

## The Nature of Business Activity

### **Resources -the four factors of production.**

The four factors of production are;

- Land
- Labour
- Capital
- Enterprise

Whatever the product, whatever the service, they will all need some combination of all four factors of production to be produced. The actual mix will depend on the product or service, for example the key factor for an oil well is land, but without the other 3 factors no oil will be produced. For a bank, capital is the most important factor, and for a football team labour - but again without the other factors there is can be no Barclays Bank, no BP or Tesco and there is no Manchester United.

**Land** is often described as the free gifts of nature. The factor of production land includes natural resources such as minerals, oil, coal, the sea, the fishes in the sea, plus land itself. One of the problems of describing what is meant by land is that as soon as something is added to it, for example fertilizer to soil, it quickly becomes someone's capital, (see below). So when describing land, it is best to stick to the free gifts of nature definition. Economists call the return on or payment for land, rent

**Labour**, perhaps the most important resource in any developed country. Labour includes the skills of those who work, as well as the quantity of people who work or who are available for work. In the UK there can be labour shortages, for skilled jobs and for man-

ual workers in areas where the cost of living is high. Economists call the return on or payment for labour, wages

**Capital**, this means money invested into a business. But because the money invested does not just sit in a bank, but is turned into productive goods that are used within the business, a businesses capital can include , machinery, buildings, vans, computers etc., as well as cash. Economists call the return on or payment for capital, interest.

**Enterprise**, is the ability to combine the other factors of production, and then to use them to provide profitably, goods or services. Your local plumber will be an entrepreneur, and so are Richard Branson the founder of Virgin Group, and the dragons on Dragons Den. Economists call the return on or payment for enterprise, profit.

### **The Structure of Firms.**

Many firms are organised into different departments, based on what they do -their functions. This division into functional departments helps with communication—people know who to speak to if a problem arises, it also helps workers understand their roles and how the business works, and sets out the responsibilities of each part of the business. These departments will be shown on the firms hierarchy.

Although departments are separate from each other, their roles are connected. The Human Resources department is responsible for mak-

ing sure the other departments have enough workers with the right skills, the finance department ensures that there is money available to carry out the other business functions, Marketing works with production to produce products that customers want, purchasing has the job of making sure that there enough materials for production or enough goods to sell and so on.

The main departments are;

- purchasing,
- production,
- marketing, and sales,
- personnel (Human Resources),
- finance/accounts

### **Roles of the Functional Departments.**

Purchasing.

- Buying business inputs like raw materials, components and stock.
- Checking the quality of these inputs.
- Making sure that stock management methods like Just-in-time work effectively.

Production

- Producing goods, using the correct method of production, such as batch or mass
- Ensuring quality of goods produced.
- Improving productivity.
- Using new production methods such as CAM and robotics

Marketing and Sales

- Carry out market research
- Selling of goods and running sales teams
- Designing marketing campaigns
- Managing the marketing mix

Personnel—Human Resources

- Recruiting employees
- Induction of new employees
- Training of employees
- Dealing with employment issues like discipline and redundancies

Finance

- Managing working capital
- Paying bills
- Paying wages
- Managing cash flow
- Issuing invoices
- Capital raising

### **External influences**

Businesses are affected by a number of outside influences, apart from customers and competition. These external influences include;

- Population trends—an aging population in the UK impacts on a huge range of product providers, from holiday companies, to car manufacturers.
- Government activity—the government can introduce new laws, subsidise different industries, and change spending patterns in the UK.
- Economic conditions—the economy moves from boom to bust, from rapid growth to recession. What people buy and the amount they spend changes with this economic cycle.

### **Business Output.**

There are a number of ways of describing or classifying goods and services. The main definitions are given below.

#### **Consumer goods - single use and durable.**

Consumer durable goods are those goods which can be used for several months or years, and

are of relatively high value. These goods are used repeatedly before they are worn out or disposed of. Examples are cars, washing machines, fridges, and MP3 players.

Single use consumer goods, are non durable, and are used up in a single act of consumption. For example the food you eat, the cola you drink to satisfy your thirst. Petrol, electricity and gas are other examples of single use consumer goods.

### **Capital or Producer Goods.**

Capital or producer goods are goods that are used in the production of other goods rather than being sold to consumers. So capital goods will include factories, machinery, office buildings, and computers used in business.

### **Services personal and commercial**

Services are intangible products that are not goods (tangible products) Services include accounting, banking, cleaning, consultancy, education, insurance, medical treatment, transportation.

Commercial services are services provided to industry. These commercial services will include transportation, banking, cleaning and accounting.

Personal services are services to the public. These include banking, and public transport, and also services like wedding planning and fitness trainers.

There is another output of business, and that is waste—output with little or no value. Later on in the syllabus we will look at management of waste.