



EDEXCEL INTERNATIONAL GCSE (9–1)

# BUSINESS

Student Book

Rob Jones

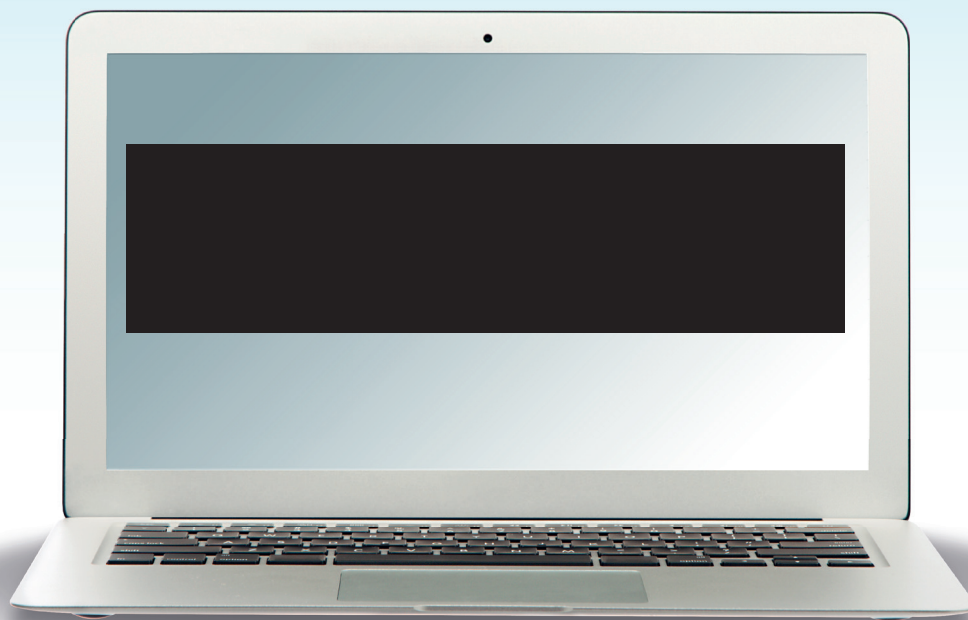


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# ABOUT THIS BOOK

This book is written for students following the Edexcel International GCSE (9–1) Business specification and covers both years of the course.

The course has been structured so that teaching and learning can take place in any order, both in the classroom and in any independent learning. The book contains five units that match the five areas of content in the specification: Business Activity and Influences on Business, People in Business, Business Finance, Marketing and Business Operations.

Each unit is split into multiple chapters to break down content into manageable chunks and to ensure full coverage of the specification.

Each chapter features a mix of learning and activities. Global case studies are embedded throughout to show a range of businesses within the context of the chapter. Summary questions at the end of each chapter help you to put learning into practice.

The content for all five units is applicable for both exam papers. Paper 1 is Investigating small businesses and Paper 2 is investigating large businesses. Knowing how to apply your learning to both of these will be critical for your success in the exam. To help with this, relevant chapters feature a section on how the content applies to both large and small businesses. There are also exam-style questions at the end of each unit and two full practice exam papers at the end of the book.

**Learning objectives**  
Each chapter starts with a list of what you will learn from it. They are carefully tailored to address key assessment objectives central to the course.

**Getting started**  
An introduction to the chapter, letting you think about the concepts you will be introduced to. Questions are designed to stimulate discussion and use of prior knowledge. These can be tackled as individuals, pairs, groups or the whole class.

**Activity**  
Each chapter includes activities to embed understanding through case studies and questions.

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BUSINESS FINANCE

STATEMENT OF FINANCIAL POSITION

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STATEMENT OF FINANCIAL POSITION

LEARNING OBJECTIVES

- Understand the purpose of statements of financial position
- Understand the main features of statements of financial position: current and non-current assets, current and non-current liabilities and capital employed
- Understand how to interpret a statement of financial position

GETTING STARTED

Businesses keep a record of all the resources they own, such as land, property, machinery, tools, inventory and cash. They also keep a record of all the money they owe to banks, suppliers, the owners and other businesses. At the end of the financial year, a business produces a summary of these financial details. Look at the example below.



Furniture making

CASE STUDY: AZORA DINING FURNITURE

Azora Dining Furniture is a small manufacturer of dining room furniture. It makes wooden tables, chairs and other small items of furniture for customers in the south of Estonia. Table 30.1 shows some financial information for the business at the end of 2015. On the left-hand-side, the table shows the value of all the resources owned by Azora, which are called assets. On the right-hand-side, the value of liabilities and capital is shown. This is the amount owed to the creditors of the business and the owners of the business respectively.

RESOURCES OWNED BY AZORA (ASSETS)	US\$	OWED BY AZORA (LIABILITIES AND CAPITAL)	US\$
Property	180 000	Share capital	200 000
Tools and equipment	95 000	Bank loan	40 000
Inventory	24 000	Trade payables (trade creditors)	21 000
Trade receivables (debtors)	34 000	Taxation	30 000
Other assets	89 000		
Cash	54 000	Retained profit	104 900

▶ Table 30.1 Azora financial information, 31 December 2015

- 1 What is the value of all the assets owned by the business?
- 2 How much money does the business owe to (a) the owners and (b) all other creditors?
- 3 What do you notice about the value of assets and the total amount owed by the business?

BUSINESS FINANCE

STATEMENT OF FINANCIAL POSITION

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WHAT IS A STATEMENT OF FINANCIAL POSITION?

Most businesses produce a statement of financial position at the end of the financial year. A statement of financial position is like a photograph of a firm's financial position at a particular point in time. It provides a summary of a firm's assets, liabilities and capital. It is also commonly known as a balance sheet.

SUBJECT VOCABULARY

statement of financial position summary at a point in time of business assets, liabilities and capital (often called the balance sheet)

assets resources used or owned by a business, such as cash, stock, machinery, tools and equipment

liabilities debts of the business, which provide a source of funds

capital finance provided by the owners of the business

KEY POINT

In statement of financial position, the value of assets (what a business uses or owns) will equal the value of liabilities and capital (what the business owes). This is because all resources purchased by a business have to be financed from either capital or liabilities. Therefore:

Assets = Liabilities + Capital

So, if a business has capital of US\$5 million and liabilities of US\$2.6 million, the value of assets must be US\$7.6 million (US\$5 million + US\$2.6 million).

ACTIVITY 1

CASE STUDY: TESCO

Tesco is a large supermarket chain. It operates nearly 7000 stores. In 2016, according to its annual reports and accounts, the value of its assets was £43 904 million. A significant proportion of this (£17 600 million) was property, plant and equipment. The value of Tesco's liabilities was £35 288 million. £10 711 million of this amount was owed to banks and other financial institutions.



Tesco supermarket

- 1 What is the difference between assets and liabilities? Use examples from this case study.
- 2 Work out the value of capital for Tesco.
- 3 Write a letter to a shareholder explaining what a statement of financial position shows.

FEATURES OF A STATEMENT OF FINANCIAL POSITION

The statement of financial position for Dingwall Building Supplies is shown in Table 30.2. The company operates a large store, which serves builders and other traders in the construction industry. The presentation of these statements may vary between different businesses. For example, the statements of limited companies are slightly different to those of sole traders. The details likely to be found in a statement of financial position are outlined below.

**Case study**  
Getting started, Chapter review and Activities are all based around case studies. They are drawn from a range of large and small businesses from around the world and will help you see learning applied to real-world contexts.

**Key point**  
Easy to understand, core information to take away from sections.



# ASSESSMENT OVERVIEW

The following tables give an overview of the assessment for this course. You should study this information closely to help ensure that you are fully prepared for this course and know exactly what to expect in each part of the assessment.

PAPER 1	PERCENTAGE	MARK	TIME	AVAILABILITY
<b>INVESTIGATING SMALL BUSINESSES</b> Written exam paper Paper code 4BS1/01 Externally set and assessed by Pearson Edexcel Single tier of entry	50%	80	1 hour 30 minutes	June exam series First assessment June 2019
PAPER 2	PERCENTAGE	MARK	TIME	AVAILABILITY
<b>INVESTIGATING LARGE BUSINESSES</b> Written exam paper Paper code 4BS1/02 Externally set and assessed by Pearson Edexcel Single tier of entry	50%	80	1 hour 30 minutes	June exam series First assessment June 2019

## ASSESSMENT OBJECTIVES AND WEIGHTINGS

ASSESSMENT OBJECTIVE	DESCRIPTION	% IN INTERNATIONAL GCSE
<b>A01</b>	Recall, select and communicate knowledge and understanding of business terms, concepts and issues	27–28* %
<b>A02</b>	Apply knowledge and understanding using appropriate business terms, concepts, theories and calculations effectively in specific contexts	38–39%
<b>A03</b>	Select, organise and interpret business information from sources to investigate and analyse issues	22–23%
<b>A04</b>	Evaluate business information to make reasoned judgements and draw conclusions	11–12%

\* A maximum of 15 per cent of total qualification marks will assess knowledge recall.



## RELATIONSHIP OF ASSESSMENT OBJECTIVES TO UNITS

UNIT NUMBER	ASSESSMENT OBJECTIVE			
	A01	A02	A03	A04
PAPER 1	13.7%	19.4%	11.3%	5.6%
PAPER 2	13.7%	19.4%	11.3%	5.6%
TOTAL FOR INTERNATIONAL GCSE	27–28%	38–39%	22–23%	11–12%

## ASSESSMENT SUMMARY

PAPER 1	DESCRIPTION	MARKS	ASSESSMENT OBJECTIVES
<b>INVESTIGATING SMALL BUSINESSES PAPER CODE 4BS1/01</b>	<b>Structure</b> Paper 1 assesses 50% of the total Business qualification. There will be four questions on the paper, each worth 20 marks. Students must answer all questions. The sub-questions are a mixture of multiple-choice, short-answer, data-response and open-ended questions.	The total number of marks available is 80	Questions will test the following Assessment Objectives: AO1 – 13.7% AO2 – 19.4% AO3 – 11.3% AO4 – 5.6%
	<b>Content summary</b> This paper will draw on topics taken from the whole of the subject content. The question scenarios are based on a small business – those with up to 49 employees.		
	<b>Assessment</b> This is a single-tier exam paper and all questions cover the full ranges of grades from 9–1. The assessment duration is 1 hour 30 minutes. Calculators may be used in the examination.		
PAPER 2	DESCRIPTION	MARKS	ASSESSMENT OBJECTIVES
<b>INVESTIGATING LARGE BUSINESSES PAPER CODE 4BS1/02</b>	<b>Structure</b> Paper 2 assesses 50% of the total Business qualification. There will be four questions on the paper, each worth 20 marks. Students must answer all questions. The sub-questions are a mixture of multiple-choice, short-answer, data-response and open-ended questions.	The total number of marks available is 80	Questions will test the following Assessment Objectives: AO1 – 13.7% AO2 – 19.4% AO3 – 11.3% AO4 – 5.6%
	<b>Content summary</b> This paper will draw on topics taken from the whole of the subject content. The question scenarios are based on a large business – those with more than 250 employees.		
	<b>Assessment</b> This is a single-tier exam paper and all questions cover the full ranges of grades from 9–1. The assessment duration is 1 hour 30 minutes. Calculators may be used in the examination.		



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# 1 BUSINESS ACTIVITY AND INFLUENCES ON BUSINESS

## Assessment Objective 1

Recall, select and communicate knowledge and understanding of business terms, concepts and issues

## Assessment Objective 2

Apply knowledge and understanding using appropriate business terms, concepts, theories and calculations effectively in specific contexts

## Assessment Objective 3

Select, organise and interpret business information from sources to investigate and analyse issues

## Assessment Objective 4

Evaluate business information to make reasoned judgements and draw conclusions

This section looks at the nature of business activity and the types of organisations that conduct business, both domestically and internationally. It also covers some of the key factors that might influence business decision making, such as external factors, the government, exchange rates and interest rates. Finally, the ways in which business performance is measured and the possible causes of business failure are addressed.



# 1 WHAT IS BUSINESS ACTIVITY?

## LEARNING OBJECTIVES

- Understand the nature of business activity and the reasons why businesses exist
- Understand the role played by different stakeholders
- Understand that businesses operate in a changing business environment

## GETTING STARTED

Some people try to make money by setting up a business. They might do this because they want to work for themselves. Or they think they can make more money than working for someone else. Or perhaps they have been made redundant and cannot find another job. Running a business is hard work but the rewards can be worth it. Look at the example below.



▲ Maintaining and repairing old bicycles is hard work

## GENERAL VOCABULARY

**tool** a piece of equipment that is useful for doing your job

## SUBJECT VOCABULARY

**premises** buildings and land used by a shop or business

## CASE STUDY: THE KANDY CYCLE SHOP

In 2015, Tharanga Perera opened a second-hand bicycle shop in the city of Kandy in Sri Lanka. He had always wanted to run his own business because he wanted to be his own boss. He worked for 12 years in a tea factory and saved LKR 100 000. Tharanga had a passion for bicycles and spent a lot of his spare time as a hobby restoring old bicycles and selling them to local people. The shop, located in a Kandy backstreet, had a small garage at the rear where he carried out repairs. Tharanga employed his younger brother as a shop assistant while he spent most of the time repairing, maintaining and restoring old bicycles. Before the shop was opened Tharanga had to:

- obtain a LKR 300 000 loan from his grandmother
- buy some new **tools** and equipment
- find suitable **premises**, ideally with somewhere to carry out repair work
- refurbish the premises
- find a reliable supplier of spare parts for his repair and restoration work
- learn how to keep financial records
- advertise the shop.

Tharanga worked very hard. However, it was worth it because in 2016 the Kandy Cycle Shop made a profit of LKR 900 600. Tharanga thought he might start to sell new bicycles in the future if he could get a bank loan to buy some stock.

In groups, discuss the following:

- 1 Why do you think Tharanga opened a second-hand bicycle shop?
- 2 What are three resources used by Tharanga when setting up his business?
- 3 Why do you think businesses exist?

## BUSINESS ACTIVITY

## SUBJECT VOCABULARY

**business** organisation that produces goods and services

**organisation** group, such as a club or business, that has formed for a particular purpose

**goods** physical products, such as a mobile phone, a packet of crisps or a pair of shoes

**services** non-physical products, such as banking, car washing and waste disposal

**output** amount of goods or work produced by a person, machine or factory

**human resources** in some businesses, the department that deals with employing, training and helping people

A **business** is an **organisation** that provides **goods** and **services**. The Kandy Cycle Shop example illustrates many features of business activity.

- 1 Business activity produces an **output** – a good or service. Tharanga is selling second-hand bicycles (goods) and offering a repair and maintenance service.
- 2 Goods and services are consumed. Customers buy the second-hand bicycles or consume the repair and maintenance service provided by Tharanga.
- 3 Resources are used. Spare parts (such as tyres, wheels and chains), oil, tools, equipment and electricity are just a few of the resources used by the Kandy Cycle Shop. Money, such as the LKR 300 000 loan from his grandmother and his LKR 100 000 savings, is also a resource. The resources used by businesses are often called the *four factors of production* – these are explained in Chapter 44, pages 368–374.
- 4 A number of business functions may be carried out. Production, marketing, **human resources** and financial control are examples of these functions. Production in the case of the Kandy Cycle Shop involved the sale of second-hand bicycles and a repair and maintenance service. Marketing involved advertising the shop in the local area.
- 5 External factors affect businesses. Things that they cannot control have an impact on businesses, such as government laws, changes in consumer tastes and the actions of competitors. The Kandy Cycle Shop has to compete with similar shops in the area.
- 6 Businesses aim to make a profit. Most people setting up a business do so as they wish to make money for themselves. In this case, the Kandy Cycle Shop made a profit of LKR 900 600 for Tharanga in 2016.

## GOODS AND SERVICES

## SUBJECT VOCABULARY

**consumer goods** goods and services sold to ordinary people (consumers) rather than businesses

**producer goods** goods and services produced by one business for another

Businesses provide a wide range of goods and services. Some are produced for consumers – ordinary people. These are called **consumer goods**. Products sold by one business to another are called **producer goods**. Examples are shown in Table 1.1. Some businesses serve both consumers and producers. For example, the Taj Mahal hotel in Mumbai serves both tourists and business people.

► Table 1.1 Consumer and producer goods

CONSUMER GOODS		PRODUCER GOODS	
GOODS	SERVICES	GOODS	SERVICES
Smartphone	Health care	Delivery van	Market research
Magazine	Banking	Office furniture	Insurance
Crisps	Air travel	Tools	Software design
Handbag	Education	Sugar cane	Industrial cleaning
Computer game	Garden design	Tractor	Printing

## SATISFYING NEEDS AND WANTS

## SUBJECT VOCABULARY

**needs** basic requirements for human survival

**wants** people's desires for goods and services

Businesses have to satisfy people's **needs** and **wants**.

Needs are the requirements for human survival. Some are physical such as water, food, warmth, shelter and clothing. If these needs cannot be satisfied humans will die.

## SUBJECT VOCABULARY

**infinite** without limits in space or time

**finite** having an end or a limit

**scarce** resources with limited availability

Humans also have other desires. These are called wants and include holidays, a better house, a bigger car, a better education and a cleaner environment. These wants are **infinite**. Most people want more than they already have. It is human nature. Unfortunately, the resources available to businesses are **finite**. This means there is a limited amount. Economists say such resources are **scarce**.

## THE PURPOSE OF BUSINESS ACTIVITY

Businesses exist to provide goods and services. However, different types of organisation provide goods and services for different reasons. Each type of organisation has a different purpose.

## SUBJECT VOCABULARY

**private sector** business organisations owned by individuals or groups of individuals

**public sector** business organisations owned by central or local government

- **Private enterprise:** Most businesses are owned privately by individuals or groups of individuals. They are **private sector** businesses. The objective of a private enterprise is often to make money – a *profit* for the owners. The objectives of private sector businesses are discussed in Chapter 2, pages 11–18.
- **Social enterprise:** Some organisations in the private sector are non-profit making. Organisations, such as charities, pressure groups, clubs and societies exist for reasons other than profit. For example, charities, such as UNICEF, exist to raise money for ‘good’ causes. Clubs and societies, such as youth groups and sports clubs, provide opportunities and facilities for people with common interests. Social enterprises are discussed in Chapter 3, pages 19–26.
- **Public enterprise:** Some goods and services are provided by organisations owned by central or local government. These are public sector organisations. In many countries **public sector** organisations often provide health care, education, mail delivery, policing, the fire service and environmental services. The main purpose of a public enterprise is to provide the goods and services that private enterprise fails to provide adequately. Public enterprises are discussed in more detail in Chapter 5, pages 35–43.

## DID YOU KNOW?

In the UK there are over 5.4 million privately owned businesses. Most of these are small (10–49 employees) or medium (50–249 employees) in size, they make up 99% of all businesses.

## KEY POINT

Many goods and services provided in the public sector are free at the point of use. They are paid for through tax revenue.

## ACTIVITY 1

## CASE STUDY: GULF CONFECTIONERY AND BISCUIT CO.

The Gulf Confectionery and Biscuit Co. (LLC) manufactures high quality sweets such as toffees and lollies. It has a factory that employs sophisticated, up-to-date technology and it is committed to the production of high quality products.



▲ Some products produced by the Gulf Confectionery and Biscuit Co.



- 1 Does the Gulf Confectionery and Biscuit Co. supply products that satisfy needs or wants?
- 2 The Gulf Confectionery and Biscuit Co. is a private enterprise. What does this mean?

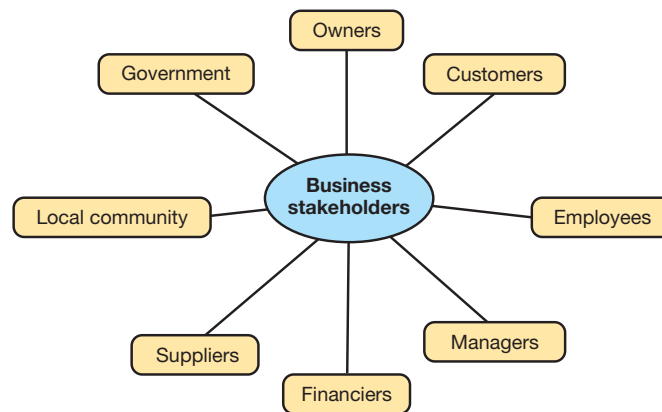
## BUSINESS STAKEHOLDERS

### SUBJECT VOCABULARY

**stakeholder** an individual or group with an interest in the operation of a business

Any individual or group that has an interest in the operation of a business is called a **stakeholder**. Owners have a financial 'stake' in the business. This is because they have invested some of their own money and usually a lot of their time. Some stakeholders, such as employees, rely on the success of a business for the income to meet their needs and wants. Figure 1.1 shows the different business stakeholders.

► Figure 1.1 Business stakeholders



### SUBJECT VOCABULARY

**entrepreneur** person who takes risks and sets up businesses; individual who organises the other factors of production and risks their own money in a business venture

## OWNERS

A business belongs to its owners. Many small businesses are owned by individuals, families or small groups of people. These people are often called **entrepreneurs**. They are responsible for setting up and running the business. Larger businesses, such as limited companies (see Chapter 4, pages 27–34), are owned by *shareholders*. Shareholders invest money in a business and get a share of the profit called a dividend.

## CUSTOMERS

Customers buy the goods and services that businesses sell. Most customers are consumers who use or 'consume' goods and services. However, some may be other businesses. Customers want good quality products at a fair price. If they do not get them; they will spend their money elsewhere.

## EMPLOYEES

Employees work for businesses. They depend on businesses for their salary. However, they have other needs. They will require training so that they can do their jobs properly. They want good working conditions, fair pay and benefits, job security and opportunities for promotion.

## MANAGERS

Managers help to run most businesses. They are often employed to run the different departments in businesses, such as marketing, production, finance and human resources. Managers have to lead teams, solve problems, make decisions, settle **disputes** and **motivate** workers. Managers are likely to help

### GENERAL VOCABULARY

**dispute** serious argument or disagreement  
**motivate** encourage someone to do something

plan the direction of the business with its owners. They also have to control resources, such as finance, equipment, time and people. Managers are also accountable to the owners. This means they have to take responsibility if things go wrong.

### FINANCIERS

Financiers lend money to a business. They may be banks but could be individuals, such as family members, or private investors, such as *venture capitalists* (see Chapter 25, pages 210–217). Clearly these stakeholders have a financial interest in a business and will be keen for it to do well.

### SUPPLIERS

Businesses that provide raw materials, parts, commercial services and utilities, such as electricity and water, to other businesses are called *suppliers*. Relations between businesses and their suppliers must be good because they rely on each other. Businesses want good quality resources at reasonable prices. In return suppliers will require prompt payment and regular orders.

### THE LOCAL COMMUNITY

Most businesses are likely to have an impact on the local community. A business may employ a lot of people who live in the local community. If the business does well the local community may benefit. There may be more jobs, more overtime and possibly higher pay. In contrast a business may be criticised by the local community. For example, if the owners of a noisy factory decide to introduce night shifts, there may be complaints from local residents.

### THE GOVERNMENT

The government has an interest in all businesses. They provide employment, generate wealth and pay taxes. Taxes from businesses and their employees are used to finance government spending.

## THE CHANGING BUSINESS ENVIRONMENT

All businesses operate in a changing business environment. This means that they may be affected by external factors that are likely to change over time. Such factors include the strength of competition, the economic climate, government legislation, population trends, demand patterns, world affairs and social factors.

To survive, businesses must produce goods and services that satisfy people's needs and wants. They must have clear objectives and be aware that the changing environment can bring new opportunities and impose new limitations.

#### DID YOU KNOW?

In 2008/09 there was a global recession. In some countries the recession lasted for many years. This meant that many businesses had to deal with very difficult trading conditions. Many adapted by freezing wages, closing down unprofitable divisions, reducing staff numbers and improving efficiency.

## ACTIVITY 2

## CASE STUDY: STAKEHOLDERS

## ► Different stakeholders in a store



- 1 What is meant by the term business stakeholder?
- 2 Name the two groups of stakeholders in the photograph.
- 3 The goods sold in the store above are bought from suppliers. What are the possible needs of suppliers.

## MULTIPLE-CHOICE QUESTIONS

- |  |   |
|--|---|
| <p>► 1 Which of these products is designed to satisfy a need?</p> <p><b>A</b> Potato crisps<br/> <b>B</b> Cricket bat<br/> <b>C</b> Bread<br/> <b>D</b> Smartphone</p> | <p>► 3 Which of the following business activities is a service?</p> <p><b>A</b> House construction<br/> <b>B</b> Dental treatment<br/> <b>C</b> Coconut farming<br/> <b>D</b> Gold mining</p> |
| <p>► 2 Which of the following is a business stakeholder?</p> <p><b>A</b> Lawyer<br/> <b>B</b> Tax collector<br/> <b>C</b> Customer<br/> <b>D</b> Police officer</p>    | <p>► 4 An example of a producer good is:</p> <p><b>A</b> Tractor<br/> <b>B</b> Newspaper<br/> <b>C</b> Package holiday<br/> <b>D</b> Meal at a restaurant</p>                                 |

## CHAPTER REVIEW

## GENERAL VOCABULARY

**machinery** equipment with moving parts that uses power, such as electricity, to do a particular job

► Figure 1.2 JCB earnings before interest, tax, depreciation and amortisation (EBITDA), 2011–14

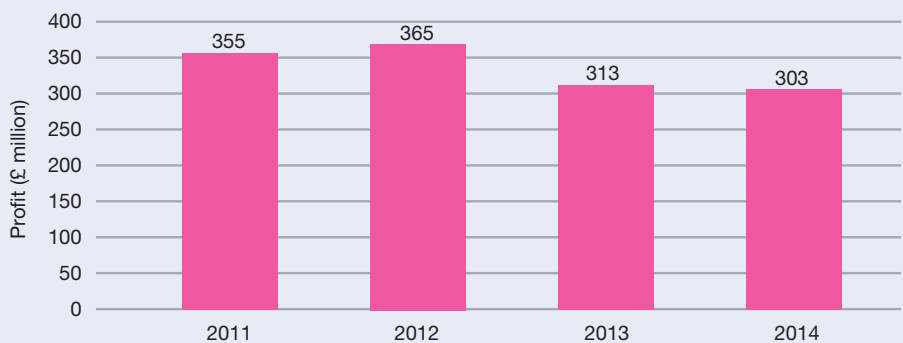
## SUBJECT VOCABULARY

**EBITDA** earnings before interest, tax, depreciation and amortisation

► An example of a machine (digger)

## CASE STUDY: JCB

JCB, a private sector business, was formed in 1945 and produced trailers for use on farms. Today, it is one of the top three manufacturers of construction equipment in the world and produces a wide range of **machinery**, such as engines, diggers and forklift trucks. The business employs around 11 000 people in locations over four continents and sells its products through more than 750 dealers worldwide. Figure 1.2 shows the earnings before interest, tax, depreciation and amortisation (EBITDA) made by JCB between 2011 and 2014. During this time, the construction industry has performed poorly in many countries.



## CHAPTER QUESTIONS

- 1 JCB makes producer goods. What is meant by the term producer goods?
- 2 What is meant by the term private sector?
- 3 Name two possible stakeholders in JCB.
- 4 Describe the role played by managers in a business such as JCB.
- 5 JCB operates in a changing business environment. What does this mean?
- 6 Assess whether the owners of JCB would be happy with the financial performance of the business between 2011 and 2014.



## 2 BUSINESS OBJECTIVES

### LEARNING OBJECTIVES

- Understand the financial aims and objectives of businesses: survival, sales, profit, market share and financial security
- Understand the non-financial aims and objectives of businesses: social objectives, personal satisfaction, challenge, independence and control
- Understand why business objectives change in response to market conditions, technology, performance, legislation and internal reasons

### SUBJECT VOCABULARY

**objectives** goals or targets set by a business

### GETTING STARTED

Businesses exist to produce goods and services for consumers and other businesses. However, the owners of businesses will want to achieve certain **objectives**. Most business owners want to make a profit. They risk their own money when setting up or buying a business and aim to make a financial return. However, there are other objectives that businesses might try to achieve. Look at the example below.

### SUBJECT VOCABULARY

**executives** managers in an organisation or company who help make important decisions

**diversify** if a business, company or country diversifies, it increases the range of goods or services it produces

### CASE STUDY: MICROMAX

In 2015, Micromax overtook Samsung to become India's leading smartphone brand. However, about 12 months later Micromax had lost half of its market share and a number of its top **executives** had left. India is the world's fastest growing market for smartphones. Initially, this encouraged a number of local operators to thrive, with Micromax leading the way. However, energetic competition from Samsung and low-cost Chinese manufacturers has forced Indian suppliers to rethink their strategies. Chinese producers are also squeezing their competitors by joining with e-commerce operators, such as Amazon, to sell their products online.

Micromax also went through a period of change as they employed new executives to help manage its growth. It has been argued that tension between managers resulted in a loss of finance crucial to the development of the company. As its market share continued to fall, Micromax responded by shifting production from China to India. Industry analysts suggested that to survive in the future Micromax needed to **diversify** geographically and develop new products, such as tablets and televisions.



## ► Micromax handsets



- 1 What are two reasons why Micromax is starting to struggle?
- 2 What do you think is the main aim of Micromax at this time?
- 3 What measures might Micromax take in order to achieve this aim?
- 4 In groups, produce a spider diagram to show the different possible objectives a business might have. Present your ideas to the rest of the class.

## THE IMPORTANCE OF CLEAR OBJECTIVES

Businesses are more likely to be successful if they set clear objectives. Businesses need to have objectives for the following reasons.

- Employees need something to work towards. Objectives help to motivate people. For example, sales staff might get bonuses if they reach certain sales targets.
- Without objectives owners might not have the motivation needed to keep the business going. Owners might allow their business to 'drift'. This might result in business failure.
- Objectives help to decide where to take a business and what steps are necessary to get there. For example, if a business aims to grow by 10 per cent and its home market is crowded, it may decide that launching products overseas might be the best way to achieve this.
- It is easier to assess the performance of a business if objectives are set. If objectives are achieved it could be argued that the business has performed well.

## FINANCIAL OBJECTIVES

In the private sector, where individuals or groups of individuals own businesses, financial objectives are particularly important. This is because most business owners in the private sector want to make money. The main financial aims and objectives are outlined below.

- **Survival:** All businesses will consider survival as important. However, from time to time survival may be the most important objective. For example, when a business first starts trading it may be vulnerable. The owners may lack experience and there may be a shortage of resources. Therefore, an objective for a new business may be to survive in the first 12 months. The survival of a business might also be threatened when trading conditions become difficult or if a strong competitor emerges. In 'Getting started' above, it was suggested that Micromax was starting to struggle owing to

## SUBJECT VOCABULARY

**financial return** monetary return

**profit maximisation** making as much profit as possible in a given time period

**shareholders** owners of limited companies

**dividends** share of the profit paid to shareholders in a company

**profit satisficing** making enough profit to satisfy the needs of the business owner(s)

competition from Samsung and low-cost Chinese producers. As a result of this its key short-term business objective may have been survival.

- **Profit:** Most businesses aim to make a profit because their owners want a **financial return**. Some businesses try to reach **profit maximisation**. This means they make as much profit as they possibly can. For example, companies, which are owned by **shareholders**, may try to maximise profits. This is because shareholders often put pressure on companies to pay out large **dividends**.
- **Sales:** Some owners want their businesses to grow their sales. This is because businesses with large volumes of sales may enjoy a number of benefits. For example, they:
  - 1 may enjoy lower costs
  - 2 have a larger market share
  - 3 enjoy a higher public profile
  - 4 generate more wealth for the owners.

The growth of a business might also benefit a wide range of stakeholders linked with the business. For example, employees are likely to benefit from the growth of a business because their jobs will be more secure.

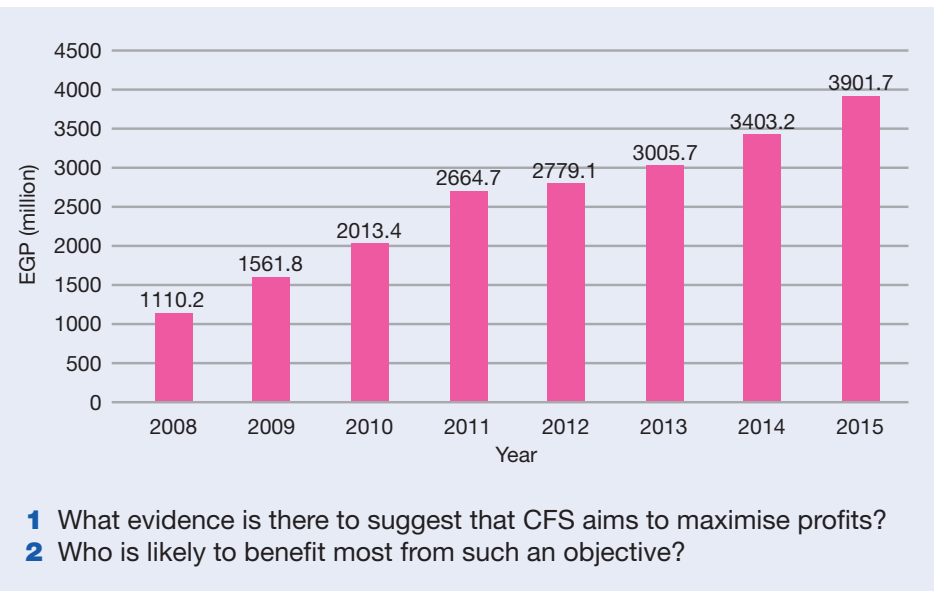
- **Increase market share:** Businesses often want to build a larger market share. They may be able to do this if they can win customers from competitors. Businesses with a large market share may be able to dominate the market. They may be able to charge higher prices, for example. Businesses with a large market share also have a higher profile in the market. This might mean it is easier to launch new products.
- **Financial security:** Some business owners do not aim for profit maximisation. Instead, they might aim to make enough profit to give them financial security. This is sometimes called **profit satisficing**. One reason why some owners do not seek to maximise profits is because they do not want to take on the extra responsibility of expanding their business – which is often required to make more profit. Also, some entrepreneurs run ‘lifestyle’ businesses. This involves running a business that generates enough profit and financial security to provide the flexibility needed to allow a particular lifestyle. This type of business allows owners to spend more time on their other interests or with family. For example, a couple running a busy hotel in the summer might shut down for four months in the winter so that they can go abroad and relax in a warmer climate. However, to do this they first need financial security. This can be an important business aim.

## ACTIVITY 1

## CASE STUDY: CAIRO FOOD SUPPLIES

Cairo Food Supplies (CFS) make a wide range of canned and packaged food products. It is a large company and employs 4100 people in its factory based near Kirdasah, Egypt. CFS has markets in a number of African states and has been popular with investors for a number of years. This is probably owing to its dividend policy, which is very generous. Figure 2.1 shows the profits made by CFS between 2008 and 2015.

► Figure 2.1 Cairo Food Supplies profits, 2008–15



## NON-FINANCIAL OBJECTIVES

Some businesses may have non-financial objectives. These are objectives that are not connected with money. Whether owners have such objectives often depends on the nature of the business. Some business owners might have both financial and non-financial objectives.

### SOCIAL OBJECTIVES

- In the public sector, where the government owns businesses, social objectives are important. Social objectives are designed to improve human well-being. In the public sector most businesses aim to provide a public service and the objectives will be linked to quality of service and reducing costs. Examples might include reducing response time by the emergency services or increasing rates of recycling.
- Some businesses operate as social enterprises, not-for-profit organisations, such as charities and cooperatives (see Chapter 3, pages 19–26), and also aim to improve human and environmental well-being. They usually have a clear social or environmental mission. For example, a business may gather used textbooks and distribute them to schoolchildren in developing countries. Their aim might be to help improve the quality of education in these countries.

Finally, in recent years, some businesses have attempted to improve their social responsibility. One way of doing this is to take into account the needs of a wider range of stakeholders, such as customers, the local community and employees. For these businesses, social objectives might include providing employment for local people, reducing pollution or making contributions to the local community, such as visiting schools or sponsoring local events.

### PERSONAL SATISFACTION

Many business owners set up a business because they think they will be happier and feel more satisfied in their work environment than when working for an employer. Such owners are likely to enjoy taking risk and seeing their idea succeed. Some owners have developed their hobby into a business. For example, a fitness enthusiast might become a personal trainer or someone who likes baking might start a business making wedding cakes. Investing money in your own business idea and seeing it develop into a successful business is likely to be very satisfying and a matter of great pride.

## GENERAL VOCABULARY

**negotiation** official discussions between the representatives of opposing groups who are trying to reach an agreement, especially in business or politics

**outcome** result of an action

## DID YOU KNOW?

Many businesses set SMART objectives. This means that their objectives should be:

- Specific – stating clearly what is to be achieved
- Measurable – an **outcome** that can be measured in numbers
- Achievable – possible to complete by the people involved
- Realistic – able to be achieved with the resources available
- Time specific – stating a period of time in which to achieve it.

An example of a SMART objective might be for a business to increase its revenue by 8 per cent in the next 12 months.

## CHALLENGE

Some people are motivated by challenges and starting a business can be very challenging. To be successful in business people need to be committed, hardworking and multi-skilled. For example, business owners need skills in organisation, financial management, communication, decision making, **negotiation**, IT and people management. Even if a business becomes successful, owners might set new challenges for their business. For example, they may decide to grow by selling overseas or invest in developing new products. Running a business can often provide endless challenges.

## INDEPENDENCE AND CONTROL

Some people want to be 'their own boss' – they want to be in control. This is an important non-financial objective for many business owners. These entrepreneurs are driven by the desire to be independent and to take control of their own futures. The freedom to make all the decisions when running a business is very appealing. Some people often dislike being told what to do at work. According to an article and poll by Startups.co.uk, having the independence to make your own decisions is considered the key benefit of being an entrepreneur. Nearly 90 per cent of the people surveyed said this was very important. In practice this independence may be limited: work has to be done; taxes have to be paid; those financing the business, such as a bank giving a loan, need to be satisfied that the business is doing sufficiently well. However, those who own their own business, in general, do have more independence than those who work for an employer.

## ACTIVITY 2

## CASE STUDY: DOHA AIRLINE MEALS

DAM (Doha Airline Meals) supplies ready-made meals for a number of airlines operating out of Doha airport, Qatar. Omar Hassan set up the business in 2009. Previously, Omar worked for a large hotel working in the kitchen. However, he did not like following instructions and being told what to do all day. He set up in business mainly because he valued independence. He wanted to take complete control of his life and also thought he could improve on some of the 'inflight' meals offered by airlines.

The business was successful right from the start. Omar was very happy being in control and after breaking even in the first year started to make a profit. In 2013, the success attracted interest from a much larger catering company. The company made a very generous offer to buy the business and employ Omar as the managing director. However, Omar declined, he wanted to keep control. This was very important to him.

In 2016, the business made a record profit of US\$1.2 million. Omar said: 'one of the main reasons for our success is setting clear and achievable objectives which employees understand'. One example of an objective set by DAM in 2015 was to increase sales from 2.4 million units to 2.8 million units in 12 months. Omar said: 'I agreed this objective with my sales team. There is no point in setting objectives which are unrealistic and unachievable for staff.'

- 1 Why is independence and control an important objective in this case?
- 2 What is meant by a SMART objective? Use information in this case as an example.
- 3 Why is it important for objectives to be achievable and realistic?



▲ A typical meal served on board an aircraft

## WHY MIGHT OBJECTIVES CHANGE AS BUSINESSES EVOLVE?

### GENERAL VOCABULARY

**evolve** to develop and change gradually over a long period of time  
**sustained** continued for a long time  
**legislation** law or set of laws  
**emissions** gas or other substances that are sent into the air

### SUBJECT VOCABULARY

**automation** use of computers and machines instead of people to do a job  
**economies of scale** financial advantages (falling average costs) of producing something in very large quantities

As a business develops and **evolves** over time, its aims and objectives are likely to change. This is usually because businesses have to respond to events or changes in circumstances. Some of the main examples are outlined below.

### MARKET CONDITIONS

Businesses operate in dynamic markets. This means they have to deal with regular changes. For example, a new entrant may appear in the market, a rival might introduce a new product or the economy may start to decline. When market conditions change, it may be necessary to set new objectives. For example, if trading becomes difficult as a result of changing market conditions, a profit-seeking business may decide that survival is more important until the market 'settles down'.

### TECHNOLOGY

As the pace of technological development increases businesses may have to adjust their objectives. For example, a manufacturer that introduces more **automation** into production may decide to switch its objective to sales growth. This might be necessary to lower costs. A business may be under pressure to sell more in order to exploit **economies of scale** (see Chapter 40 pages 336–343). Alternatively, a business might decide to win a larger share of the market after introducing online selling technology.

### PERFORMANCE

The performance of a business is not likely to stay constant. Periods of **sustained** profitability may be interrupted by less successful periods. The performance levels of businesses may have an impact on their objectives. For example, a business that has been growing sales for several years might decide to focus more on profitability. This might be because sales growth has been achieved by lowering prices and the owners are unhappy with the negative impact this has had on profits.

### LEGISLATION

New **legislation** might have an impact on the objectives of a business. In recent years, many businesses have become more socially responsible. This might be a reaction to new environmental, employment or consumer legislation. For example, in 2013, EU regulations for the construction industry were tightened to reduce energy use in order to help protect the environment from carbon dioxide **emissions** from the generation of power. This meant that



businesses in the industry had to construct buildings that were more energy efficient. In general, much of the new legislation aimed at businesses is putting pressure on them to consider the needs of a wider range of stakeholders and behave in a more socially responsible way.

### INTERNAL REASONS

The reasons outlined above for a business changing its objectives are mainly owing to external factors: things beyond the control of businesses. However, sometimes a business might change its objectives for internal reasons. For example, there may be a change in ownership or a change in the senior management team. In such circumstances the objectives might change. For example, new owners might want to maximise profits so that higher dividends can be paid to shareholders.

#### SUBJECT VOCABULARY

**large business** a business that employs more than 250 people

**small business** a business that employs fewer than 50 people

### LARGE VS SMALL BUSINESSES

The objectives of a **large business** and a **small business** may differ. For example, many small businesses may be content to stay small. The people who own them may just want to make enough money to support their families and lifestyles. They may want to avoid the responsibility that may come with growth, for example. Small businesses may also be more interested in some of the non-financial objectives, such as personal satisfaction and independence. It might also be argued that large businesses are more interested in financial objectives. Large businesses may aim to grow even larger and try to maximise profits for their owners. However, most businesses will aim to make some profit – whether they are large or small.

### MULTIPLE-CHOICE QUESTIONS

#### SUBJECT VOCABULARY

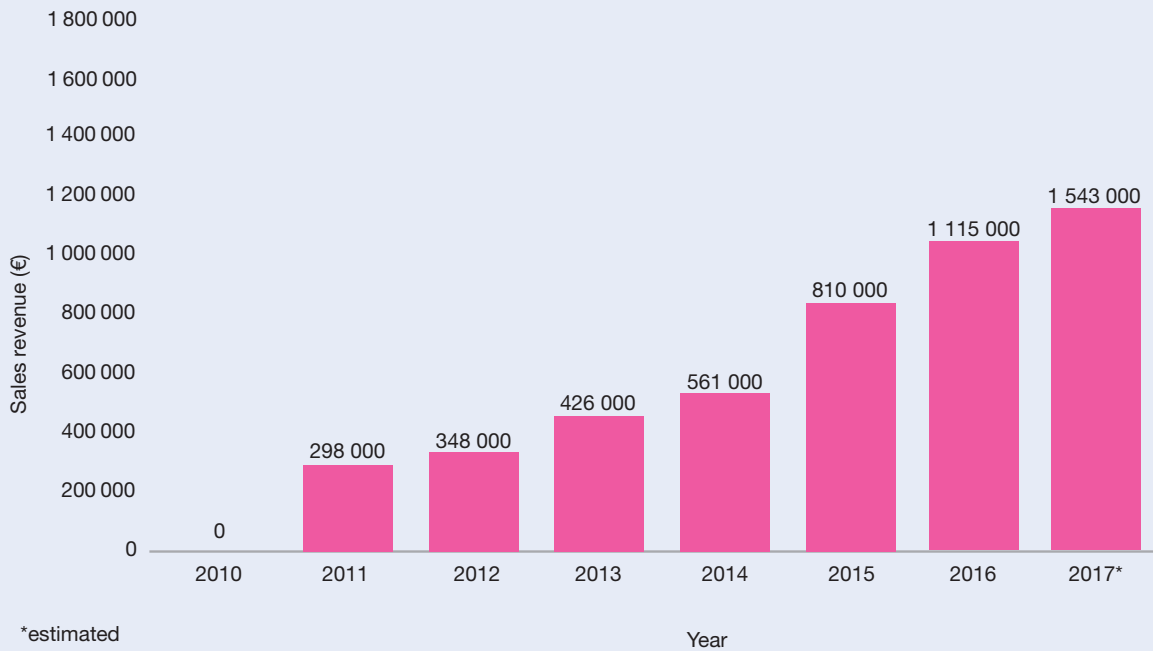
**revenue** money from the sale of goods and services

- ▶ 1 Which of the following is a non-financial business objective?
  - A Increase market share
  - B Independence and control
  - C Profit maximisation
  - D Survival
- ▶ 2 Which of the following is a financial business objective?
  - A Improve customer service
  - B Independence and control
  - C Sales growth
  - D Improve social responsibility
- ▶ 3 Which of the following might cause business objectives to change over time?
  - A Technological development
  - B A rise in the price of shares
  - C Following the introduction of a new accounting system
  - D A change in weather patterns
- ▶ 4 Which of the following is likely to be an objective of a public sector organisation?
  - A Increase profit by 5 per cent in the next financial year
  - B Survival
  - C Increase **revenue** by 20 per cent over a three-year period
  - D Improve the quality of customer service

## CHAPTER REVIEW

## CASE STUDY: SUPERSKISWISS.COM

SuperSkiSwiss.com is an online retailer of ski equipment and accessories. It is based in Basel, Switzerland and has recently branched into relatively expensive outdoor fashionwear. It targets skiers and young fashion-conscious consumers. It sells a combination of own-label and branded products. The company has grown rapidly since it was set up in 2000. Its ambitious aim is to be Europe's number one online shopping site for skiers. Figure 2.2 shows the growth in sales revenue between 2010 and 2017. SuperSkiSwiss.com hopes to achieve sales of €3 000 000 by 2020.



▲ Figure 2.2 SuperSkiSwiss.com sales revenue for 2010 to 2017

SuperSkiSwiss.com also claims that it wants to grow in a sustainable way. As a result, for example, the business is committed to the protection of the environment. The biggest environmental impacts from SuperSkiSwiss.com are carbon emissions from the distribution of goods, the running of buildings and waste from packaging. SuperSkiSwiss.com aims to use resources as efficiently as possible by controlling emissions and focusing on the sustainability of packaging. In 2016/17 SuperSkiSwiss.com cut its carbon emissions by 15 per cent. It also reduced its stock and vehicle movements across Europe and saved 11 tonnes of materials by reducing the number of swing tags (product labels) used.

## CHAPTER QUESTIONS

- 1 What is meant by a business objective? Use this case as an example.
- 2 Some businesses have non-financial objectives. Name two examples of non-financial business objectives.
- 3 Work out the change in sales revenue between 2010 and 2017.
- 4 Describe one benefit to SuperSkiSwiss.com of sales growth.
- 5 SuperSkiSwiss.com may be concerned about social responsibility. What evidence is there in the case study to support this view?
- 6 How might a company like SuperSkiSwiss.com change its objectives as it evolves? Provide two reasons in your analysis.