

3.1 Business in the real world

3.1.1 The purpose and nature of businesses

Lesson objectives

1. The purpose of business
2. Reasons for starting a business
3. Basic functions and types of business
 - Goods and services
 - Needs and wants
 - Factors of production
 - Opportunity cost
 - Three main business sectors
4. Business enterprise and entrepreneurship
 - Characteristics of an entrepreneur
 - Objectives of an entrepreneur
5. Dynamic nature of business

Starter - 3 quick questions

- **What do you need?**
- **What do you want?**
- **Why are these different lists?**

Definition: Needs

Definition: Wants

What is a business?

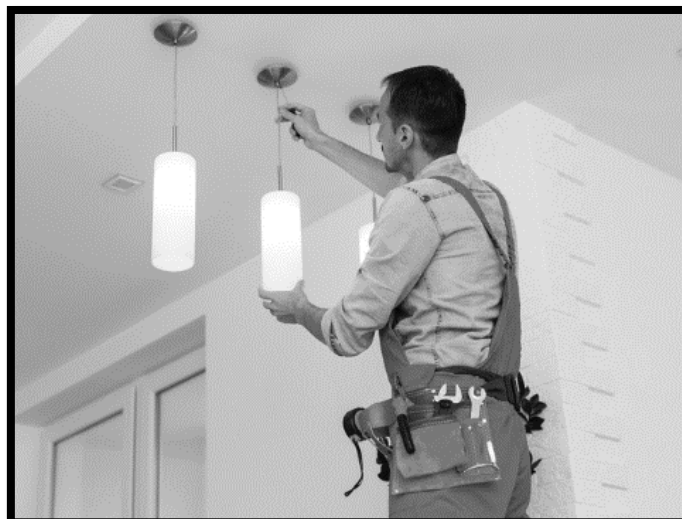
- A business is an organisation which trades to make money, these come in all shapes and _____
- The business could be one person; an electrician for example, who goes to customers' houses and fixes their electrics in return for _____
- The business could be a giant supermarket chain like Sainsbury's, which _____ food and other products for money

Can you give 3 more examples of businesses?

1

2

3



Reasons for starting a business introduction

There are many reasons why business owners wanted to start their own business; these are the ones that AQA would like you to be able to discuss:

- 1. To produce goods**
- 2. To supply a _____**
- 3. To distribute products**
- 4. To fulfil a business _____**
- 5. To provide a good or service to benefit others**

Reason to start a business: #1 To produce Goods

- For example, Jamal is an accountant, but in his spare time he enjoys working with wood**
- He decides he is going to make wooden shelves to sell**
- This way he can turn his hobby into his job**

- Is Jamal selling products or services? _____**

Reason to start a business: #2 To supply a service

- For example Sandrine works as a cleaner in a school**
- She decides to start her own cleaning business so that she can be her own boss and keep the profit**
- She starts a business to supply a cleaning service**

Why is cleaning a house or office a service and not a product?

Reason to start a business: #3 To distribute products

- **For example, Dawn works in a cycle shop at the weekends while she is studying at college**
- **When she finishes college she decides to set up a business as a UK distributor for recumbent cycles**
- **The cycles are made in Ireland, and imported into the UK**
- **Dawn's business sells and delivers them to the cycle shops to be sold on to customers**

What is a recumbent cycle? _____

Reason to start a business: #4 To fulfil a business opportunity

- **An entrepreneur might spot a business opportunity and wish to start a business to generate profit and achieve growth**
- **For example Farhan has decided to start a business which will develop new app which aims to promote wellbeing and mental health in students**

- **Do you think this is a good business opportunity?**



Definition: Social enterprise


Reason to start a business: #5 To provide a good or service to benefit others

- A social enterprise is a business which has the objective of trading to help people or the _____, rather than making a profit
- Morgan has decided to start a social _____
- She has spent two years volunteering at a homeless shelter and now things she has found a way to produce and _____ goods made at the shelter to help fund more craft activities in the future

Can you explain why Morgan is a social entrepreneur?

Social enterprises

Objective: to help the community	Objective: to help the planet
<ul style="list-style-type: none">• To tackle the effects of poverty• To provide jobs• To help older citizens• To help children• To help the homeless	<ul style="list-style-type: none">• To reduce pollution• To tackle deforestation• To halt climate change• To reduce environmental hazards



What is a product?

- **A product is anything that is capable of satisfying customer needs, it is _____ and can be touched**
- **Examples of products are:**

A

B

C

D

Can you give 3 more examples of products?

1 _____ 2 _____ 3 _____



What is a service?

- You cannot physically touch a service it is _____
- A service is an _____ that a business person carries out for you in exchange for money, for example:

A

B

C

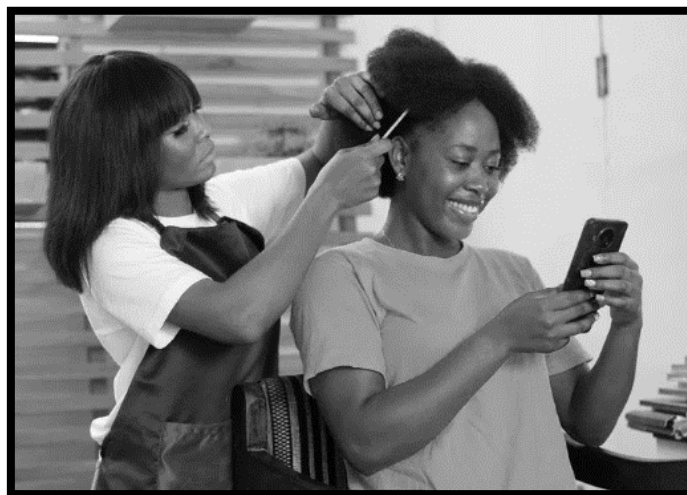
D

Can you give 3 more examples of a service?

1

2

3



Factors of production

To produce goods and services four things are needed, these are the 4 factors of production:

1

2

3

4

Try a question

Enterprise is one of the four factors of production. Which of the following is a definition of enterprise?

[1 mark]

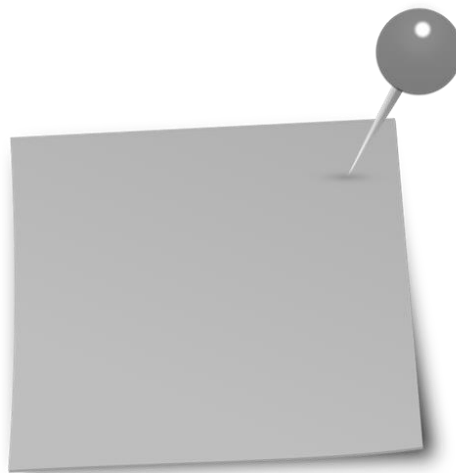
- A The equipment used to produce the goods and services. ☐
- B The process of changing inputs such as raw materials into goods and services. ☐
- C The skills and number of employees employed by the business. ☐
- D The skills of people involved in the business to identify business opportunities. ☐

Explain the answer here

Opportunity cost

The problem:

- Land, labour, capital and enterprise are all _____ resources
- However our wants are _____
- This causes _____
- As business people we need to decide how best to use those scarce resources, we make choices
- For example a factory needs to decide if they should produce cars or vans



Three business sectors: introduction

There are three main sectors in business (geography might argue 4, but in business we have just 3). These are:

1. Primary
2. Secondary
3. _____

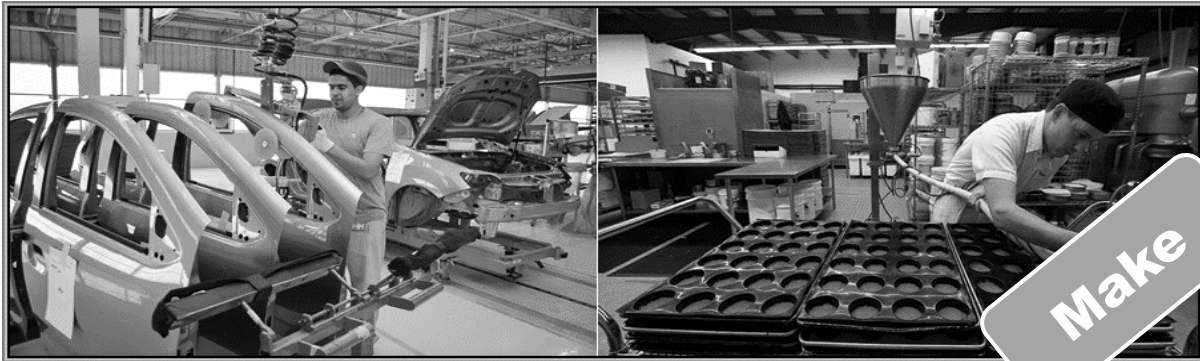
Three business sectors: Primary sector

- The primary sector extracts raw materials from the planet
- For example; mining _____, coal or other precious metals, chopping down trees for wood
- In the primary sector goods such as; _____ and barley could be grown on farms
- Other goods could be collected such as; strawberry picking or _____



Dig

Three business sectors: Secondary Sector



- In the secondary sector goods are manufactured from _____ materials into finished goods
- This sector includes industries like construction, _____ and electronics
- For example plastic, metal and other materials are made into cars
- Other examples is that eggs, butter and sugar are made into _____

Three business sectors: Tertiary Sector

- The tertiary sector includes shops, retail, banking and insurance
- The tertiary sector is all the support services for business
- Examples are lorries and transport of goods



Try a question:









Which of these is an example of a business in the secondary sector?

[1 mark]

- A Accountant ☐
- B Fisherman ☐
- C Furniture maker ☐
- D Website designer ☐

Explain the answer here:

Mini plenary: Primary, secondary, tertiary?

A	B	C	D
			
E	F	G	H
			

Definition: Entrepreneur

Characteristics of entrepreneurs: introduction

There are many characteristics of successful entrepreneurs and AQA, your exam board, would like you to know about these four:

1. Organised
2. Hardworking
3. Innovative
4. _____

Characteristics of entrepreneurs: #1 Organised

- Entrepreneurs need to be very organised when starting their own business and when it is up-and-running
- Entrepreneurs will have to organise:

A

B

C

D

E



Characteristics of entrepreneurs: #2 Hard working

- **An entrepreneur needs to be hardworking to manage multiple responsibilities, overcome challenges, and drive the business towards success**

Characteristics of entrepreneurs: #3 Initiative

- **An entrepreneur needs to have initiative to identify opportunities, solve problems, and drive innovation**
- **Initiative enables them to take action, stay ahead of competitors, and continuously improve their business, leading to growth and success**

What does initiative mean?

Characteristics of entrepreneurs: #4 Risk taker

- **An entrepreneur needs to be a risk-taker to take advantage of new opportunities and to stay competitive**
- **If an entrepreneur is a risk taker this mean that they could get rewards such as _____**
- **However, they could also lose a lot of money, which is why a business is a _____**

Entrepreneur objectives: introduction

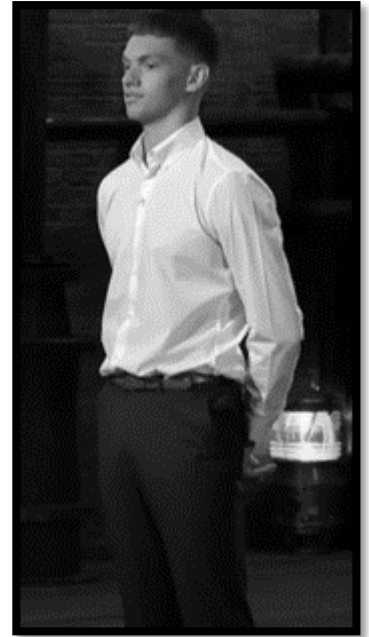
Entrepreneurs can have lots of varied objectives.

These are the ones that AQA would like you to know about:

- 1. To be your own boss**
- 2. To work flexible hours**
- 3. To pursue an interest**
- 4. To earn more money**
- 5. To identify a gap in the market**
- 6. _____**

Entrepreneur objectives: #1 To be your own boss

- **A reward of setting up a business is that the entrepreneur could be their own boss**
- **This means the entrepreneur gets to make the major _____ in the business**
- **Many people would like to have this degree of control in their working lives, which _____ them to start their own business**



Entrepreneur objectives: #2 To work flexible hours

- **One advantage of running a business is that the entrepreneur could take holidays when they want**
- **This means that they could have holidays out of peak times when prices are cheaper, take care of children, or have a hobby**
- **They can work the hours that fit in with their life, which is called having a work-life balance**



Entrepreneur objectives: #3 To pursue an interest

- **Opening a business can bring a great sense of satisfaction to the**

- **If the work is meaningful, they might be more likely to stick with it**
in the long run, which means they will be more successful as a

- **If the entrepreneur is passionate about something (football, horses,**
playing online games or even sewing) they might want to turn this
into a business

Entrepreneur objectives: #4 To earn more money

- **A reward of setting up a business is that the entrepreneurs get to**
keep all the _____ that the business makes
- **If the entrepreneur's business is successful, they may possibly make**
more money than if they were on a _____
salary, and working for someone else's business



Entrepreneur objectives: #5 To identify a gap in the market

- **Entrepreneurs may spot a 'gap in the market' which is something that customers need but isn't currently available**
- **This might mean that they have adapted an existing product or made a new one from their own ideas**



Entrepreneur objectives: #6 Dissatisfaction with current job

- **Entrepreneurs may have become unhappy in their job, so wanted to start a business instead**
- **They may have worked in an _____ that they want to move away from, but without experience the only way to change jobs is to start a company and work for themselves**



What is the worst job you can think of?

Definition: Dynamic business environment

Dynamic business environment introduction

Business faces a constantly changing environment, to which it must adapt. There are many factors but these are the ones that AQA are interested in:

- 1. Changes in technology**
- 2. Changes in the economic situation**
- 3. Changes in legislation (laws)**
- 4. _____**

Dynamic business environment: #1 Changes in technology

- **Changes in technology have had an impact on business in many ways:**

A

B

C

D

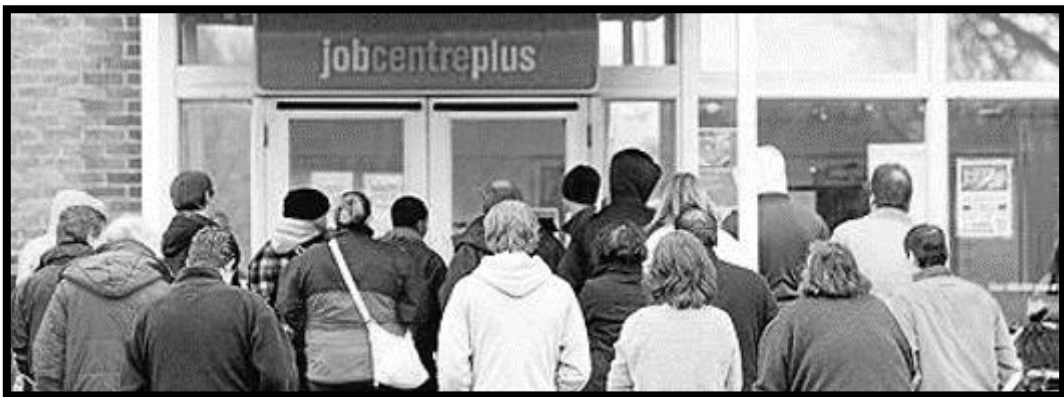
Dynamic business environment: #2 Changes in the economic situation

- **The economy in the UK could have an impact on businesses in many ways including:**

1

2

What is the impact on business if the UK unemployment rate falls?



Constantly changing business environment due to: #3 Legislation

- **There are lots of laws that will impact a business, and they fall into four main groups:**
 - 1. Employment laws (Such as Minimum Wage)**
 - 2. Recruitment laws (Such as The Equality Act)**
 - 3. Consumer laws (Goods must be satisfactory quality, fit for purpose and as described)**
 - 4. _____**

Constantly changing business environment due to:
#4 Environmental expectations



- **From Toyota's Prius and Nissan's Leaf to Tesla's Model S, car manufacturers are competing to produce ever more fuel efficient, environmentally _____ models. Some cars are now a mixture of petrol (or diesel) and electric engines called _____.**

Plenary Quiz

Answer yes or no to the following questions:

- 1. A want is the same as a need YES / NO**
- 2. A product is the same as a service YES / NO**
- 3. Factors of production include enterprise YES / NO**
- 4. Changes in technology will not have an impact on business

YES / NO**
- 5. In the primary sector goods are manufactured YES / NO**
- 6. A social enterprise aims to help people or the planet YES / NO**

Explain, using **one** business example, the meaning of the tertiary sector.

[2 marks]

Explain **one** reason why someone might want to start up their own business.

[2 marks]

Which of the following is an example of a business operation in a primary sector?

[1 mark]

A Bank ☐

B Car manufacturer ☐

C Fruit farm ☐

D Hairdresser ☐

State **two** factors of production.

[2 marks]

Factor 1 _____

Factor 2 _____

Item C: Fone Ltd

Fone Ltd produces ultra-thin mobile phone cases and accessories. The managing director Anita Wang started the business with her three brothers 15 years ago. Each of them provided £50 000 capital. Each member of the family has an equal number of shares. The brothers take no part in the running of the business. Fone Ltd plans to spend £2 million introducing one new product and expanding the product range of the business. This expansion will be funded by a loan.

Two possible options to expand the product range are:

1. introduce car phone holders
2. introduce headphones.

The business will recruit a team leader for the new production department. Anita is keen to attract an experienced manager. The salary and benefits for the job are above the average for the local area. She wants someone who can lead the new department effectively to help the success of the expansion.

Table 1 Extract of person specification for team leader's job

Essential	Desirable
Three years' experience of leading employees in a production environment	Experience of working in the mobile phone industry
Good communication skills	Health and safety training

The business has decided to expand by introducing car phone holders to its product range.

Using **Item C**, explain the opportunity cost of this decision.

[4 marks]