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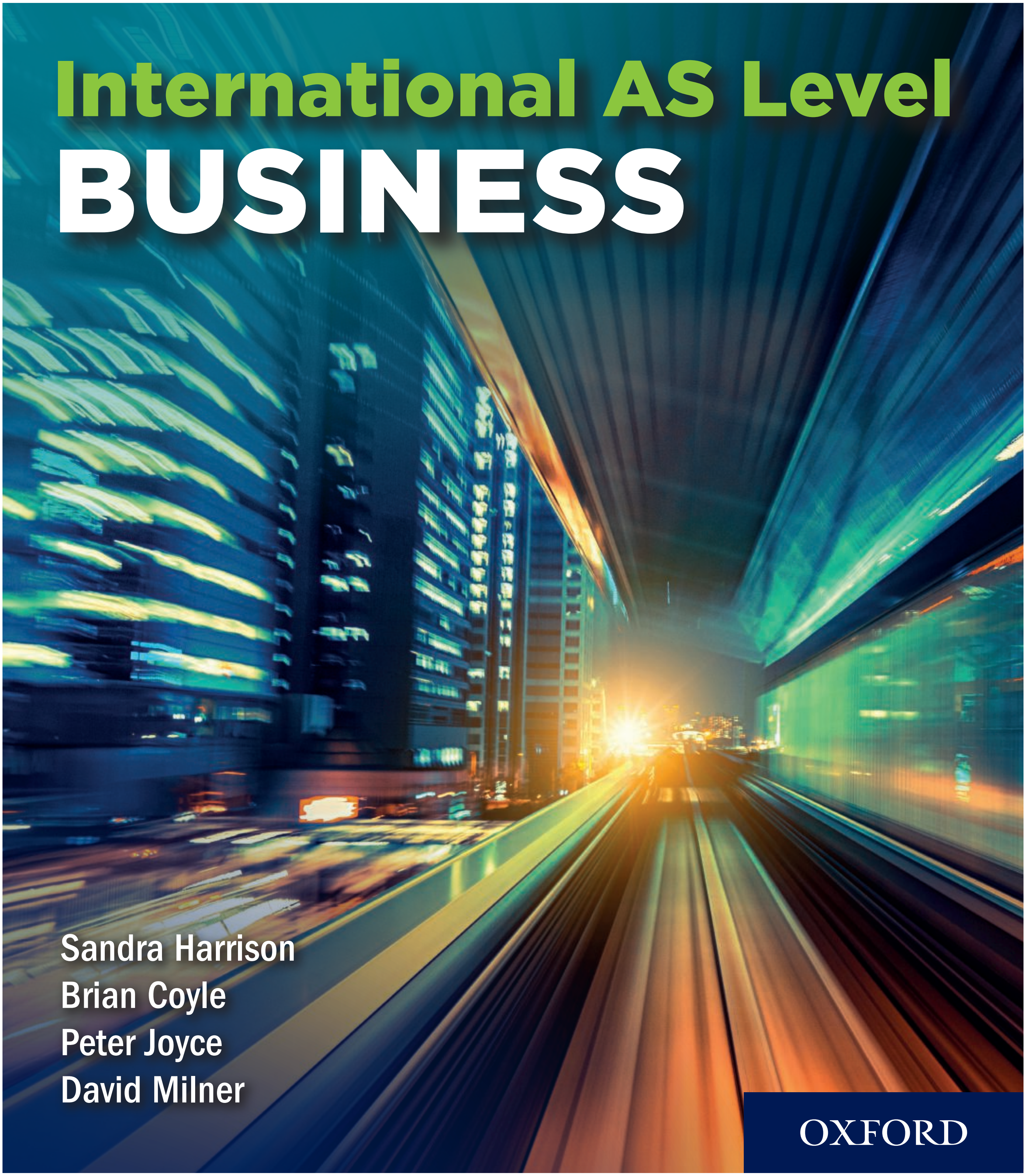

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Contents

How to use this book

This book fully covers the syllabus for the OxfordAQA International AS Level Business course (9625). Experienced examiners and teachers have been involved in all aspects of the book, including detailed planning to ensure that the content adheres to the syllabus as closely as possible.

Using this book will ensure that you are well prepared for the assessment at this level, and gives a solid foundation for further study at university level and beyond. The features below are designed to make learning as interesting and effective as possible.

Activities

These are exercises to do which relate to the chapter content. They can be done in class or as part of individual study.

Progress questions

These are questions through the book to check that you understand the content as you learn. Answers are available in the back of the book.

Key terms

These are the most important vocabulary which students need to learn the definitions of. They are also compiled at the end of the book in a glossary.

Get it right

These are helpful tips and hints to give you the best chance of success.

Link

These are links to other parts of the book for students to find relevant information.

Case study

Subject

These are real-life examples to illustrate the subject matter in the chapters, and are accompanied by questions to test your understanding.

Exam-style questions

These questions are at the end of each chapter section. They use the same command words, structure and marks assignment as the OxfordAQA exams. Answers are available in the back of the book.

The questions, example answers, marks awarded and/or comments that appear in this book were written by the authors. In examinations, the way marks would be awarded to answers like these may be different.

At the end of the book, you will find a glossary of the key terms highlighted in bold in the text.

Business and markets

1 What is business?

1.1 The nature and purpose of business

This section will develop your knowledge and understanding of:

- → Key business terms and concepts
- → Why businesses exist
- → Entrepreneurs
- → Why business is important to an economy and society.

▲ **Figure 1.1.1**: Business is all around us: a bustling town in Zanzibar

Activities

1. Set up a folder for keeping cuttings from newspapers, advertisements and notes on what is going on in the business world around you. To begin with collect anything that seems interesting; later on you can be more selective.
2. Choose a well-known business in your country. Create a second folder in which to keep any information that you can find on that business. Keep the folder up to date.

Business activity is around us, everywhere. We pass shops on our way to school, we see lorries delivering products, we see advertisements on TV and in newspapers, and we see people going off to work.

All of these activities involve decision-making by owners, managers of businesses, customers and governments.

In this book, we will look at the decisions that need to be made, the factors that influence these decisions and how the decisions are made.

The best way to understand the contents of this book – and the subject – is to take a keen interest in the business world around you. The shops you pass, the people you know who work, and the products and services you buy can all tell you something about business behaviour. Newspapers and television programmes can be sources of ideas and understanding.

Unlike most other subjects, Business has two key features:

- Understanding can be found in the world around you.
- The subject is highly interdependent. This means, for example, that what you learn about finance can have an impact on marketing decisions and other areas of a business.

Key business terms and concepts

There are many terms and concepts that you will come across during your business course. You should understand the meanings of these terms.

When we eat a bar of chocolate we take many things for granted. We expect the shop to stock the chocolate and to accept our cash when we pay for it. We expect the chocolate to taste nice and be in a proper wrapper. We expect it to be sold at a price we can afford.

Case study

Sadie's new business

Sadie has worked in a printing business for a number of years. Although she enjoys her job and has developed many specialist printing skills, she really wants to work for herself. She is attracted by the idea of having the freedom to do what she wants and being her own boss. Sadie has some savings. She has seen a small printing business advertised for sale at a price she can afford. She believes she has the right contacts to get customers and the determination to make sure that their demands are met. She thinks she will be able to do this at a cheaper price than the business where she currently works, but she has not done her sums yet.

1. Why does Sadie want to set up her own business?
2. What potential problems might Sadie face in starting her business?
3. Why will careful planning be important for Sadie?

If we analyse the situation we can see the huge range of businesses that are involved in getting that bar of chocolate to us. These include:

- The farmer who grew the cocoa beans
- The farmer who grew the sugar
- The farmer who supplied the milk
- The businesses that supplied the other ingredients
- The transport companies and shipping agents involved in transporting the cocoa, sugar, milk and other ingredients to the factory; this may have involved lorries, ships and aeroplanes
- The insurance companies that insured the shipments
- The business that owns the chocolate factory
- The businesses that supplied the machinery to the chocolate factory
- The businesses that supplied other products and services to the chocolate factory, including telephones, gas, electricity, water, etc.
- The businesses that marketed the chocolate
- The television stations, magazines and newspapers that carried advertisements for the chocolate
- The wholesale businesses that supplied the shops
- The businesses that transported the chocolate to the shops
- The shop where we bought the chocolate
- The banks that provided finance and other services to all of the businesses mentioned above.

And all of this for one bar of chocolate!

Inputs and the transformation process

Any business that offers either **goods** or **services** would use a variety of **inputs** and resources to create their **outputs**. Businesses require, in broad terms, **capital** (finance or equipment); **land** (including resources); **labour** (the workforce); and **enterprise** (the individual with the determination, ideas and vision to make the business happen).

▲ **Figure 1.1.2**: The transformation process

Businesses aim to use these inputs and resources as efficiently as possible to produce the final product or service to be offered to the consumer. The example of a chocolate bar illustrates the **transformation process**, showing how inputs are transformed into outputs, and the many resources and businesses that are likely to be involved.

Key terms

Goods: items that you buy, such as food, books, toys, clothes and make-up.

Services: actions such as haircuts, parcel delivery, car repair and teaching.

Input: something that contributes to the production of a product or service.

Output: something that occurs as a result of the transformation of business inputs.

Capital: the finance needed to run a business as well as the equipment used in production, such as computers, factories, offices and vehicles.

Land: not just the land itself, but also all of the renewable and non-renewable natural resources on that land, such as coal, crude oil and timber.

Labour: the workforce of the business, made up of manual and skilled labour.

Enterprise: a person with enterprise has determination, ideas and vision and is willing to take risks in order to make the business happen.

Transformation process: the process of transforming "inputs" into "outputs".

Activity

See if you can think of any other businesses involved in getting the bar of chocolate to us!

So, what does a business do?

If you examine all of the examples above, the businesses carry out a wide range of tasks. However, one thing is common to all of them:

They all use resources of one sort or another to meet the needs and wants of customers.

These customers could be other businesses (the chocolate manufacturer buys cocoa from the farmer or wholesaler) or end **customers** (**consumers**) like you or me who actually eat (consume) the chocolate.

Businesses identify what their customers need and then set about meeting their customers' needs with the resources they have available.

Key term

Customer: the person/organisation that buys products or services. The final person/organisation in a chain is also known as the **consumer**.

Outputs: goods and services

Most of what happens involves businesses buying from other businesses. What the businesses buy includes, in this instance, raw materials (cocoa), finished products (bars of chocolate) and services (such as insurance and banking). Customers can buy from one business and then supply to another business, or they can come in at the last stage and buy the finished product.

To make the products or supply the services, businesses need resources. The resources available to a business need to be identified. Each of the businesses mentioned above need the following to function:

- **Goods and services**: The farmer needs fuel for the tractor, the chocolate factory needs cocoa to make the chocolate and the retailer (shop) needs chocolate bars to sell.
- **Machinery, equipment, land or premises**: The farmer needs a tractor and land, the chocolate manufacturer needs a factory and chocolate-making equipment, the shop needs premises, counters and displays.
- **People**: The farmer needs someone to drive the tractor, the factory needs people to work in the factory, the shop needs someone to serve you and, finally, the shop needs an end customer.
- **Enterprise**: The farm, the chocolate factory and the shop each need owners who take all the risks and make all the decisions.

Another essential item that each of these businesses need is money:

- To pay for the raw materials and other inputs such as wages
- To buy the necessary machinery, property and so on
- To make all of the risk-taking and decision-making worthwhile for the owner
- As a reward for all the work done.

Case study

Lee's restaurant

Lee owns a small restaurant. He has calculated that the food ingredients of a meal that is popular with customers cost him about $1.50. The price that the restaurant charges customers for the meal is $6. He thinks that the price is too low and should be a bit higher.

1. Why do you think that the price of the meal is $6 when the food ingredients cost only $1.50?
2. For what reasons do you think Lee might want to increase the price of the meal?
3. Review your answer to Question 1 when you have studied the concept of adding value (next page).

Progress questions

1. Give some examples of capital items in a farm growing melons.
2. What is the output from an office cleaning business?

Get it right

When answering questions it is important to be clear about what market the business is aiming at and the nature of its products/services. These will affect the decisions the business will make.

Transformation – adding value

Continuing with the chocolate case study, the transformation from cocoa bean to chocolate bar involves many stages and many businesses, all helping to convert the cocoa bean into chocolate.

You might buy a bar of chocolate for $3 but you would not buy a cocoa bean for $3. Why not?

The bar of chocolate is something you would like to buy and you think is worth $3, but the cocoa bean has little value to you because you want chocolate.

However, if the farmer did not grow the cocoa bean you would not have the chocolate bar.

The simplified process is shown in Figure 1.1.3.

Farmer grows cocoa **Has a value to the local factory** →	Local factory makes cocoa concentrate **Has a value to the chocolate maker** →	Chocolate maker produces high volumes of chocolate bars **Has a value to the wholesaler** →	Chocolate delivered to retailer **Has a value to the retailer** →	Retailer sells chocolate **Has a value to the end customer**

At each stage some work has been done:

The farmer plants the trees, harvests the beans and sells them to the factory. →	The local factory converts the beans into cocoa concentrate. This is more valuable to the factory than the chocolate beans. →	The chocolate factory takes the concentrate and other ingredients and makes the chocolate bar. The chocolate bar is more valuable because it is now something the business can sell to the end customer. →	The transport company delivers the chocolate to the shop, making it even more valuable as it is now in the right place. →	The shop sells you the chocolate bar, which is now at its most valuable as this is what you, the final customer, want.

▲ **Figure 1.1.3**: Stages in producing a chocolate bar

Each stage of the process takes the product closer to what is required for the "end product", the product that the end customer wants: in this case, a bar of chocolate. This is known as **adding value**, because the work done at each stage adds value to the inputs of that stage, so at each stage the product is worth more. The value added is measured by comparing the value of the inputs to a good or service with the value of the good or service itself.

So, for example, the chocolate factory takes cocoa concentrate as an input which, together with other inputs, produces chocolate bars. The work done by the chocolate factory creates value. Created value/value added is measured by taking the value of the inputs to a process away from the value of the output.

Key term

Adding value: the process of increasing the value or worth of a good or service.

Activities

1 Investigate three products you use every day. Describe the stages involved in getting these products to you, the consumer.
2 Identify the various stages in making a car. What value added is created at the retail stage?

Progress questions

3 How does a transport business create value for a packet of tea?
4 How is "value added" measured?

Link

See section "Why businesses exist" for more on setting business objectives.

Key terms

Objectives: business objectives are the stated, measurable targets that provide the means to achieve business aims.

Strategy: a plan of action designed to achieve a long-term objective.

Tactic: a short-term course of action for the day-to-day management of a business or for trying to meet part of an overall strategy.

Profit: the difference between revenues and costs. Revenues and costs do not always happen at the same time as cash receipts and cash payments.

Profit is the money left after total costs are deducted from total income.

Setting business objectives

A business should have **objectives**, something that its owners want to achieve. One objective might be to make money for its owners, but there may be other business objectives too. For example, an objective of a farmer running a chicken farm might be to double the number of chickens within three years and to sell eggs and chicken meat to customers in a wider geographical area.

Strategy and tactics

Setting objectives gives a business a sense of purpose and direction. However, these do not guarantee success. Objectives have to be developed into actual courses of action known as strategies and tactics.

A **strategy** is a plan setting out how a business as a whole will achieve its overall long-term objectives. A business objective of a car manufacturer could be: "To manufacture 5 million cars by 2020". The strategy could involve, for example:

- Building a new factory
- Increasing efficiency
- Improve productivity
- Designing new models of car.

Each of these could help the business achieve its objective of manufacturing 5 million cars by 2020.

A **tactic** is a short-term plan for the day-to-day operations of a business, with the aim of contributing towards the overall strategy. For example, in order to achieve productivity improvements the workforce might get prizes for the teams that make the biggest improvements to productivity.

Profit

Profit is what is left over for the owners of a business after its operating costs have been paid out of its revenues. Profit can be thought of as a reward for entrepreneurship. If revenues are not sufficient to cover operating costs, there is a loss, not a profit. It may seem strange, but there are different ways of measuring profit. However, a business cannot survive over the long term unless it can make a profit.