Business Notes

Unit 1 – Nature and Purpose of Business Activity

Unit Topics

1) Factors of Production

I. Land
II. Labour
III. Capital
IV. Entrepreneurship

2) Sectors of Business

I. Primary
II. Secondary
III. Tertiary

3) Types of Organisations

I. Sole Trader
II. Partnership
III. Private Limited Company
IV. Public Limited Company

4) Sectors

I. Public
II. Private

5) Financial Statement and Balance Sheet

6) Cooperatives

I. Franchising
II. Joint Venture

7) Entrepreneurship

I. Definition
II. Benefits and Drawbacks

III. Characteristics

8) Government Intervention

I. Reasons

II. Ways

9) Business Growth

I. Internal Growth

II. External Growth

- Horizontal Integration
- Vertical Integration (Forward and Backward)
- Conglomerate

10) Reasons for Business Failure

11) Business Objectives

Factors of production

Capital:
Capital for funding expansion, loans, getting labour and land,

Enterprise:
A person with a business idea and the willingness to take risks to develop it

Land:
Land to have space for machinery and infrastructure,
We also need it for storing stuff and premises for production.

Labour:
Managers to manage the employees, workers to do the heavy-lifting, employees to do specific tasks etc.

Sectors of Business

Primary:
Extract resources from the environment and sell to other businesses who transform them into products.

Secondary:
Take raw materials from the primary business and **transform** them into products to sell.

Tertiary:
Provides service to the consumer or to other businesses.

Business Organizations:

Sole Trader:

1) Owned by 1 person
2) Owns the whole business

Advantages:
1) Own boss
2) Decide when to leave and take breaks
3) Get all profit
4) Direct contact with customers
5) Easy to get registered – Less paperwork
6) Don't have to share business info to any 3rd party

Disadvantages:

1) Only person investing
2) If sick or can't come in, who will manage?
3) Likely remain small-medium size
4) Unlimited liability

Partnership:

1) 2-20 people jointly agree to own a business
2) Division of equity is decided in partnership agreement
3) Limit to partnership - 20 people
4) Easy to get registered
5) If someone dies, contract dies
6) Unlimited liability
7) LLP - limited liability and death isn't the end

Advantages:

1) Many people investing
2) Responsibilities shared
3) More people = more ideas and innovation
4) If 1 person can't come others can manage
5) Easy to get registered

Disadvantages:

1) Partners could not be trustworthy or pleasant working with
2) Profit shared
3) Unlimited liability

Private Limited Company

1) Organization where the **business is a separate entity**, when talking about it it is referred to as a separate entity in contracts or investments
2) Limited liability (**incorporated** business)
3) **Usually family** owned, majority shareholder has to agree to get more shareholders → hard
4) Lots of legal documentation - **Articles of Association** and **Memorandum of Association**

Public Limited Company
1) Listed on the **stock exchange**
2) General public can **buy and sell shares**
3) Very hard to get registered, **lots of legal documentation** and **expensive**
4) People can see your **financial statements**

Financial statements:
1) Profit and Loss statement

Has all expenses, revenue, tax, interest etc. In the end profit
2) Balance Sheet

Includes assets and liabilities of the business
These have to be authenticated by auditors, work in audit firms
Very expensive to hire

Sectors:

Private Sector
1) Main objective is profit maximization
2) Businesses owned by individuals

Public Sector

1) Main objective is accessibility
2) Owned by the government
3) Upholded through tax
4) Will continue to work after bankruptcy
5) Usually influenced by politics

Cooperatives:

Joint venture

1) 2 or more business agree to start a project together
2) Market information shared, risk shared, profit shared and investment shared
3) Usually done to expand business in other parts of the world or a way of advertisement/marketing
4) Disagreements between the businesses can occur through different ways of working/culture

Franchising:

1) Business model in which a party called franchisee buys the **promotional logos, brand name and trading methods** of an already established business called the franchisor

Advantages:

1) Already well established business, easy to get customers
2) Advertising managed by the franchisor, less expenses
3) Sales higher and risk lower
4) Easier to get loans

Disadvantages:

1) If they manage poorly, affect the reputation of the whole brand
2) The franchise isn't very independent as it can't make major decisions without the permission of the franchisor

Entrepreneur

1) He organizes, operates and takes the risk of a new business
2) They can do what they want and get the opportunity to carry out their business idea
3) However if the business fails it would be a loss and he invests most of the capital

Characteristics:

1) Risk-taker
2) Innovative
3) Creative
4) Thinker
5) Confident

Government Intervention:

Government helps business because:

a) Increases employment
b) Increases output of the country
c) Reduces the chances of monopoly
d) Gives healthy competition between businesses, more encouraged to innovate and do better to get majority market share

How they help - Subsidies:

a) Tax free loans
b) Cover expenses
c) Reducing tax or removing it completely for a period of time
d) Cheap labour

Business growth:

Internal

1) Business growth within the business, expanding already existing operations or starting new ones

External

Either a takeover or an integration. When a business merges with another business. **MUCH QUICKER.**

2 types:

Horizontal integration

1) Merge with another business in the same industry and stage of production e.g tractor manufacturer merges with another one

The advantage of this is that the business can increase their **market share** by reducing competition

Vertical integration:

Same industry, different stage of production.

2 types:
Forward integration:
Integrating with a business in a stage of production in front of you e.g supplier takes over manufacturer

Backwards integration:
Integrating with a business which is in a stage of production behind you e.g manufacturer takes over supplier.

Conglomerate:
Taking over a business in a different industry is a business tactic called diversification. The business will make a separate product for that industry, allowing them to reach a wider audience.

Business Failure

Causes:
1) Poor management
2) Poor financial Management
3) Too many expenses
4) Unmanageable business growth

Entrepreneurs do not integrate much because they will lose control then, less equity.

Business Objectives:

The objectives of a business, what their main goal is, what the business works towards. This can change over time and varies from business to business.

Advantages:

1) Gives business a direction, what they want to do
2) Most if not all decisions will be made in mind of this, to get closer to the goal
3) Makes life easier as what the business wants will be more organized
4) Getting closer to the goal with increase motivation in employees and management, thus increasing productivity
5) Stops the business from getting off track from important things.
6) Loans are easier to secure as banks would be more confident that you will pay it back after seeing the plan.
7) Compare their performance over time.

Examples

1) Increase market share
2) Increase profit
3) Reduce costs
4) Make production cleaner
5) Simply survive