



Cambridge Assessment
International Education



BUSINESS 9609

Cambridge international AS Level

KEY TERMS:



- **Consumer products** /goods and services/:
... bought by 'final' consumers who will benefit from them and not use them to produce other products.
- **Capital and intermediate goods:**
... goods bought by industry to be used in the production of other products.
- **Opportunity cost:**
... the benefit of the next most desired option that is given up.
- **Added value:**
... the difference between the cost of purchasing raw materials and the price of the finished good.
- **Creating value:**
... increasing the difference between the cost of bought in materials and the price finished goods are sold for.

KEY TERMS:



- **Entrepreneur:**

- ... someone who takes the financial risk of starting and managing a new business venture.

- **Intrapreneur:**

- ... work as an employee for another firm.

- **Business uncertainty:**

- ... when businesses face risks that are unpredictable and unmeasurable, often caused by changes in the economic landscape.

- **Social enterprise:**

- ... business with mainly social objectives that reinvests most of its profits into benefiting society rather than maximizing returns to owners.

- **Triple bottom line:**

- ... the three objectives of social enterprises: economic, social, environmental.

- **Business plan:**

... a written document that describes a business, its objectives and its strategies, the market it is in and its financial forecasts.

- **Corporate plan:**

... this is a methodical plan containing details of the organization's central objectives and the strategies to be followed to achieve them.

- **Primary / secondary / tertiary sector**

- **Public / private sector**



KEY TERMS

Public sector: comprises organisations accountable to and controlled by central or local government (the state).

Private sector: comprises businesses owned and controlled by individuals or groups of individuals.



KEY TERMS

Primary sector business activity: firms engaged in farming, fishing, oil extraction and all other industries that extract natural resources so that they can be used and processed by other firms.

Secondary sector business activity: firms that manufacture and process products from natural resources, including computers, brewing, baking, clothes-making and construction.

Tertiary sector business activity: firms that provide services to consumers and other businesses, such as retailing, transport, insurance, banking, hotels, tourism and telecommunications.

ACTIVITY

SECTOR

Developing
economies

Primary

Middle
income
countries

Secondary

Developed
economies

Tertiary

Business

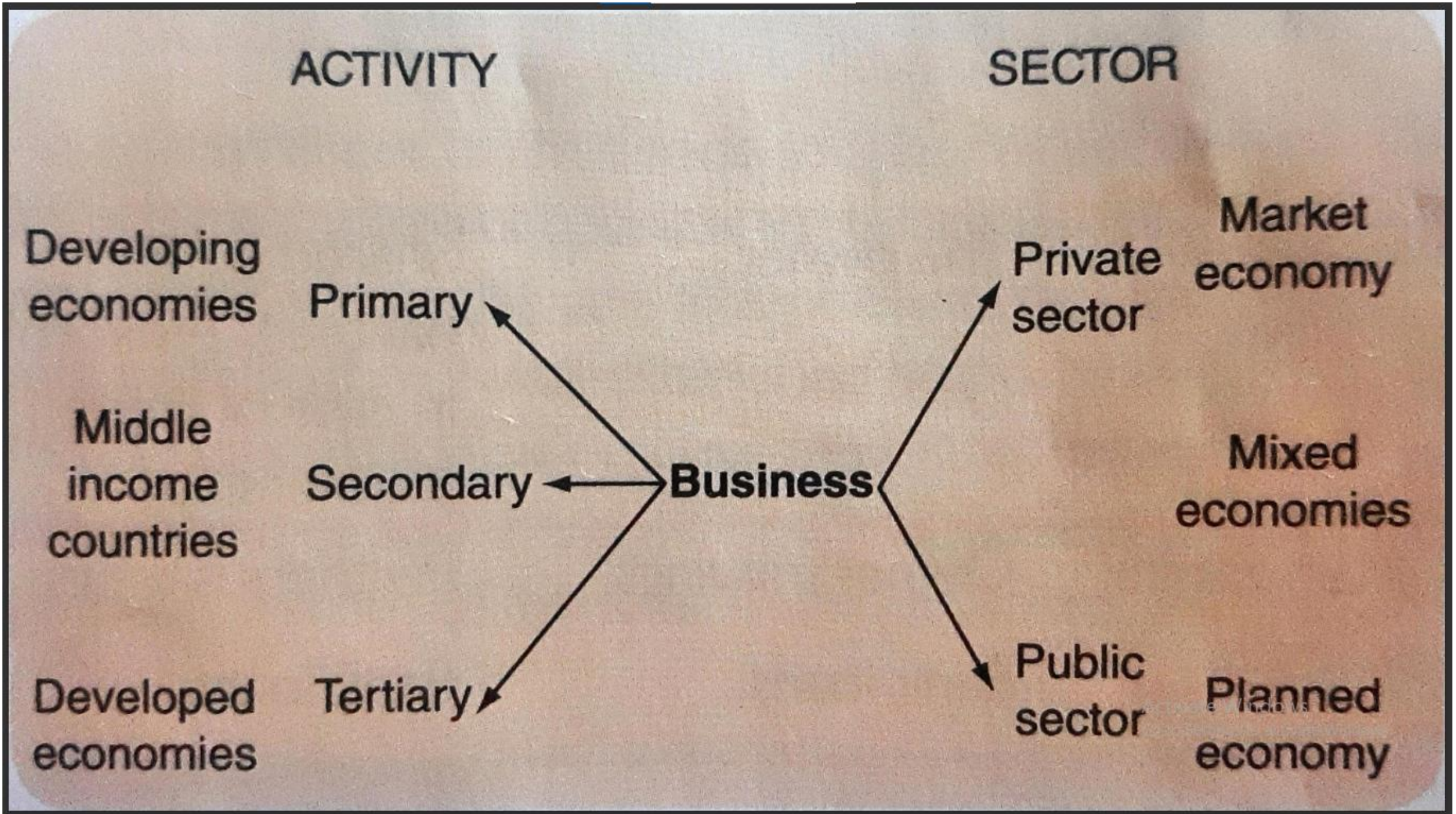
Private
sector

Market
economy

Mixed
economies

Public
sector

Planned
economy





1.3 Size of business

1.3.1 Measurements of business size

- the appropriateness of different methods of measuring the size of a business

1.3.2 Significance of small businesses

- the advantages and disadvantages of being a small business
- the strengths and weaknesses of family businesses
- the importance of small businesses and their role in the economy
- the role of small businesses as part of the industrial structure in some industries



1.3 Size of business

1.3.3 Business growth

- why and how a business might grow internally (organic growth)
- the different types of external growth through merger and takeover: horizontal, vertical (backward and forward), conglomerate diversification, friendly merger, hostile takeover
- the impact of a merger/takeover on stakeholders
- why a merger/takeover may or may not achieve objectives
- the importance of joint ventures and strategic alliances as methods of external growth

MEASUREMENTS OF BUSINESS SIZE

Businesses are different in size:



Measuring business size: what for?

- Government might want to know
- Investors
- Customers

	Байгууллагын нэр	Number of employees	Capital employed	Value of output	Market share	Business sector
		Ажилчдын тоо	Эзэмшигчдийн өмчийн дүн	Нийт борлуулалтын орлого	Зах зээлд эзлэх хувийн жин	Үйлдвэрлэлийн чиглэл
1	АПУ ХК	857	12,388,655,700	4,409,863,500	+	Food production
2	Дархан хүнс ХК	85	1,033,455,600	3,064,695,500	+	Food production
3	Хөвсгөл хүнс ХК	42	288,278,500	776,199,300		Food production
4	Монос хүнс ХК	144	15,846,381,600	5,435,419,700	+	Food production
5	Сүү ХК	385	27,445,638,000	38,471,157,800	+	Food production
6	Увс хүнс	76	2,000,117,400	1,046,333,700		Food production

Compare per market capitalization! = share price *
total number of shares

Compare: АПУ, СУУ and МFC

[Монголын Хөрөнгийн Бирж \(mse.mn\)](http://mse.mn)

MEASUREMENTS OF BUSINESS SIZE

Different measures of size:

1. Number of employees
2. Revenue /sales value/
3. Capital employed
4. Market capitalization
5. Market share
6. Other measures (hotels- bed numbers, retailers- number of shops etc.)



Is profit a good way to measure the size?

MEASUREMENTS OF BUSINESS SIZE

There is NO “correct method” for measuring the size...

- Compare same sectors, use at least 2 of above measures...
- Keep in mind, the result might be different if used different measures

1. Both Co A and Co B are construction business. Co A is employing 100 part-time workers who, on average, work 20 hours per week. Co B is employing 30 full-time workers (40 hours per week). Which company is larger (using the employment measure)?
2. Electricity generating business vs office cleaning business...



ACTIVITY 3.1

Problem of defining size

Supermarket	Employees	Capital employed (£m)	Revenue (£m)	Selling space (Sq. metres)	No. of outlets
W	300	150	250	55,000	15
X	800	500	1,200	300,000	20
Y	1,200	700	1,000	400,000	35
Z	1,500	400	400	150,000	40

[25 marks, 35 minutes]

- 1 Which business is largest, using the following measures of size:
 - employees
 - capital employed
 - revenue
 - selling space
 - number of outlets?[5]
- 2 What do your results tell you about your attempt to measure business size? [5]

- 3 Explain which would be the preferred measure of size in the following circumstances:
 - the government wishes to identify the supermarket with the greatest degree of monopoly power
 - a bank wishes to lend money to the business with the largest capital base
 - a shareholder wishes to invest in the business with the greatest sales potential.[9]
- 4 What can you conclude about the levels of efficiency of these four businesses? [6]

- 15 min individual work
- Classroom discussion

SIGNIFICANCE OF SMALL BUSINESSES

Government assistance for small businesses

- Reduced tax
- Loan guarantee scheme
- Support with Information, advice and support
- Below market rate rent, or other support aids

Benefits to economy of small businesses:

- Provide jobs, reduce unemployment
- Create competition and choice
- New suppliers for other businesses
- New services for customers



SIGNIFICANCE OF SMALL BUSINESSES

Problems faced by small firms:

- Lack of special management expertise
- Problems in short- and long- term finance
- Marketing risks from a limited product range
- Difficulty in finding reasonably priced premises



SIGNIFICANCE OF SMALL BUSINESSES

HOMEWORKS 4: Монгол Улсад ЖДҮ-г дэмжих ямар төсөл, хөтөлбөр хэрэгжиж байгаа вэ? Ямар төрлийн дэмжлэг, хөнгөлөлтүүд авах боломжтой вэ?

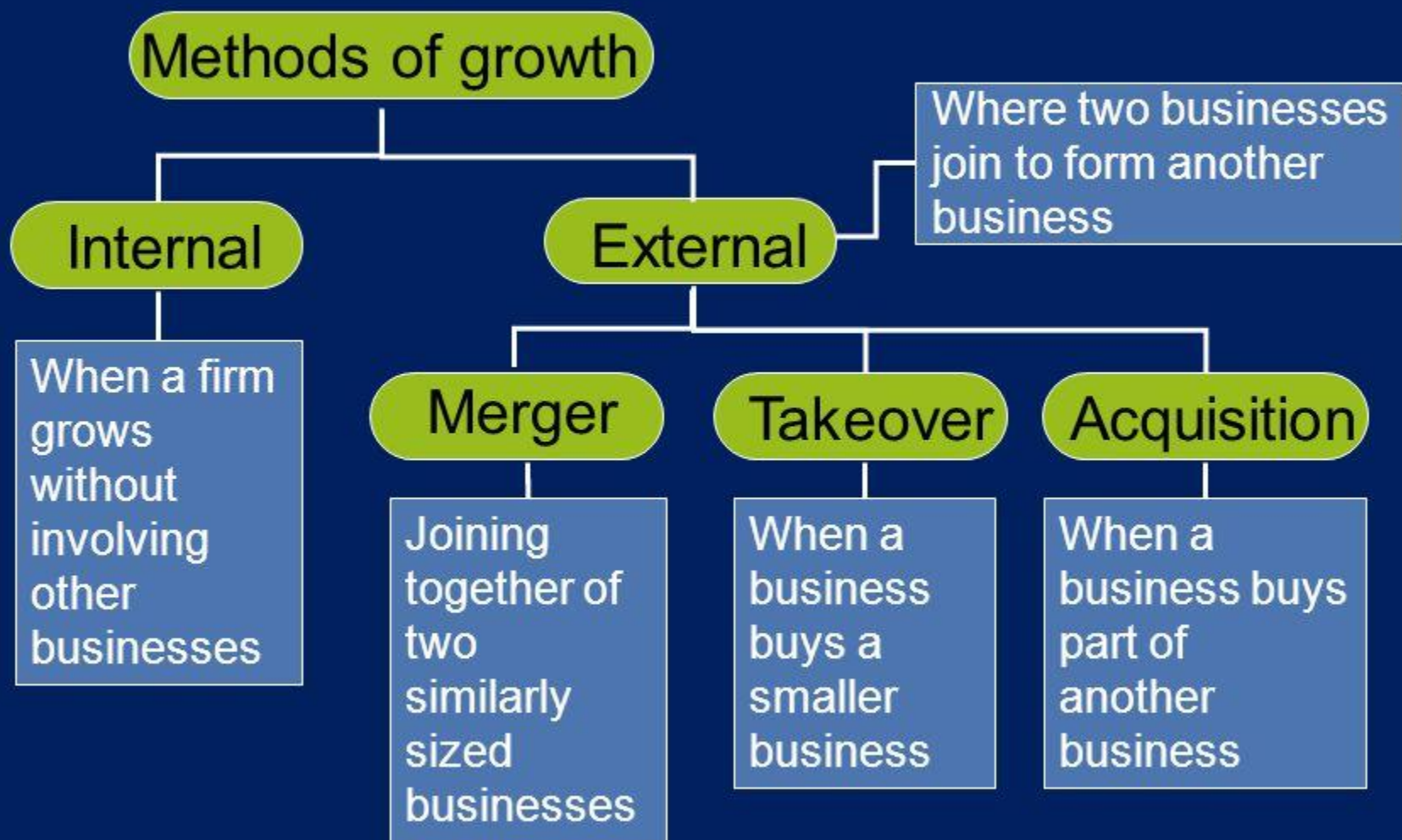
- Advantages vs. Disadvantage of small and large businesses
 - <https://todsocks.mn/en/about-us/>
 - **GW 2:** Work in groups of 2 - take notes and introduce to class
- Family owned business
 - Strength & weaknesses of Family owned business
 - **GW 3:** Work in groups of 2 - take notes and introduce to class

Business growth

Business growth:

- **Increased profits**
- **Increased market share**
- **Increased economies of scale**
- **Increased power and status of the owner and directors**
- **Reduced risk of being taken over**

Methods of Growth



External growth (Integration)

- **Horizontal:** Two businesses which make similar products at the same stage of the chain of production join together
- **Lateral:** A business buys a related business at the same level of production
- **Forward vertical:** A business buys another business which is further forward in the chain of production
- **Backward vertical integration:** A business buys another business which is further back in the chain of production
- **Conglomerate merger:** Where two businesses with no common interests merge to form a single company

Business external growth

Through merger and takeover:

- Horizontal
- Vertical /backward and forward/
- Conglomerate diversification
- Friendly merger
- Hostile takeover

tutor2u[™]



BUSINESS SCHOOL VERSION

Growth Strategy: Internal v External Growth

A Level Business

Created by Mrs Wang