Business aims and Activities

Private sector aims

The aim of a business in the private sector is to survive by making a profit. This may be a sole trader working alone, like a newsagent, or thousands of shareholders in a large Public Limited Company.

Businesses gain a larger market-share [a percentage of overall sales in an industry] by increasing the sales of their products against competitors. This may involve reducing prices.

To win the loyalty of customers and encourage repeat sales [Customers returning to buy the product from the same business], businesses need to be reliable and provide a quality service to their customers.

Private sector activities

The activities of industry can be divided into stages - primary, secondary and tertiary production. These stages form the chain of production and provide consumers with the finished goods.

Primary production

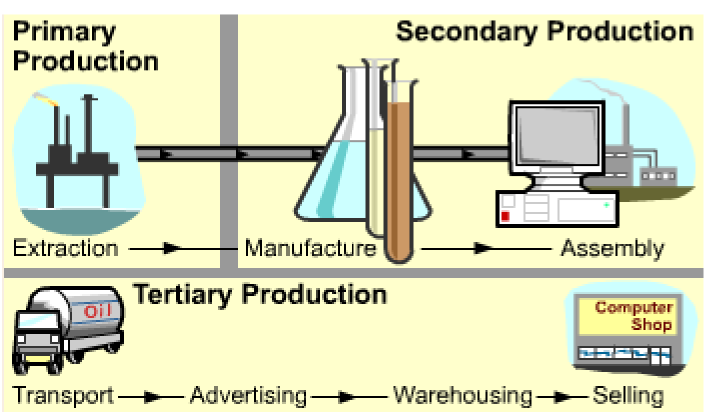
This involves acquiring raw materials. For example, metals and coal have to be mined; oil drilled from the ground; rubber tapped from trees; foodstuffs farmed, and fish trawled. This is sometimes known as extractive production.

Secondary production

Is the manufacturing and assembly process. This involves converting raw materials into components, eg making plastics from oil, and assembling the product, eg building houses, bridges and roads.

Tertiary production

This refers to the commercial services that support the production and distribution process, eg insurance, transport, advertising, warehousing and retail, teaching and health care.



Public ownership

Public ownership refers to any service or industry owned by the state, for example:

- National Health Service
- Emergency services
- Armed forces
- State education

Central government controls these organisations. Their main aim is to provide essential services for the whole population. They are not profit making, and the general public pays for these services through taxation. Some services are the responsibility of local government, such as refuse collection and the maintenance of parks.

There are arguments for and against public ownership. First look at the advantages:

- Jobs - Usually protected, reducing unemployment.
- Resources - Key supplies, eg water and energy, can be guaranteed and controlled.
- Essential services - Health, education, housing and transport are guaranteed for everyone.

The main argument for public ownership is that the whole population benefits rather than just those who can afford to pay privately. Before the creation of the National Health Service, for example, you had to pay to see a doctor. Today we pay through taxation, but those who earn less, pay less and the unemployed are provided for.

Now look at the disadvantages of public ownership.

- Higher costs - Providing these services means higher costs, and higher taxes.
- Inefficiency - Large non-profit making organisations suffer from diseconomies of scale
- Government interference - Politicians' interference can negatively affect the efficiency of an organisation

The main argument against public ownership is its cost. This cost is called the Public Sector Borrowing Requirement and is funded by taxation, either directly through income tax or indirectly through National Insurance. More public services mean a higher tax bill for everybody, including those who may not benefit from them.

Large public sector organisations are bureaucratic. They also often have a monopoly, and without competition, workers can become unmotivated and inefficient.

During the 1980s, the government decided to privatised most of the nationalised industries in the belief that the added competition, and profit motive, would improve efficiency, and provide a better value-for-money service for the consumer. Examples are:

- British Gas
- British Steel
- British Airways
- British Telecom

Public services such as transport and refuse collection have been contracted out to private companies or deregulated by local councils.

Breakeven calculations

As with any calculation, it is easy to make a mistake. There are two simple equations you can use to double-check your answer. You can calculate the breakeven point in:

- units
- costs/revenue

Either way, the result should be the same.

Calculating in units

Learn this equation:

Breakeven point in units = $^{\text{Fixed Cost}}/_{(\text{Sales Price - Variable Cost})}$

So using the CD example:

Breakeven point = $^{10000}/_{(6-2)} = {}^{10000}/_{4}$

Breakeven point = 2,500 CDs

Calculating in costs/revenue

Learn this equation:

For the breakeven point in costs/revenue, you then multiply the breakeven point in units, which you have just calculated, by the sales price.

2,500 × 6 = £15,000

If you look at the breakeven chart, you will see this is the correct answer.

Location and Distribution

Influences on location

When choosing a good location for a business, there are six important points to consider. These are access to:

Natural resources

An area that is rich in raw materials attracts industry. For instance, the steel industry was located in Yorkshire due to the rich sources of coal with which to smelt the nearby iron.

Transport links

Canals were the quickest way of moving bulky material around until railways were built. Now a network of motorways makes it easy to transport goods. Some industries still need to be close to transport links, so produce can be moved to market quickly and cheaply, eg newspaper printers and distributors.

The workforce

It used to be a problem to find enough people to make up the workforce but with high levels of unemployment this is no longer an issue. However, workers with specialist skills are often needed. Many engineering and technology firms locate near universities, where people with the right skills are often available.

Markets

Getting produce to market is no longer a problem because of the extensive transport and communications links in the UK. It can be an advantage being located near a densely populated market like Greater London, but the land costs are usually higher. Supermarkets and restaurants locate near their markets, or customers.