MEGA LECTURE

Nature of Business Activity

AS Business

Definition of Business

- Any commercial activity of producing a good or provision of service that satisfy consumers' need or want with the objective of making profit is known as business activity.

What is Profit?

- Profit is the amount earned by the business owner / entrepreneur from business activities.

Profit = Revenue / Sales - Cost

- Think of a restaurant – if a restaurant earned Rs 100,000 from the sales of food to its customers then this is restaurant's revenue.
- If the total cost like rent for the premises, electricity expense, wages of chefs and waiters etc etc all amounted to Rs 70,000 then the business earned a profit of Rs 30,000 during that time period.

Basic Economic Problem

- Refers to the situation that every economy in the world has ***limited resources and unlimited wants.***

- Therefore a country cannot produce everything that it needs; hence it needs to decide what products are more important so the country can prioritize.
- For instance if a government decides to spend more resources on producing defense services then obviously it will leave the country with lesser resources to be spent on other things like education, health care etc.

Opportunity Cost

- When a country chooses between what should be produced and what should not be produced the products it decides not to produce are the opportunity cost of the goods that it decides to produce.

• Opportunity Cost is a natural outcome of Basic Economic Problem. • ***Opportunity Cost: is the benefit of the next best alternative forgone.***

Opportunity Cost: Example

- If a person has Rs 1000 and he wants to choose between watching a movie and purchasing a video game, then the good/service forgone is known as opportunity cost of good/service that the consumer chooses.
- Hence if the person chooses to watch a movie then video game will be the opportunity cost of his decision.
- Because every resource has alternate uses hence ***there will always be opportunity cost for any economic decision.***

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Classification of Resources

1. ***Land:*** all natural resources including physical land where office or building is located example wood, minerals etc
2. ***Labor:*** refers to all mental and physical efforts made by humans. It includes both skilled and unskilled labor.
3. ***Capital:*** all man-made resources like machinery, air conditioner, tools etc
4. ***Enterprise / Entrepreneur***: the business organization or business owner who arranged other factors of production and is taking the investment risk

Value Added

Value Added = Selling Price – Cost of Components

- Some brand are much more expensive than other brands for example Mercedes / BMW are much more expensive than cars like Honda / Toyota which shows higher value addition of more expensive brands.
- Consumers will be willing to pay higher prices for products that are considered better quality for example I-phone is much more expensive than other cellphone brands like Samsung, Huawei etc.

How to increase Value Added?

- Value Added is different from profit as can be seen from the formula. •

Businesses can add value to their products through following strategies:

1. ***Addition of unique features to their products*** – these are also known as unique selling points (USP)
2. ***More effective advertisement and promotion of product*** to make consumers realize that your product is superior / better than competitors products
3. ***Creating more brand loyalty*** – brand loyalty is when businesses prefer one brand over another brand; meaning a consumer prefers Coke over

Pepsi and will always buy Coke and not Pepsi and so on.

Characteristics of Successful Entrepreneurs

- ***Creativity:*** should be able to identify market gaps and come up with innovative ideas like Food Panda is food delivery service that collects consumer food orders from restaurants and deliver to their place
- ***Risk Taker***: because there is always risk of business failure an entrepreneur should be willing to take this risk
- ***Hard-working / persistent***: to constantly keep working hard until his / her business becomes successful
- ***Ability to bounce back:*** if a business has failed for the first time you keep trying and do not give up

• ***Self – Motivated***: to be able to stay positive and do not quit • ***Leadership qualities:*** to be able to lead and motivate employees, team members etc.

Important Terms

- ***<u>Market</u>:*** can be any ***physical or virtual place or platform through which buyers and sellers interact to make transaction***. This is the definition used in economics.

- ***<u>Market: </u>in business the term market refers to all potential customers***. For instance the market for Pepsi comprises of all people in Pakistan who want to buy soft drink.

- ***Market Share:*** is the percentage of total market sales captured by one business. For instance if Toyota market share is 70 % then out of 100 customers on average 70 people buy Toyota cars.

Challenges Faced by New Business

1. ***Lack of Finance / difficulty to raise finance:*** many new start ups struggle to raise finance since they are risky and therefore banks are reluctant to lend finance to new businesses.
2. ***Lack of expertise:*** since the business owner are new into that business they are very likely to make mistakes because of which the business can fail.

3. Well established businesses in the market: The already existing businesses can give tough time to new business.

Benefits of Small Businesses to the Economy

- Generate ***employment and contribute to Gross Domestic Product*** (GDP)
- These business ***can grow large in size and then would be in a position to generate large amounts of tax revenue*** for the government.
- ***Generate competition for larger organizations*** which forces these well established businesses to improve their products and reduce their product prices which benefits the consumers.
- Such business can be ***very innovative and so can be quite useful for consumers.***

- Can ***provide personalized services to their customers*** due to their small size which makes them more flexible compared to larger businesses.

Methods used by Government to Support Small Businesses

- ***By giving interest free loans:*** apart from the difficulty in raising loans from banks another problem faced by small businesses is their inability to pay back interest. Hence to facilitate new start ups government can provide interest free loans to these small businesses.
- ***Grant:*** is money provided by the government to small businesses that does not need to be repaid.
- ***Tax exemptions / tax holidays:*** refers to the idea that for the first few

years of operation the government will not charge any tax to new businesses.

- ***Providing technical support:*** government might also want to provide training to entrepreneurs etc.