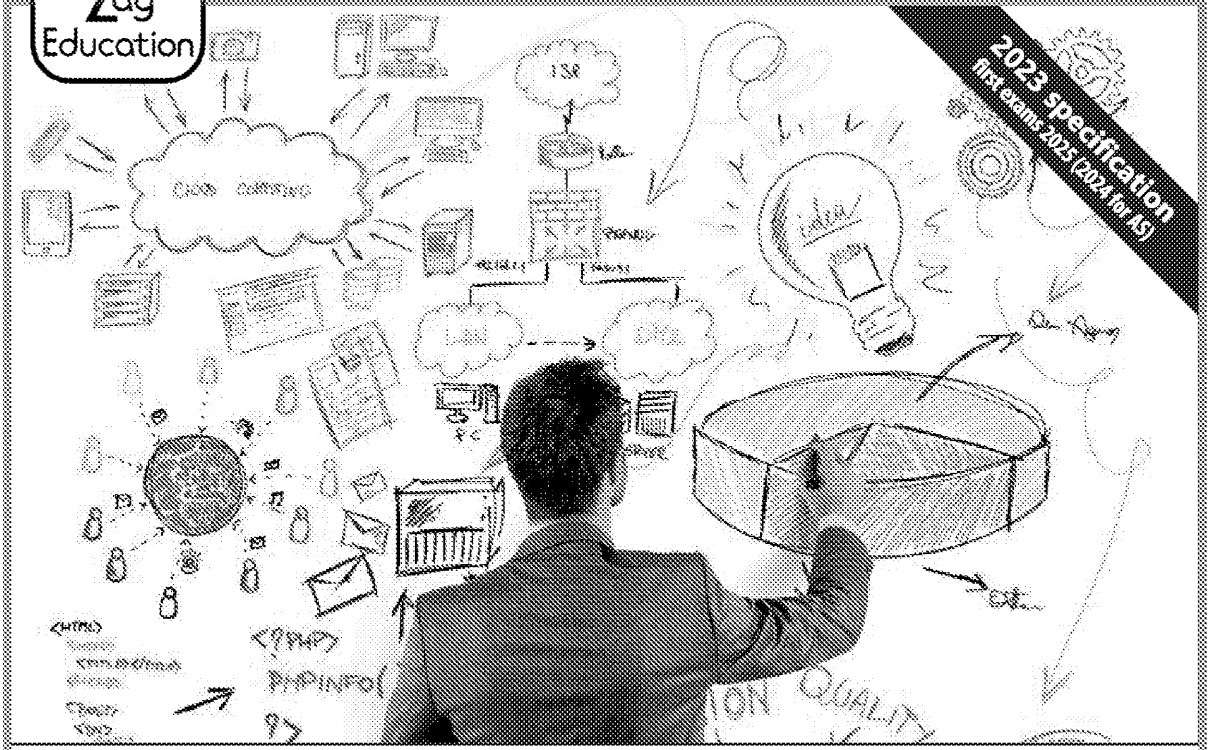

AS / A Level Year 1 AQA Business Course Companion

3.1: What is Business?

2nd Edition – August 2023

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Teacher's Introduction

This resource has been written to support the learning of Unit 1: What is Business, which forms part of the AQA Advanced Level GCE in Business. It gives an in-depth view of the new qualification, presenting what specification points students need to know, plus extras along the way for extended learning.

At the beginning of this resource you will find a list of contents showing every specification point that is covered. There are also questions and answers at the end of the resource to help students apply their knowledge to real-life business contexts. Any key terms are revised as a glossary at the end of the resource.

Students get plenty of chance to practise their quantitative skills in this resource, including:

- Construct and interpret a range of standard graphical forms (Chapter 3.1.1.)
- Calculate costs and revenue (Chapter 3.1.1.)
- Use and interpret quantitative and non-quantitative information in order to make decisions (Chapters 3.1.1. to 3.1.3.)
- Interpret, apply and analyse information in written, graphical and numerical forms (Chapters 3.1.1. to 3.1.3.)

While extremely valuable to a student's revision, this resource should be treated as a companion to the many other textbooks and activity guides available. As with any subject, it is good to read as widely as possible!

The subjects covered in this resource include everything from calculating sales revenue and fixed costs to types of company ownership, the external business environment and the relationship between missions and objectives. The notes included in this resource can be given to students before a lesson as preparation for a topic, afterwards in order to help solidify their knowledge, or can be used by teachers as a supplement to in-class exercises and activities.

It is hoped that this resource, as well as offering support for teaching the essential elements of the AQA examination, will help students build on their research and dissemination skills. The business world is a constantly changing one full of fascinating stories. This resource attempts to utilise some of these stories as a basis for teaching in the most interesting way possible, meanwhile encouraging further study from the next generation of business analysts!

Happy teaching!

August 2023

2nd Edition – August 2023

- pp.2–3: 'Common Business Objectives' and 'The Relationship Between Mission and Objectives' swapped around
- p.3 – new content added under 'Why Businesses Set Objectives'
- p.7 & p.10 – section heading has been renamed to 'The Effects of Ownership on Mission and Objectives'

3.1. What is Business?

3.1.1. Understanding the Nature and Purpose of B

! Key Points Covered

- Why Businesses Exist
- Common Business Objectives
- The Relationship betw... Mis... and Objectives
- Why Business... ...jectives
- Measurement an
- Sales Volume an
- Fixed Costs and V

Why Busi...sses Exist

'It is not from the benevolence of the butcher, the brewer, or the baker that we expec to their own self-interest. We address ourselves not to their humanity but to their self our own necessities, but of their advantages' – Philosopher and Economist Adam Smit

The majority of businesses in the world are started for one sole purpose: to mak terms of profit, which allows a business to invest in its own growth (by purchasin etc.), or money in terms of cash flow, i.e. having enough cash available at all time keep the business afloat.

Of course, once a business is in a position where profit or cash flow is no longer its m focuses, such as social and ethical objectives. These focus points stem from the over

Common Business Objectives

Let's take a closer look at some common bu...ss ...jectives:

- **Profit maximisation:** prof... ...ference between a company's sales rev must be higher th... ...order to make a *profit*; if sales revenue is lowe busine... m... ...oss. Profit maximisation is the pursuit of creating the l revenu... ...otal costs. The more profit a company makes, the more divide and the more cash it has left over for reinvestment.
- **Survival:** this is a common objective for many firms. It is set up as a way to e period of time (e.g. stay *above water* for the next two years). Companies of diversification into other areas) as a way to survive.
- **Growth:** this has links with survival. It can involve anything from growing m share to increasing the overall sales revenue of the business. Companies set way to develop their market position and, as a result, earn more profit.
- **Diversification:** this objective is used in order to spread risk of the business, ensures that when one product becomes obsolete it doesn't spell the end o
- **Cash flow:** just because a company has high profits, we cannot assume that available. Some suppliers require short-term payment ...ns, for instance, w months to pay off their invoices. As such, bus... se... an sometimes encoun monthly bills. The cash-flow objective h...s ...nesses to better take care o so that they do not become ... ...with debt.
- **Ethics:** some busin... ...as not-for-profit charities, have ethical object profit-... ...d ...ies may only set their sights on ethical issues once th brand ...

The Relationship between Mission and Objectives

Many organisations, especially large ones, develop missions for themselves. The of the company.

Missions are generally qualitative, not quantitative, and so cannot be achieved t businesses set themselves objectives. This helps in measuring performance, sett all staff and departments in the same direction – think of each as stepping stone towards the ultimate goal.

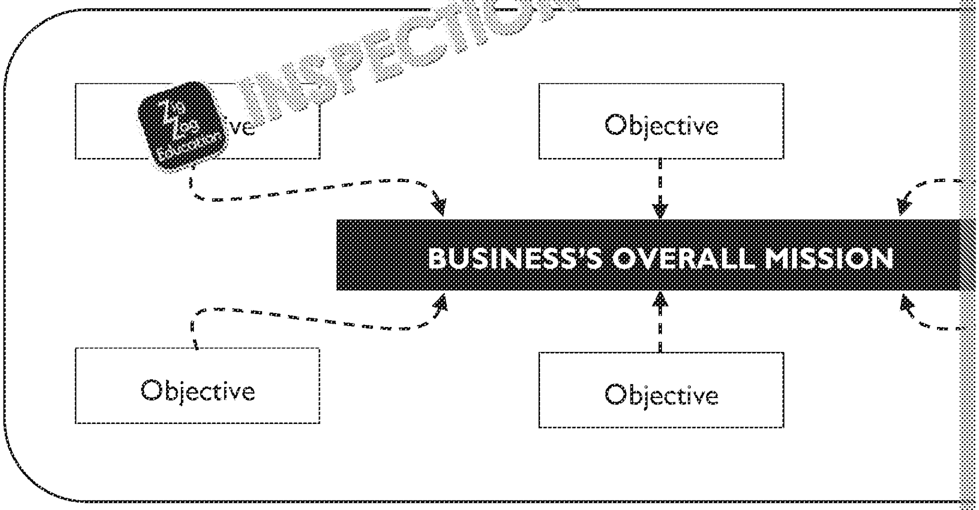


Diagram: The relationship between a business's mission and its ob

Why Businesses set Objectives

There are reasons for each objective and why businesses focus on them. Let's loo

- **Profit Maximisation:** this objective is the most common for any business as necessary to purchase capital (e.g. equipment, location, etc.) and/or invest i
- **Survival:** businesses need a positive cash flow (i.e. enough finances so that t month-to-month bills and other expenses). If a company is profitable overal to pay its short-term expenses, it probably will not be able to survive.
- **Sales maximisation:** this objective supports profit maximisation. Since a bus subtracting total costs from total revenue, they can achieve economies of sc sales they generate, i.e. with more sales comes more revenue and, as such,
- **Market share:** this objective also supports profit maximisation. Businesses f share in order to promote themselves to more customers. As they introduc the businesses increase their sales and, therefore, profits.
- **Cost-efficiency:** while the previous two objectives help bring revenue up, co down. This also supports profit maximisation as, with lower costs, businesse their revenues.
- **Employee welfare:** this is an important objective for businesses in order to within the business, i.e. a business may be responsible for the quality of its that ultimately has control over this.
- **Customer satisfaction:** this objective links back to profit maximisation and s make a profit, it must also make sure it keeps its customers satisfied. This can le mouth referrals which ultimately can convert into sales.
- **Social objectives:** while most businesses start out with the primary aim of p diversify their objectives by supporting social causes (such as making charit Businesses align with social objectives for many reasons, including the pers and in order to create a more positive reputation for the business's brand, w (and profits) in the long run.

The Measurement and Importance of Profit

Profit is the money left over after all payments, interest and taxes have been pai
to make investments in its future. Investments may involve anything from expan
the workforce, developing the product/service or entering new markets.

Without profit, therefore, a business can never really grow and so it makes busin
order to do this, a business needs four key figures: *revenue* (also known as *turno*
costs and *total costs*.

Calculation of Sales Volume and Sales Revenue

The calculations for sales volume and revenue show a business how many sales t
how much incoming cash this represents.

Sales Volume

This is the number of sales that a company has made. In order to calculate sales v

- *price per unit*, i.e. how the price of one single product/service
- *total sales revenue*

The calculation is then:

$$Sales\ Volume\ = \frac{\text{Total Sales Revenue}}{\text{Selling Price Per Unit}}$$

Example:

Alarms 4 U Ltd sell £49,000 of car alarms in one year. The selling price of each c

The calculation for this is:

$$Sales\ Volume\ of\ Alarms\ 4\ U\ Ltd = \frac{\text{Total Sales Re}}{\text{Selling Price Pe}}$$

$$Sales\ Volume\ of\ Alarms\ 4\ U\ Ltd = \frac{49{,}000}{17.50}$$

$$\boldsymbol{Sales\ Volume\ of\ Alarms\ 4\ U\ Ltd} = 2800\ units$$

Sales Revenue

This is the amount of money a company makes from the sales of a product/servi
company needs *the number of units sold* (i.e. how many products/services did th
they are sold.

The calculation for this figure is:

$$Sales\ Revenue = Price\ per\ unit\ x\ Number\ of\ uni$$

Example:

Fresh Look Ltd want to calculate the amount of money they made on sunglasse
pairs of sunglasses at a price of £8.00 each.

$$Sales\ Revenue = Price\ per\ pair\ of\ sunglasses\ x\ Number$$

$$Sales\ Revenue = 8.00\ x\ 30000$$

$$\boldsymbol{Sales\ Revenue = £240,000}$$

Calculation of Fixed Costs and Variable Costs

Once a business has calculated their sales revenue, they are one step closer to b
profits. First, however, they need to calculate their *fixed costs* and *variable costs*

Fixed Costs

These are the costs of a business that never change, regardless of how many goo
advertised or sold. The business could produce 100 units or 1,000 units and the f

Fixed costs include council tax, insurance, annual interest (on loans), property re
rental, electricity.

Variable Costs

These are the costs that change with every good/service sold by a business. The more goods a company produce, the higher the variable costs.

Variable costs include raw materials, production supplies, by-the-hour contract workers and transport per item.

Difference between Fixed and Variable Costs

A firm's fixed costs be an expense whether they make any money or not and so it is important to differentiate between these fixed and variable costs.

Let's use Fresh Look Ltd as an example:

The company rents two factories and have 50 regular staff. Fresh Look's fixed and

Costs for Fresh Look Ltd	
Rent of two factories	Electricity for fac
Costs of transporting sunglasses	Raw materia
Salary for 50 regular staff	Supplies for produc
Rental of equipment	Annual interest o

The costs of the business split into Fixed Costs and Variable Costs:

Costs for Fresh Look Ltd	
Fixed Costs	**Variable Cos**
Rent of two factories	Raw materia
Electricity for factories	Costs of transporting
Salary for 50 regular staff	Supplies for produc
Annual interest on loan	
Rental of equipment	

Each time Fresh Look Ltd produces a pair of sunglasses, the variable costs will ris materials to produce the sunglasses, plus production supplies and some way of t wholesalers. Fixed costs, however, will stay the same no matter how many s Even if it makes no sales, the firm will still have to pay fixed costs.

> **Tip: Fixed or Variable?**
> When looking at the costs of a business, think about which would likely change goods/services a company produces. Any cost that increases with higher outpu output is a *variable cost*. Any cost that stays the same no matter how many goo produces is considered a *fixed cost*.
>
> **Note:** if Fresh Look Ltd increases its sales revenue so much that it needs to ren fixed costs will change. This shows that fixed costs can be affected by the numb produces. Nevertheless, variable costs can change regularly while fixed costs c special circumstances.

Total Costs

Once a business has its fixed costs and variable costs, it can calculate its *total cos*

$$Total\ Costs = Fixed\ Costs + Total\ Variable\ Co$$

Fixed costs will stay the same while variable costs are dependent on how ma variable cost of a product is £2.50, and you make one product, that is £2.50. How your variable costs will be £25.00.

Profit

Finally, with its sales revenue and total costs calculated, a business can see what

$$Profit = Total\ Sales\ Revenue - Total\ Cost$$

The business can instantly see whether it is performing well from the profit figur positive. If profits are negative, it shows that total costs are higher than the mon

Businesses can then drill down further to calculate *gr… …of…*, *net profit* and ov further in the resource!

3.1.1. Questi…

Please … ou… …swers on a separate piece of paper or in an exercise book.

1. Ma… …aces Ltd manufactures novelty masks. They are popular during Hall dress parties. The selling price of one mask is £12.50.
   a. In 2014–15, Many Faces Ltd sold £6,950 worth of masks. Calculate th sold by Many Faces Ltd during 2014–15.
   b. In 2013–14, Many Faces Ltd sold 13,000 masks. Calculate the sales re

2. Rearrange the following into fixed costs and variable costs.

Costs for Many Faces Ltd	
Mortgage on factory	Electricity and oth
Salary for 15 regular staff	Raw materials for
Annual interest on loan	Extra staff during bu
Overall production line costs	Rental of regular eq

Fixed Costs	Variable Cos

3.1.2. Understanding Different Business Forms

Key Points Covered

- Reasons for Choosing Different Forms of Business and for Changing Business Form
- The Role of Shareholders
- Influences on Sh
  Share Price Cha
- The Effects of O
  and Objectives

Different Forms of Business

Businesses [illegible] in size, from the individual (i.e. sole trader) to the giant multina limited com[illegible]. There are many reasons why a business stays small or grows b with this decision.

Sole Trader

This is the *simplest* form of business structure. It is owned and usually operated b operate it is from the owner's personal savings or a loan from a financial institut The owner is regarded as *self-employed* and is *taxed on the profit* that the busine *proper and accurate financial records* of all income and expenditure but does *no* accounts. However, the owner does have to *complete a self-assessment tax retu* and is responsible for their personal *National Insurance* contributions.

Advantages of being a Sole Trader:

1. The owner *keeps all* the profits themselves.
2. The owner *makes all* the business decisions.
3. It a relatively *simple* form of business t[illegible].

Disadvantages of being a Sole Trader:

1. The owner is [illegible] *responsible* for all the debts and losses of the [illegible].
2. [illegible]ner must personally take *total responsibility* for the efficient a business. All business decisions are theirs and *theirs alone.*
3. The owner has a *limited ability* to raise capital for expansion as the bu *limited asset valuation* for use as *collateral security.*

Private Limited Companies (Ltd)

This type of business exists in *its own right* which means that the *company's fina* from the *personal finances of its owners. Shareholders* are the *owners* of the com *Limited Liability*. This means that if the company fails, shareholders *only stand to* *they have invested* in the company. Their personal goods and holdings are *not at* limited companies must follow the provisions of the *Companies Act 2006*.

Private limited companies tend to be *larger* than partner[illegible] in terms of both *s* *invested* in them. They *must* have at least *one* sha[illegible], but *cannot issue shar* only issue shares to private investors. Pri[illegible] must be *registered/inco* and *must* have *at least one direc*[illegible].

The *Board of* [illegible]*irector*, will make *all* the management decisions. *Fina* *issue, debe*[illegible]*sue, borrowings and/or retained profits* (these are profits that shareholders by way of *Dividends*). Private Limited Companies *must* file annual a

Advantages of being a Private Limited Company (Ltd):

1. They are a *less risky* investment than sole traders and partnerships as by *limited liability*.
2. The *protection* of limited liability *encourages* more private individuals limited company a *larger capital base* than the previous two forms of
3. They have *perpetual existence* which means that the company will co even *after* a shareholder has died.

Disadvantages of being a Private Limited Company (Ltd):

1. They *cannot offer shares for sale to the general public* as their circulati investors, which greatly restricts the amount of capital they can raise.
2. Some of the profits made by the company *are distributed to sharehol* reduces the amount of retained profit they can keep for reinvestment a
3. They *must file annual accounts* with the *Registrar of Companies* at Co

Not-for-Profit Businesses

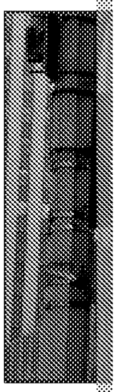
These *social enterprises* are businesses that trade in order to *benefit the commu* which they were set up. Their *profit* is *reinvested in the community* or *used to su* they were formed. Profit is *not used* to increase the personal wealth of owners a

Such businesses aim to have a *financial trading surplus* to *reinvest* in and *further* which they were set up. Examples of such *social aims* are job creation, 'people' t services and 'Fair Trade' with developing countries. There are many different typ housing associations, community development trusts, worker-owned cooperativ

Not-for-profit businesses are usually *limited by guarantee*, which means that the have *trustees* who are *guarantors* instead of shareholders. These guarantors enj *liability* and give an undertaking to contribute a *nominal amount* towards the *wi* event of a *shortfall on ceasing trading*. A clause in its *Memorandum of Assoc* profits to members. Not-for-profit businesses can apply for *charitable status*.

Growth to PLC and Stock Market Flotation

A *Public Limited Company (PLC)* is a type of business that also *exists in its own right*. This means that the business's finances are separate and distinct from the *personal finances* of its *shareholders*, who are also protected by limited liability. PLCs must follow *the provisions of the Companies Act 2006.*



Shares a as the N

PLCs tend to be *much larger* than private limited companies in terms of both *size and the amount of capital invested* in them. PLCs *must have at least two shareholders* and must have issued shares to the value of *£50,000 or more* before they can begin to trade. Unlike private limited companies, PLCs can *issue shares to anyone* through the Stock Exchange. They must be registered, or incorporated, at Companies House and must have *at least two directors and a professionally qualified Company Secretary.*

The company's Board of Directors *make all* management decisions while *finance* *debenture loans, borrowings* and *retained profits*. Public Limited Companies *mus* Companies House.

Advantages of being a Public Limited Company (PLC):

1. They can obtain *very large* amounts of capital as their *shares can be b*
exchange worldwide by individuals or financial institutions.
2. As they are *very large*, usually *dominate* the market and have an *exte*
companies *find it easy to obtain loans* from financial institutions.
3. Because of their huge size, they can benefit from *Economies of Scale.*
purchasing power commands *favourable purchasing* terms from its su

Disadvantages of being a Public Limited Company (PLC):

1. They can *get too large and impersonal,* causing employees to *lose the*
causing *organisation and communication problems* as well as *diseco*
2. There is a *divorce of ownership* by the *large* body of *shareholders and c*
board of directors. This means that a *small group* of people may make d
direction the company will take. These decisions *may not be* the ones t
shareholders agree with. An *unpopular* decision could be *challenged* at
General Meeting of the company. However, in reality the rank-and-file
these meetings.
3. The large hierarchical structure of these organisations often *works ag*
making as it takes a long time for an idea to *move up* the hierarchy fo
time for any approval to be *actioned.*
4. They can be subject to *hostile takeovers* – that is, being unwillingly ta
is usually preceded by a *dawn raid* involving the sudden purchase of a
number of ordinary shares, against the wishes of the Board of Directo
enticed to sell their shares by being offered a price that is higher than

Public Sector or Private Sector?
Understanding the difference between public sector and private sector can be c
consider there are also public limited companies and private limited companies
a public sector business and a private sector business is that public sector busi
national government; private sector businesses are not.

Since public sector businesses are owned by governing bodies, they have differ
firms (i.e. profit maximisation is not necessarily the top priority). Many of the U
have since been sold off to become private sector businesses (e.g. British Telec
causing private monopolies to emerge. The process of selling off a public secto

The Role of Shareholders and Why They Invest

Shareholders are part-owners of a limited company (Ltd or plc). This ownership c
tiniest percentage to 100 per cent of the business. Shareholders can own either o
equity shares) or preference shares. The majority of shareholders own ordinary s
the organisation itself and the organisation's profits, which are given out as divid
other hand, do not allow the holder any ownership of the company. They do, ho
annual dividend. Shareholders have limited liability for the finances of the comp
only financially responsible for the shares they own.

Investors can either buy shares on the stock market (only for public limited comp
offerings (IPOs) where ... businesses offering a first round of shares normal
is relatively easier for businesses to raise finances through share issue because of t
have, i.e. limited to the value of the shares they own, and so they are more incli
they know this is also the maximum they can stand to lose if the business goes u

The financial benefits for shareholders can come in two main forms:

1. If the company decides to (and is able to) issue *dividends* at the end of th
   cut of this.
2. If the company is still in the early growth stages and does not wish to (or
   shareholders can still keep hold of their shares in the hopes that the com
   come. Once it is profitable enough that share price has increased, the sh
   and make a profit – the increase in share price is known as *capital gain*.

Some shareholders make investments for non-financial reasons, such as gaining n
of a company or to take it over outright. When one company or individual buys m
available shares, they gain majority control over the organisation.

Influence on Share Price and the Significance of Share Pric

When an individual or business purchases shares in an organisation, they do so a
share is then decided over time by the value of the company.

Imagine, for example, that shares in Porcelain Thrones Ltd are originally sold at £
the company. Eventually, the value of the company goes up considerably, makin
an investor sells off their shares at this point, they stand to make a profit of £15.0
1,000 shares at the original price of £10.00 (total of £10,000) and then sold for £
they would end up making a profit of £15,000!

For many firms, especially the already successful ones, selling shares helps them
their growth. A company that is widely trusted will have a high share price, since
will, therefore, benefit from a continual flow of people and businesses buying th

If a business is small, however, and decides to float on the stock exchange, the sh
Due to this, many investors will buy shares because of their relatively low price, s
lucrative investment. However, the more investors that buy shares, the higher th
this allows the relatively unknown company to gain capital and invest in itself, th
point where individuals and companies are no longer interested in investing and
drop, taking the value of the company with it.

A drop in share price can have many negative effects for a firm, including a loss i
creditors that work with the firm may then reduce their payback periods for purc
review its cash-flow situation to make sure it is able to pay for any future purcha
away potential customers, too – people may wonder why the drop occurred and
the company's products being of less quality now than in previous years. This ch
have further knock-on effects for the company's overall reputation, making it dif
or apply for business development loans.

The Effects of Ownership on Mission and Objectives

Businesses set objectives that will help achieve their overall missions. These miss
by the business's owners – but what happens when the business has multiple ow

Multi-ownership can occur when the shares of a business are split between differe
The primary owners of a company may be interested in its survival and growth, plu
(such as improvements in brand reputation or perception of quality). The business
also interested in the company's survival, but they also expect reward for their inv

While businesses can benefit from multi-ownership (e.g. the ease of raising new f… detrimental effects on mission, objectives, performance and decision-making:

- A business that is too focused on providing reward (high dividends) for its sh… consumed by short-term financial gains, ignoring its larger overall *mission* a… more profitable opportunities.
- Shareholders that have significant ownership of a company can also have si… *decision-making* – not all shareholders know what's best for business.
- If a business concentrates on satisfying its shareholders, it may sacrifice oth… of cash it makes available for internal growth, choosing instead to make larg…
- A business's workforce can lose out if the focus is shareholders, i.e. if there i… there will be less investment in employees too.
- If a business makes reasonable profit from one set of products/services, but… is decreasing, it may wish to expand into new areas. However, its owners (i.… to keep things this way as profits are still high enough for good dividends. O… damage the company through decrease in either market share or perceived…
- A business that wishes to change its prime *objective* to that of ethics or soci… lot of pushback from shareholders who demand financial reward in either d… value of their shares.

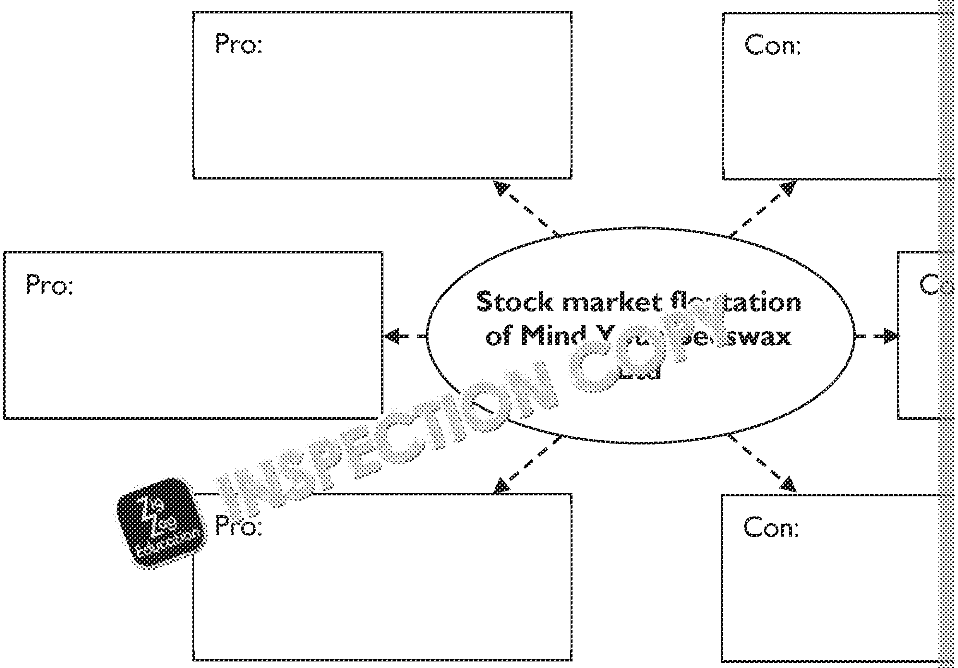
3.1.2. Questions

Please write your answers on a separate piece of paper or in an exercise book.

3. **a.** Give two limitations of a partnership.
b. Identify two benefits of being a sole trader.

4. Mind Your Beeswax Ltd is a small cosmetics company that specialises in moist… The company has grown from a team of one (the founding CEO) to employ mo… The company is currently owned by two people: its founder and managing dir… itself on ethical practices and purchases its stock only from suppliers that do n… business also donates to charity, including several sustainability and green energy…

The company needs to grow but there is not enough cash available for this… considering floatation on the stock market. Copy out and fill in the followin… **two pros and two cons** to floating Mind Your Beeswax Ltd on the stock ma…



3.1.3. Understanding that Businesses Operate wit Environment

! Key Points Covered

- How the External Environment can Affect Costs and Demand
- PES

The factors that affect a business can be broken down into two main categories: *macroeconomic*. Microeconomic factors are internal factors that affect the firm, factors can be controlled by the business itself, at least to a degree. Macroecono those that cannot be controlled by the business.

Let's look more at a business's macroeconomic factors and how they affect the b

Factor	Effects on Demand	
Income	If the average disposable income of a consumer increases, people will have more money available to buy goods and services. Conversely, less disposable income can lead to a decrease in demand. Demand for low-value goods in particular can rise during economic downturns.	When the e rise along w bring up th might, ther during an e salary expe
Competition	The success of rivals can take market share away from other companies, which then leads to a decrease in demand. Likewise, if competition within a market is weak, a business can take advantage of this by promoting its goods and increasing consumer demand.	If a market any busines must be abl possible. Th business wi stands to e goods/servi
Market conditions	Companies stand to make many more sales when their market is growing at a fast rate than when their market is growing slowly (or even weakening).	Business co when a ma growth. Ho in the long experience spreading i increased p
Interest rates	If interest rates are high, consumers are less likely to want to spend their disposable income, instead choosing to keep it in the bank to gather interest; this brings down the rate of demand for goods. Conversely, when interest rates fall, consumers will be more likely to spend instead of save. Low interest rates also mean that the cost of buying goods on credit decreases and so consumers can buy more.	Lower inter less for asse machinery, fixed costs. the opposit demand wo making less costs.
Changing demographics	The structure of a population can affect demand as a community changes over time, so can the average consumer, e.g. the average population age. Another example is gentrification – this occurs when there is an increase of wealthier people/businesses moving in to an area.	If the demo companies which can r Businesses infrastructu changing co their goods Both option

Factor	Effects on Demand	
Environmental factors	Today's consumers are more concerned with the environmental impact of industry than in previous years and so the demand for socially responsible products/services has increased. This works in favour of already ethical companies, who should experience a boost in demand, while other firms may lose customers.	The importa responsibili products in suppliers ar goods. Com advantage o socially-resp the cost of Fairtrade st not offering that mostly of lower co

PESTLE

This form of analysis (sometimes referred to as PESTEL or LE PEST) looks at six ex might affect a business.

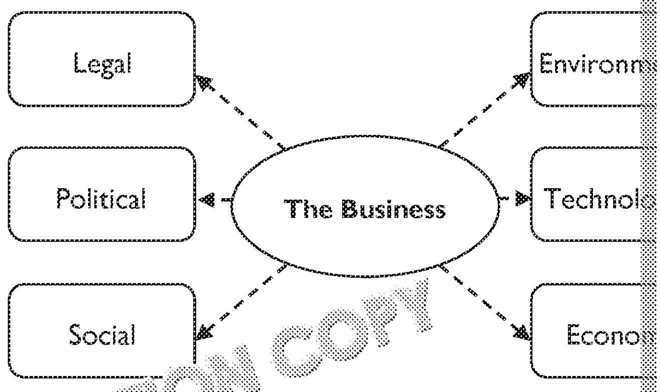


Diagram: PESTLE Analysis

Each element of the PESTLE analysis poses potential effects to a business.

Political
Taxation, whether direct (e.g. corporation tax) or indirect (e.g. value-added tax, When taxes are increased, businesses must compensate for this somehow. Firms may scare away potential consumers while firms that lower their production cos products and, therefore, suffer in lack of sales.

The European Union (the EU) is another element of this factor. Businesses that o to millions of customers and skilled workers. Firms within the EU can also achiev purchasing in bulk without the high import/export costs. On the other hand, bus standards, which may bring about high setup costs. The free movement of peopl exceptional labour and materials may go to other EU nations, where they may p business. This might result in higher production prices and a lower quality of wo

Economic Factors
Consumer demand increases as the economy moves through the business cycle (recovery and boom). With this increase in demand, companies are able to generate mo This increase in growth, opening more opportunity for investment and employm Inflation and deflation can affect demand: when inflation occurs, the costs of su have to choose whether to raise sale prices or earn less in profits.

Exchange rates can affect businesses too. A fall in exchange rate, for instance, w to sell their products/services abroad. Rates of unemployment can also greatly a availability of a highly-skilled, low-value workforce increases when employment

Social
Fashions come and go; this can be devastating for a company that relies on trend
must, therefore, be able to react to social change – otherwise they will find them

Ethical business practices have grown in importance for the average consumer a
factor is limiting the number of sales they could make. Likewise, pressure groups
if a company is doing something that the general public believes to be unethical,

Technological
New, improved processes and rival products are two of the many factors here th
new processes might be available for the business to use or they might be what t
market. If the business is using the process, it might increase its efficiency and re
are using the technology, on the other hand, it could represent fewer sales for th
move on to the competition.

In either scenario, a business must also consider the costs of change involved, i.e.
the new technology or how much it might lose from not taking on the technology

Legal
With all employment legislation, such as the Equal Pay Act (1970) and the Disabi
there are costs involved. Businesses must comply with legislation and so may ne
facilities, which can be a drain on cash flow. On the other hand, a business that c
without using 'loop holes') can look attractive to consumers, workers and potent
sales, availability of highly-skilled workers and more investment opportunities.

Environmental
Corporate social responsibility (CSR) is an integral element to many businesses. S
become law, such as the Climate Change Act (2008); it aims to reduce the carb
business practices.

If a firm voluntarily becomes more environmentally-friendly (e.g. by recycling eve
more attractive to ethical consumers. This change in strategy can also attract mo
driven by environmental values. If recycling everything requires particular skills,
workers who have the relevant experience. These workers will perhaps be more
workers. The production costs of implementing such a system could be great, to
could add value to the company (i.e. competitive advantage), especially if no oth

Good to Know
Most markets are dynamic. The influence that each external factor has on a bu
any moment and so their power often fluctuates. If new legislation is brought i
will have to comply, causing a rise in operating expenses. However, once this h
will go down and businesses will have more cash flow. The same goes for socia
acting more ethically because their consumers expect it. If this trend ever chan
likely have to change too.

3.1.3. Questions

Please write your answers on a separate piece of paper or in an exercise book.

5. Copy out and fill in the following table to show how the following macroec luxury car dealer's demand and costs.

Factor	Effects on Demand	
Disposable income		Expecte an econ Salaries econom
Market conditions	If the market is strong or growing, the business stands to make many sales. The opposite might happen if the market is weakening. However, if a company controls a large portion of the market, this might be why there is little market growth.	
Interest rates		Lower i busines as stock overall If intere the opp costs w
Changes in demographics		Change lead to the bus its line rising e to high short te not qui produc

6. New government legislation calls for all companies to recycle at least 25 p materials. In response to this, a luxury car dealer is considering installing a recycle up to 40 per cent of its waste. The recycling system costs £50,000 recycles 25 per cent of waste would cost only £40,000.

   Identify and explain the benefits and drawbacks of the business purchasin recycling system.

3.1. Keywords

Cash flow:	The inflows and outflows of a company's cash at any on
Dividend:	The share of the profits that shareholders receive as a r
Fixed costs:	These are costs that do not change with the number of
Limited liability:	Business owners are only responsible for the investmen company folds if it goes into liquidation.
Mission:	The long-term strategic purpose of a company
Objective:	The steps that businesses must take in order to achieve
Private sector:	Businesses in this industry are financially supported by
Public sector:	Businesses in this industry are financially supported and
Revenue:	The amount of cash generated by general business prac
Total costs:	The sum of both fixed and variable costs
Unlimited liability:	Business owners are financially responsible for all aspe company folds, the owners go bankrupt.
Variable costs:	These are costs that change according to the number of

3.1. Answers

1. *Many Faces Ltd manufactures novelty masks. They are popular during Halloween … selling price of one mask is £12.50.*
   a. *In 2014–15, Many Faces Ltd sold £6,950 worth of masks. Calculate the sales v… Ltd during 2014–15.*

$$Sales\ Volume = \frac{Total\ Sales\ Revenue}{Selling\ Price\ Per\ Unit}$$

$$Sales\ Volume = \frac{6950}{12.50}$$

$$Sales\ Volume = 556\ units$$

   b. *In 2013–14, Many Faces Ltd sold 13,000 masks. Calculate the sales revenue f…*

$$Sales\ Revenue = Price\ per\ unit\ x\ Number\ of\ units\ s…$$

$$Sales\ Revenue = 12.50\ x\ 13000$$

$$Sales\ Revenue = £162{,}500$$

2. *Rearrange the following into fixed costs and variable costs.*

Costs for Many Faces Ltd	
Mortgage on factory	*Electricity and ot…*
Salary for 15 regular staff	*Raw materials fo…*
Annual interest on loan	*Extra staff during b…*
Production line costs	*Rental of regular e…*
Fixed Costs	***Variable Co…***
• *Mortgage on factory* • *Salary for 15 regular staff* • *Annual interest on loan* • *Electricity and other bills* • *Rental of regular equipment*	• *Production line cos…* • *Raw materials for …* • *Extra staff during b…*

3. a. *Give limitations of a partnership.*
   Limitations include: all profits must be shared between the partners of the bu… partners; decisions can be slow to make since all partners must be consulted…
   b. *Identify two benefits of being a sole trader.*
   Benefits include: the business is relatively simple to start up; the owner is abl… make all business decisions himself/herself

4. *Answers might include any of (but are not limited to) the following:*

Stock market floatation of Mind Your Beeswax Ltd

- Pro: *Quick method of raising finances*
- Con: *Significant … of shares can lea… ownership for th… founder(s).*
- Pro: *Spreading of financial responsibility between multiple owners.*
- C… *o… s…*
- Pro: *Company **does not** have to pay dividends at the end of the year – and so more investment in growth.*
- Con: *Shareholde… expect a payout i… and pressure the … forgo self-investm…*

5. *The table below includes some of the many possible answers.*

Factor	Effects on Demand	
Disposable income	***More disposable income means consumers have more money to spend on luxury goods.*** ***Less disposable income leads to the opposite.***	*Expected sa[illegible] economic d[illegible]* *Salaries are[illegible] doing well.*
Ma[illegible] co[illegible]	*If the market [illegible] growing, the busi[illegible] to make many sales.* *[illegible] opposite might happen if the market is weakening. However, if a company controls a large portion of the market, this might be why there is little market growth.*	***When a ma[illegible] can invest i[illegible] purchasing [illegible] per item.*** ***If the mark[illegible] business is [illegible] high costs [illegible]***
Interest rates	***When interest rates are high, consumers are less likely to purchase luxury items, instead choosing to save their money in the bank.*** ***Low interest rates might lead to more purchases as consumers see less use in saving their money.***	*Lower inter[illegible] for assets, s[illegible] overall costs[illegible]* *If interest ra[illegible] would occur[illegible]*
Changes in demographic	***A change in demographic over time can mean that the average consumer is less or more interested in purchasing luxur[illegible] vehicles.***	*Changes in d[illegible] changes in t[illegible] need to alte[illegible] rising expec[illegible] costs, especi[illegible] business is n[illegible] lines will wo[illegible]*

6. *Benefits might include:*
   - *The b[illegible]ine[illegible] less harm to the planet*
   - *C[illegible]s that are more ethically minded may be more attracted to the bus[illegible]*
   - *Th[illegible] can use the system as a point of ethical brand promotion and gain c[illegible]*
   - *The firm may need to employ skilled workers to run and maintain the recycli[illegible] business's core base skills*
   - *The system may attract more highly skilled workers who have strong enviro[illegible]*
   - *Long-term costs could significantly decrease as the business minimises its ne[illegible]*

   Drawbacks might include:
   - *High initial costs of purchasing the system*
   - *Profits might not be high enough in future to sustain the purchase*
   - *The system may not draw any more business from the firm's consumer base*
   - *The firm may need to employ skilled workers to run and maintain the recycli[illegible]*