

Nature of business activity flashcard



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1.1 Nature of Business Activity A business is a decision-making organisation which uses a combination of inputs, processes and outputs. Inputs ideas, money, labour, employees, raw materials, equipment Processes action of turning inputs into outputs cooking, delivery, manufacturing Outputs final products goods or services Businesses exist to satisfy the needs and wants of people, organisations and governments.

Small Businesses have the same people fulfilling multiple roles Large Businesses Many specialists in each department There are a number of types of products that a business can offer: Consumer goods o Durable goods that are kept for a number of years o Non-durable goods that are only kept in the short term Capital or Producer goods Services Goods are tangible and visible, whilst services are intangible and cannot be seen.

Capital or producer goods are provided to another business, whilst consumer goods are provided directly to households to be used. <http://ibscrewed4business.blogspot.com/> Adding Value This is when a product increases in value through the processes, allowing the business to sell it at a higher price than production costs. This is found by subtracting the costs from the selling price. This can happen for a number of reasons: Speed or quality of service Prestige Feel-good factor Perceived value for money Quality of the finished product Brand image and loyalty Taste and design Inability to obtain products cheaper elsewhere Opportunity Cost This is the best alternative decision that is forgone when a decision is made. Whenever there are <https://assignbuster.com/nature-of-business-activity-flashcard/>

two choices to a decision, then it will incur an opportunity cost. This means that the business may choose to invest in something that will be profitable or beneficial in the long term.

The opportunity cost of it is that there may have been another option to do something that would have paid off straight away, however over time it may not have the same return. Profit is important to a business for: Incentive to produce Reward for taking risks Encourages invention and innovation Indicates growth or decline

Source of finance <http://ibscrewed4business.blogspot.com/> Profit is calculated by: Factors of Production Land This is a natural resource, and can be classified as renewable and non-renewable. It can be used for office buildings, mining, farming, etc. Labour This is the physical and mental effort that goes into the production of a good or service, performed by employees. Capital This is resources that are used to create and produce products. This includes money, buildings, equipment, tools, machinery and vehicles Enterprise or Entrepreneurship This is the management, organisation and planning of these three factors Specialisation

This is when the business concentrates on the production of a particular good or service, or a small range of similar products.

Individual A person specialising in a profession Departmental

Departments focus on a specific function Corporate The firm

specialise in the provision of a limited range of products Regional

When a particular region specialises in an area National A whole country may specialise in a particular area

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<http://ibscrewed4business.blogspot.com/> Advantages Increased productivity Higher profit margins Increased efficiency Standardisation Disadvantages Boredom Inflexibility Lack of autonomy High capital costs Business Functions There are four key areas of business function that combine to create goods and services. Production and Operations This department controls the process making of the products.

How it should be delivered Quality control Stock management Research and development Ordering and delivery of raw materials Marketing This department does market research and promotion of the business products Meeting customer wants and needs Using pricing strategies Promoting awareness of the product Making the product available to consumers Finance This department takes care of providing, managing and recording financial resources.

Ensure other departments operate within budget Recording all financial transactions Human Resources This department manages the business workforce Recruitment and selection Training and performing appraisals <http://ibscrewed4business.blogspot.com/> Sectors of Industry Primary extracting, harvesting and converting land resources are used in the secondary sector Secondary converts raw materials into finished products Tertiary also called services sells finished products and services to consumers