Business Studies
Key Terms

Business Activity

Needs/ Wants	A need is a good or service essential for living, while a want is a good or service that people would like to have, but is not essential.	Land	Factors of production: all natural resources such as minerals, ores, fields, oil, forests etc.
Supply/ Demand	The more people demand a good or service, the scarcer that good or service becomes and you get a deficit of supply. As a result prices go up, demand falls until you get equilibrium. If demand falls, you get a surplus of supply. Prices will drop in order to sell of surplus stock, and demand will start to increase until you again get equilibrium in supply and demand.	Labour	Factors of production: the number of people available to work.
Scarcity	Lack of sufficient products to satisfy total wants of a population	Capital	Factors of production: the machinery, equipment and finance need for production of goods and services
Opportunity cost	The ‘price’ of giving up one option as you have chosen another option. The next best option foregone.	Enterprise	Factors of production: the people (entrepreneurs) prepared to take a risk in setting up the business.
A Business	An organisation that combines factors of production to make goods and services to satisfy people’s wants and needs.	Specialisation	People and businesses concentrating on what they are best at.

Division of labour	Production is split into separate tasks and each worker specialises in one task.	Deindustrialisation	Decline in the importance of secondary, manufacturing industry.
Added value	The difference between a product's selling price and the cost of brought in materials.	Industrialisation	Increase in the importance of secondary manufacturing industry.
Primary Sector	Businesses that extract and use natural resources to produce raw materials.	Mixed economy	This has both private sector businesses and public sector businesses.
Secondary Sector	Businesses that manufacture goods using the raw materials provided by the primary sector.	Private sector	Businesses owned by people, not the government or state.
Tertiary Sector	Businesses that provide services to consumers and other firms.	Public sector	Businesses owned by the government or state.

Privatisation	The sale of public sector businesses to the private sector.	Stakeholder	Any person or group with a direct interest in the performance and activities of a business.
Nationalisation	The transfer of a major branch of industry or commerce from private ownership to public ownership.	Social Enterprise	An organisation with profit, environmental and social objectives.
Entrepreneur	Someone who organises, operates and takes the risk for a new business venture. • hardworking • risk taker • creative • optimistic • confident • innovative • good communicator • independent	Market share	The proportion (%) of total market sales held by one brand or business. $\frac{\text{Sales of business (£)}}{\text{Total market sales (£)}} \times 100\%$
Business plan	The objectives and details of the operations, finance and owners of a new business. • helps gain finance from lenders/investors • reduces risk by assessing future problems • sets objectives - something to aim for **Sections of a business plan:** executive summary, business aims/objectives, marketing, market analysis, financial (cash flow, budgets), product details, organisational details (strict, type of business, name of business etc.)	Business Objectives	The aims or targets that a business works towards. • Gives clear target to staff - measure of success • Compares performance with objectives • Unifies business • Helps with decision making, planning, and budgeting • Gives a sense of purpose and direction • Motivates - something to work towards.
Capital employed	The total value of capital used in a business.	Government support for entrepreneurs	• grants to set up • advice • low interest loans • provide enterprise zones with low cost premises • grants for training • university research facilities available to new business entrepreneurs

Horizontal (across) integration	**External growth:** business expands by merger or takeover of another business in the same industry at the same stage of production, e.g. Volkswagen and Audi.	Sole trader	**Types of business organisation:** Business is owned by just one person. • Own boss - total control/responsibility • Easy to set up • using own ideas • work incentive • close to customer • accounts not published
Vertical (upwards/downwards) integration	**External growth:** business expands by merger or takeover of another business in the same industry, but different stage of production. Upwards = towards your supplier. Downwards = towards the market/customer.	Partnership	**Types of business organisation:** Business is jointly owned by two or more people. • Access to more capital - share profits • responsibilities/workload/decision making divided • bigger range of skills and ideas than sole traders • possibly greater efficiency - shared work load • possibly slower decision making - have to talk • unlimited liability
Conglomerate integration	**External growth:** business expands by merger or takeover of another business in a totally different industry. AKA, diversification.	Private Limited Company (Ltd.)	**Types of business organisation:** Business owned by its shareholders, but shares **cannot** be sold to the public. • Limited liability • share capital • legal identity • owners in control
Merger	**External growth:** The owners of businesses agree to join their firms together to form one business.	Public Limited Company (PLC)	**Types of business organisation:** Business owned by its shareholders, but shares **can** be sold to the public - usually on a stock exchange • Limited liability • shares sold to public - ability to raise large sums of capital • shares tradable on stock exchange • legal identity
Takeover	**External growth:** Business buys out the owners of another business	Franchise	**Types of business organisation:** A business that uses, under licence, the brand name, logo and trading methods of an existing business. The franchisor sells the licence; the franchisee buys the licence. • support of large business • lowers risk • well-know brand • costs a lot to buy licence

Joint venture	**Types of business organisation:** Two or more businesses start a new project together sharing capital, risks and profit. • joint capital invested • risks shared • management responsibilities shared	Limited liability	The liability of owners/shareholders is limited to the amount invested. Personal possessions are not at risk.
Public corporations	A business, in the public sector, that is owned and controlled by the state. • Profit not the only objective, also social - improvements to infrastructure, etc.	Incorporated business	A business **with** s separate legal identity from its owners, e.g. a limited company.
Business Objectives: Survival	• new business • important during economic recession • could be more important than profit in the short term	Unincorporated business	A business **without** a separate legal identity from its owners, e.g. a sole trader or partnership.
Business Objectives: Profit	• rewards investors • pays owners a return • source of finance for expansion • an indicator of success	Shareholders	The owners of a limited company.
Business Objectives: Growth	• Could lead to higher market share and profits • increases managers' status • economies of scale	Dividends	Payments made to shareholders from the profits (after tax) of a company.

Business Growth and Size: Comparing

- Value of output or sales/turnover
- Number of employees
- Capital employed - on balance sheet
- Market Share

Business Growth and Size: Why some fail

- Poor management
- no planning
- lack of finances
- start-up risks
- over-expansion

Business Growth and Size: Why grow?

- To increase market share
- Increase profit for owners
- lower average costs - economies of scale
- greater status

Business Objectives: Market Share

- More control over suppliers
- more control over setting prices
- publicity - especially if market leader.

Business Growth and Size: How

- Internal/organic growth - slow and steady, carries less risk (generally)
- External growth - fast, often expensive and generally riskier.

Business Objectives: Shareholders Returns

- Aim to keep shareholders happy
- discourage them from selling shares
- returns in the form of dividends are higher
- maintains a higher share price

Business Growth and Size: Problems

- cost of growth
- diseconomies of scale
- management problems
- poor communication
- possible redundancies

Business Objectives: Community Service

- Social enterprise aims: social, environmental and financial

Business Growth and Size: Why not grow?

- Owners objectives - keeping control, lifestyle/family factors offering a more personal service, etc.
- small market - might not be room to grow
- type of industry - some are too competitive, or have too many big competitors in
- bad economic climate
- avoid diseconomies of scale

Business Objectives: Public Sector

- Objectives set by government
- financial
- customer service
- social

Stakeholder objectives: Owners	• Security of investment • profits to pay returns • business growth	Stakeholder objectives: Managers	• high salaries • job security • business growth - offers higher pay and status
Stakeholder objectives: Consumers	• safe and reliable products • value for money • after sales service • reliability • quality	Stakeholder objectives: Banks	• repayment of loans on time • payment of interest on loans • business must remain liquid
Stakeholder objectives: Workers	• job security • reasonable and regular pay • contract • job satisfaction and motivation	Stakeholder objectives: Community	• jobs • protection of environment • social responsibility, e.g. safe products
Stakeholder objectives: Government	• successful and growing business • pay all taxes due, e.g. tax on profit • operate legally, e.g. pollution, quotas etc.	Market	A market is a place where buyers and sellers can meet to facilitate the exchange or transaction of goods and services. • Markets can be physical like a retail outlet, or virtual like an e-retailer. • Other examples include the illegal markets, auction markets, and financial markets. • Markets establish the prices of goods and services that are determined by supply and demand. (https://www.investopedia.com/terms/m/market.asp)
Stakeholder objectives: Suppliers	• quick payment for good and services supplied • regular orders	Organisation Charts	• Shows how everyone in the company is linked together • Shows chain of command • Everyone can see they own place in the organisation • Shows relationship between different departments

Internal Growth	• Increase output: bigger factory/new outlets/more staff and equipment • Find new markets for products, e.g. overseas • Develop new products **Pros:** no loss of control of business, less risky, new staff = new ideas, new machinery = higher output, new branches = access to new markets **Cons:** Slow growth, limited by size of the market, restricted by amount of finance available		
External Growth	• **Takeover** - one company buying out another • **Merger** -two companies joining together • **Horizontal integration** - 2 co.s/same stage of production • **Vertical integration** - 2 co.s/different stages of production • **Conglomerate Integration** - different markets **Pros:** can remove competitors, economies of scale, can cut out ‘middlemen’, spread risk **Cons:** culture clashes, job losses, expensive, risky, can compromise core activity if moving market		