shareholders may receive a share of the profit, called a **dividend** 股息.



Business types split by liability: unincorporated (unlimited) and incorporated (limited)

Other forms of organisation

- **Franchise** 特许经营: a person (the **franchisee** 加盟商) pays to use the name, products and methods of an existing successful business (the **franchisor** 授权商). The franchisee gets a known brand, training and lower risk, but must pay fees and a share of the profit and has less freedom. Many fast-food chains work this way.
- **Joint venture** 合资企业: two businesses agree to share the cost, risk and profit of one project, while staying separate companies.
- **Social enterprise** 社会企业: a business that trades to help society or the environment, not only to make profit. Most of its profit is put back into its social aims.

Public sector organisation

A **public corporation** 国有企业 is a business owned and run by the government, such as a national rail or postal service. Its aims include giving an important service to everyone, not only making a profit.

Business objectives and stakeholder objectives

Business objectives

An **objective** 目标 is a goal that a business aims for. Common objectives are:

- **survival** 生存—staying in business, especially when new or in hard times,
- **profit** —earning more than it spends; the main aim of most private firms,
- **growth** —getting bigger, to be safer and earn more,
- **market share** 市场份额—the share of total sales in a market that one business holds,
- **customer service** 顾客服务—keeping customers happy so they come back,
- **social objectives** —helping society or the **environment** 环境.

Objectives of a social enterprise

A social enterprise aims for three kinds of objective together:

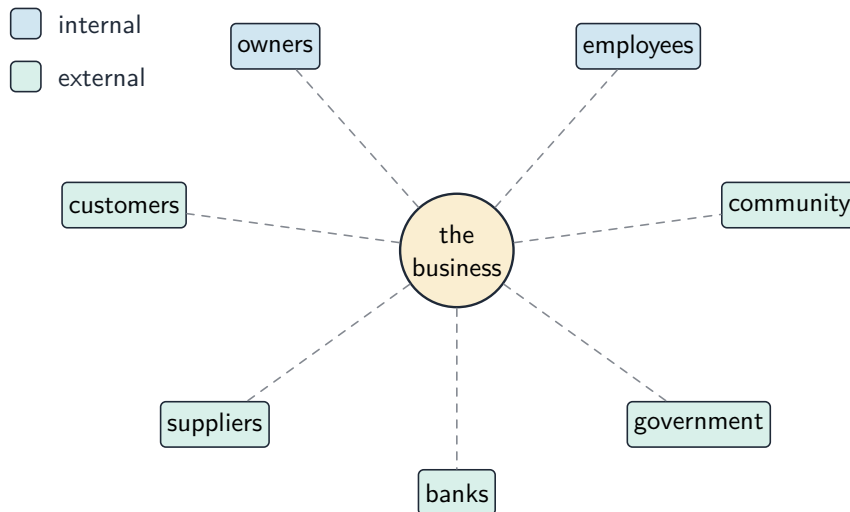
- **economic** —earn enough money to survive and grow,

- social —help people, for example by giving jobs to those who find work hard to get,
- environmental —protect the planet, for example by cutting waste.

Stakeholders

A **stakeholder** 利益相关者 is any person or group that is affected by a business or has an interest in it.

Stakeholder	What they usually want
owners / shareholders	good profit and a rising dividend
employees	fair pay, safe work, secure jobs
customers	good quality at a fair price
suppliers 供应商	to be paid on time, and regular orders
government	businesses to obey laws and pay tax 税收
local community 当地社区	jobs, but no pollution or noise
banks	to be repaid the money they lent



Internal and external stakeholders all have an interest in the business

Why stakeholder objectives conflict

Stakeholders often want different things, so their objectives can **conflict** 冲突. A business cannot fully please everyone at once.

- Owners want higher profit, but employees want higher pay. Higher pay lowers profit.
- Owners want to cut costs, but the local community wants less **pollution** 污染. Cutting costs may create more pollution.
- Customers want low prices, but suppliers want to be paid more.

Good managers try to balance these different objectives.