3.1 · BUSINESS IN THE REAL WORLD

Lesson 1: The purpose and nature of business

KNOWLEDGE ORGANISER

🎯 Learning goals

- ✓ Explain what a business is and why people start one
- ✓ Explain goods vs services, needs vs wants, and the factors of production
- ✓ Explain opportunity cost, the three sectors, and enterprise
- ✓ Describe an entrepreneur and why business is dynamic

🔑 Key words

Business An organisation that produces goods or provides services to meet needs and wants.

Factors of production The resources used to make goods/services: land, labour, capital, enterprise.

Opportunity cost The next best alternative given up when a choice is made.

Enterprise The willingness to take risks and organise resources to start a business.

Entrepreneur A person who sets up and runs a business, taking financial risks.

📘 What you need to know

Businesses sit in one of three sectors: primary, secondary or tertiary.

1. What a business is, and why people start one

A **business** is an organisation that produces **goods** or provides **services** to meet customer **needs and wants**, usually in return for profit. **Goods** are physical products you can touch (a smoothie, trainers); **services** are non-physical activities done for you (a haircut, a bus ride). **Needs** are essentials for living (food, shelter); **wants** are non-essential desires (a branded smoothie).

People start businesses for several reasons:

- to make a profit
- to be their own boss
- to pursue an interest
- to fill a gap in the market

spotting a need no one is meeting. Maya started FreshBowl because she spotted that her town had no quick, healthy lunch option near the station

> *"A business exists to meet customer needs and wants — and a smart entrepreneur spots a gap others have missed."*

2. Factors of production and opportunity cost

To make anything, a business combines the four **factors of production**:

- **land** (natural resources and premises)
- **labour** (workers)
- **capital** (money, equipment and machinery)
- **enterprise** (the entrepreneur who brings it all together and takes the risk)

Because money and time are limited, every choice has an opportunity cost — the next best alternative given up. If Maya spends her savings on a new blender, the opportunity cost might be the advertising she could have bought instead

3. The three sectors of industry

Businesses sit in one of three **sectors**: the **primary** sector extracts or grows raw materials (farming, mining); the **secondary** sector manufactures or processes them (a factory bottling drinks); and the **tertiary** sector provides services (shops, cafés, banks). FreshBowl is a **tertiary** business, but it relies on primary-sector farmers for fruit and secondary-sector factories for its cups.

4. Enterprise, entrepreneurs and the dynamic nature of business

Enterprise is the willingness to take risks and organise resources to start a business. An **entrepreneur** is the person who does this, taking the financial risk. Useful characteristics include being **hard-working, innovative, organised and willing to take risks**. Their objectives often include earning more money, flexible hours and job satisfaction.

Finally, business is described as **dynamic** because it is **constantly changing** — due to new technology, the economy, new laws, and environmental expectations. A business that stands still can quickly fall behind.

✅ Test yourself

Cover the answers below, answer Q1–Q12, then check.

Q1 What is a business?

Q2 Give four reasons for starting a business.

Q3 What is the difference between goods and services?

Q4 What is the difference between needs and wants?

Q5 What are the four factors of production?

Q6 What is opportunity cost?

Q7 What are the three sectors of industry?

Q8 What is enterprise?

Q9 Who is an entrepreneur?

Q10 Give four characteristics of an entrepreneur.

Q11 Give three objectives of an entrepreneur.

Q12 Why is business described as dynamic?

ANSWERS

A1 An organisation that produces goods or provides services to meet customer needs and wants, usually in return for profit.

A2 To make a profit; to be their own boss; to pursue an interest; to identify a gap in the market.

A3 Goods are physical products; services are non-physical activities provided to customers.

A4 Needs are essentials for living; wants are non-essential desires.

A5 Land, labour, capital, and enterprise.

A6 The next best alternative that is given up when a choice is made.

A7 Primary (raw materials), secondary (manufacturing), tertiary (services).

A8 The willingness to take risks and organise resources to start a business.

A9 A person who sets up and runs a business, taking financial risks.

A10 Hard-working; innovative; organised; willing to take risks.

A11 To earn more money; flexible working hours; job satisfaction.

A12 Because it is constantly changing due to technology, the economy, laws, and environmental expectations.