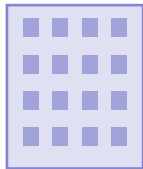


Business and its Environment

A-Level Business ■ Topic 1

A-Level Business



What we will cover

- 1 Purpose & adding value
- 2 Enterprise & the business plan
- 3 Sectors & legal structures
- 4 Size & growth
- 5 Objectives & stakeholders
- 6 Recap



1

Purpose and value

Why businesses exist

A business combines the four **factors of production** 生产要素 to satisfy a need or want and, usually, to make a profit.

land

自然资源

labour

劳动

capital

资本

enterprise

企业精神

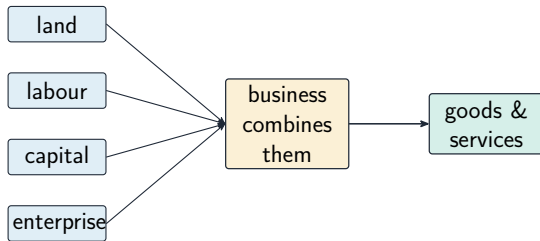
The market a business operates in



People have **needs** 需要 – food, shelter, what you must have – and **wants** 欲望, what you would like. A business exists to satisfy them, and usually to make a profit doing it.

The four factors, drawn

factors of production



Land 土地 is the natural things – soil, water, minerals; **labour** 劳动力 is the work people do; **capital** 资本 is the machines, tools, buildings and money used to produce; **enterprise** 企业家精神 is the person who brings the other three together and carries the risk.

Adding value

Added value 附加值 = selling price – cost of bought-in materials. Ways to raise it: better design, branding, convenience, quality, unique features.

Added value is not the same as profit – profit also subtracts wages, rent and other costs.

2

Enterprise and plan

Entrepreneurs and enterprise

An **entrepreneur** 企业家 takes the risk to start a business; an **intrapreneur** 内部创业者 does so inside a firm. Traits: **innovative** 有创新精神的, risk-taking, determined, self-confident.

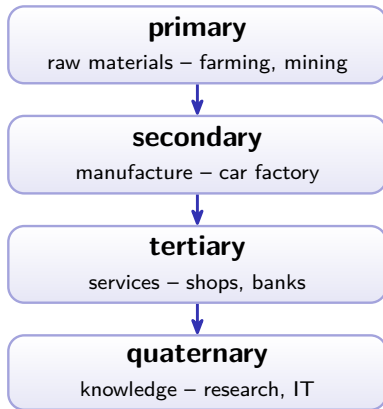
Enterprise helps a country: more jobs, output (**GDP** 国内生产总值), competition and **economic growth** 经济增长.

A **business plan** 商业计划书 helps win finance & set goals.

3

Sectors and structures

Sectors of business activity



- **primary** 第一产业 – raw materials
- **secondary** 第二产业 – manufacturing
- **tertiary** 第三产业 – services
- **quaternary** 第四产业 – knowledge

Private 私营部门 (profit) vs **public sector** 公共部门 (service).

The sectors, and the two halves of the economy

Primary sector

Takes from the earth: farming, fishing, mining, forestry.

Secondary sector

The **secondary sector** 第二产业 makes – manufactures – **goods** 商品: a car factory, a baker.

Tertiary sector

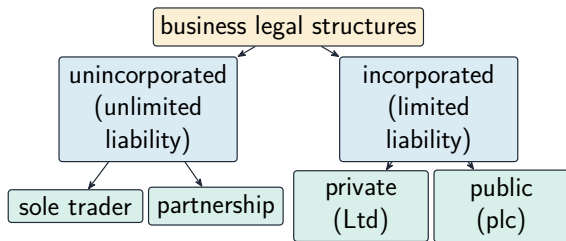
The **tertiary sector** 第三产业 provides **services** 服务: shops, banks, transport.

Private and public

The **private sector** 私营部门 is owned by private people; the **public sector** 公共部门 by the state. A **social enterprise** 社会企业 trades like a business but aims at social or **environmental** 环境 good – cutting **pollution** 污染, say – and reinvests most of its profit.

As a country develops the jobs move primary → secondary → tertiary. The sector mix is a development statistic in its own right.

Legal structures and liability



Sole trader 个体经营者,
partnership 合伙企业,
Ltd 私人有限公司, **plc** 公众有限公司,
franchise 特许经营.

Limited liability 有限责任:
owners lose only what they
invest. Unincorporated = **un-**
limited.

The legal forms, and how each is owned

sole trader	one owner, unlimited liability , keeps all the profit
partnership 合伙企业	two or more partners sharing work and profit, usually under a deed of partnership 合伙协议
private limited (Ltd)	shareholders, limited liability , shares not sold to the public
public limited (plc)	shares may be offered to the public – more finance, possible loss of control
franchise 特许经营	one firm uses another's brand and model: the franchisor 特许方 owns the brand, the franchisee 加盟商 pays to use it
social enterprise	trades commercially but pursues a social objective with its surplus

Liability is the dividing line, and it decides how much capital the firm can raise – which is why the two questions are always asked together.

The legal forms, and who carries the debt

Sole trader and partnership

Unlimited **liability** 责任: the owner must pay the business's **debts** 债务 from personal money if it cannot.

Private limited company

A **private limited company** 私人有限公司 (Ltd) sells **shares** 股份 to a small group – family, friends – and cannot advertise them.

Public limited company

A **public limited company** 公众有限公司 (plc) can offer shares to the public; listing on a **stock exchange** 证券交易所 is optional.

Separate legal identity

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.

Franchise

The **franchisor** 特许方 owns the brand; the **franchisee** 加盟商 pays a fee and a **royalty** 特许权使用费 to run a branch.

Limited liability is what separate legal identity buys: the shareholder can lose the money in-

4

Size and growth

The size of a business

No single measure – use more than one:

employees

revenue 营业收入

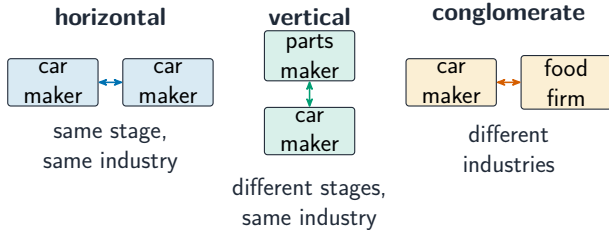
capital employed

market share 市场份额

market capitalisation 市值

Small businesses still matter – jobs, local service, quick to react, new ideas.

Business growth



Internal 内部增长 (organic) vs
external 外部增长
(**merger** 合并/**takeover** 收购).

- **horizontal** 横向整合 – same stage
- **vertical** 纵向整合 – different stage
- **conglomerate** 混合整合 – diversify

How firms grow, and the four kinds of integration

organic growth	selling more, opening more sites – slow but controlled
a merger 合并	two firms agree to join together as one
a takeover 收购	one firm buys control of another, agreed or not
horizontal 横向一体化	same stage of the same industry – market share and scale economies
forward / backward 纵向一体化	vertical: toward the customer, or toward the supplier – control of the chain
conglomerate 混合一体化	unrelated industries – spreading risk

Growth by acquisition is fast and risky; organic growth is slow and safe. Which suits the firm depends on how quickly the market is moving.

How a firm grows, and in which direction

Internal growth 内部增长	organic: selling more, new branches, new products. Slower; the owners keep control.
External growth 外部增长	joining another firm (merger or takeover): fast, and it buys capability.
Horizontal integration 横向整合	the <i>same</i> stage of the same industry: two car makers.
Vertical integration 纵向整合	a different stage: forward integration 前向整合 towards the customer (a shop), backward integration 后向整合 towards the supplier.
Conglomerate integration 混合整合	a different industry: risk spread by diversification 多元化.

Growth also costs: higher average costs, slower communication, clashing **cultures** 企业文化, heavy finance. A **joint venture** 合资 gets some benefits without a merger.

Economies of scale

Economies of scale 规模经济 lower **average cost** 平均成本 as a firm grows (purchasing, technical, financial, managerial, marketing).

Grow too big $\Rightarrow$ **diseconomies** 规模不经济: poor communication, coordination, motivation.

Where economies of scale come from – and where they stop

purchasing

buying in **bulk** 大批量 earns discounts

marketing

the advertising cost is spread over more units

technical

bigger machines run at a lower cost per unit

financial

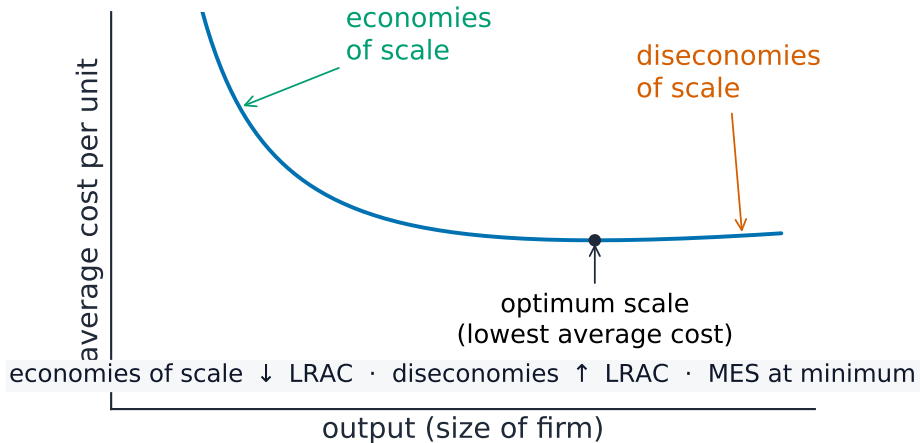
a large firm borrows more cheaply

diseconomies

past a point, **communication** 沟通 slows, **coordination** 协调 of many departments gets hard, and workers lose **motivation** 激励

The last row is what turns a 'state the economies' question into an evaluation.

Economies of scale, in detail

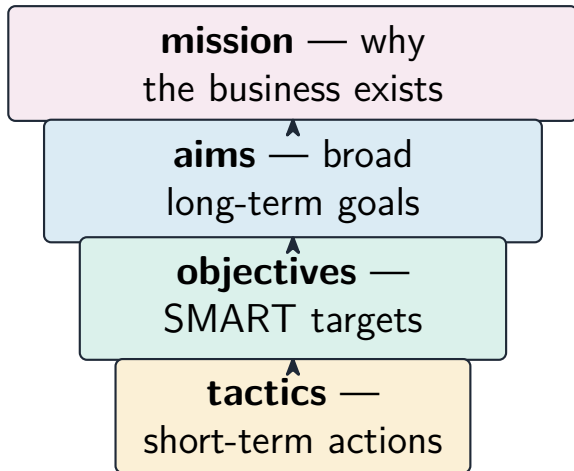


Average cost per unit falls (economies of scale) then rises (diseconomies of scale) as a firm grows

5

Objectives and stakeholders

Aims, objectives and mission



Mission 使命宣言 → **aims** 目的 → **objectives** 目标 → tactics.

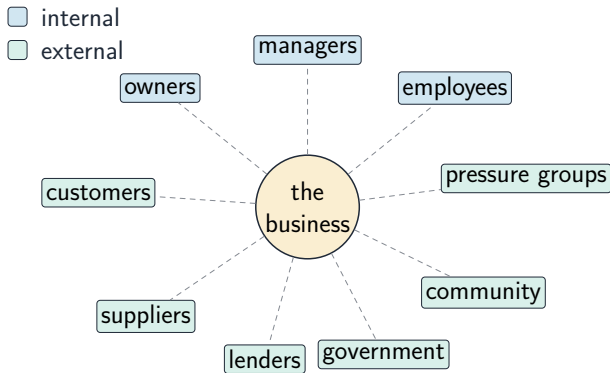
Good objectives are **SMART**:
Specific, Measurable, Achievable, Realistic, Time-bound.

Types: profit, growth, **survival** 生存, market share, **CSR** 企业社会责任.

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.

Stakeholders



A **stakeholder** 利益相关者 has an interest in the firm.

- **internal**: owners, managers, employees
- **external**: customers, suppliers, lenders, government, community

Their aims **conflict** 冲突;
manage by communication &
compromise 妥协.

Internal and external stakeholders

Internal stakeholders

Internal stakeholders 内部利益相关者: owners, managers and employees – inside the business, and paid by it.

External stakeholders

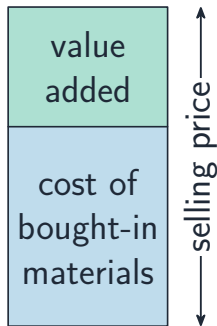
External stakeholders 外部利益相关者: customers, suppliers, lenders, government, local **communities** 社区, and **pressure groups** 压力团体.

Where they conflict

Higher wages against higher dividends; lower prices against supplier margins; expansion against the neighbourhood.

Name the stakeholder *and* the interest. “Stakeholders will be affected” scores nothing; “suppliers face longer payment terms” scores.

Value added: price minus bought-in materials



$$\begin{aligned} \text{value added} \\ &= \text{selling price} \\ &\quad - \text{materials cost} \end{aligned}$$

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

Entrepreneurs and intrapreneurs



A food truck is enterprise you can see. The owner spotted a gap, spent their own savings on the van and stock, and now takes the daily risk of running it – the essence of being an entrepreneur

What enterprise does for a country

new jobs

which lowers **unemployment** 失业

export 出口s

some firms grow and sell abroad, bringing money into the country

economic growth 经济增长

more output, and a higher standard of living

tax revenue

which funds public services

competition and innovation

new firms force established ones to improve

the entrepreneur's own traits

determination, initiative, and **willing to take risks – but in a careful way**

Resources are **scarce** 稀缺, so every business must choose how to use them well. Enterprise is the activity that makes that choice.

What a start-up needs, and what a country gains

Finance

Start-up costs, a **cash-flow forecast** 现金流预测 and an expected profit – and **finance** 资金 from a bank or an **investor** 投资者.

A plan

A business plan sets out the idea, the market, the operations and the numbers; a **strategy** 战略 is the long-term plan for meeting the objectives.

Why a country gains

Business start-ups 初创企业 create jobs, serve local communities, give personal service, react quickly, bring new ideas, and supply parts and services to large firms.

Most start-ups fail on cash, not on the idea – which is why the cash-flow forecast is the document the bank reads first.

Types of business objective

SMART objective

S	Specific — clear and exact
M	Measurable — uses numbers
A	Achievable — possible
R	Realistic — sensible
T	Time-bound — has a deadline

SMART objectives: Specific, Measurable, Achievable, Realistic, Time-bound

The objectives a business can pursue

profit maximisation
利润最大化

the largest possible profit – the traditional assumption

survival 生存

staying in business: vital for a new firm, and in hard times

growth

more sales, sites and staff – often at the expense of short-run profit

market share

a larger share of total sales, which brings scale economies later

social and ethical objectives 道德

doing what is morally right – fair pay, fair sourcing

CSR 企业社会责任

corporate social responsibility: acting in the interests of society and the environment, not only shareholders

A **mission statement** 使命宣言 is one sentence saying why the business exists. Objectives are how that sentence is turned into something measurable.

Limited and unlimited liability

limited liability

companies

can lose

money put
into the firm

safe

personal
house, car

the firm is a **separate**
legal identity

unlimited liability

sole traders, most partnerships

can lose

money put
into the firm

can lose

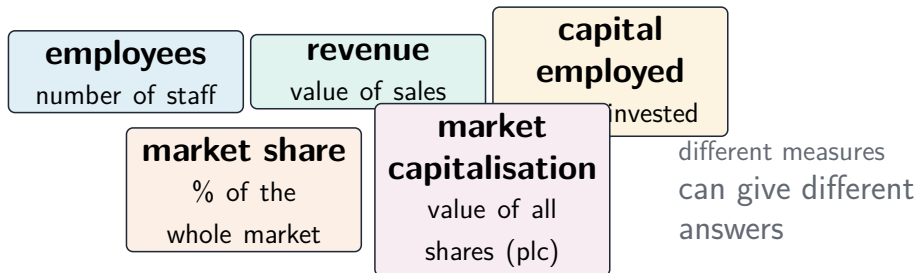
personal
house, car

the owner is **personally**
responsible for all debts

Limited liability risks only the money put in; unlimited liability risks the owner's personal things too

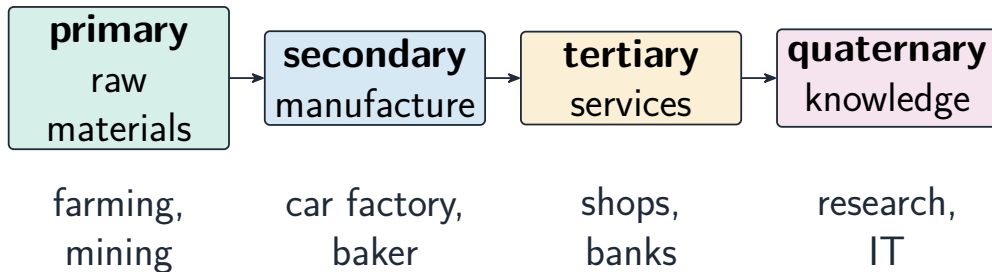
Five measures of business size

how big is a business? - use more than one measure



Five ways to measure how big a business is; use more than one

From primary to quaternary sector



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

Exam tips

- Define **added value** = selling price – cost of bought-in inputs, and give a way to raise it (branding, quality, design).
- Distinguish **unlimited vs limited liability** and link it to sole trader/partnership versus Ltd/plc.
- Measure business **size** in more than one way (employees, revenue, capital employed, market share) – note each has limits.
- Distinguish **objectives** (SMART, specific) from a **mission** (overall purpose).
- In evaluation, use **stakeholder conflicts** (owners vs employees vs community) to argue both sides.

6

Recap

Worked example – added value

A maker buys wood for £80, pays £120 in labour, and sells the table for £350. Find the added value.

- Added value = selling price – cost of bought-in materials.
- $= 350 - 80 = \text{£}270$
- Labour is not deducted – it is one of the costs added value must cover.
- Raise it by branding, design or better service, not just by charging more.

The classic trap: added value is **not** profit. Profit deducts **every** cost; added value deducts only **bought-in materials**.

Topic 1 – key takeaways

1

Resources

four factors of production; add value

2

Structures

sole trader to plc; limited liability

3

Growth

integration; economies & diseconomies

4

Objectives

SMART; stakeholders' aims conflict

Check yourself

- 1 Name the four factors of production.
- 2 Which structure has unlimited liability?
- 3 What does the M in SMART stand for?
- 4 Give one internal and one external stakeholder.



Answers 1. land, labour, capital, enterprise 2. sole trader / partnership 3. Measurable 4. e.g. employee; customer