09/06/18

1.1 What is a business

What is a business?
Any organization that uses resources to produce a good or service to meet the demand of a customer.

What is added-value?
Changing or altering a natural resource or a semi-finished good to make it more desirable.
ex) potatoes - mcdonald's- french fries

The types of businesses
The Categories of business are based on what the business provides to us.

1. Consumer goods
2. Consumer services
3. Capital services

Usually **businesses aim to make money.**

Factors of production:
- Land and natural resources
    - Fields for factories/ energy for power
- Labor
    - Employees needed to run machines, sell, etc...
- Capital (money)
    - Finance needed to setup and operate on a daily basis (plant, machinery, computers, money)
- Enterprise
    - People to manage to other inputs (the glue that makes this work)

Categories of Outputs:
- Goods
    - Something tangible - touchable
- Service
    - Usually intangible - people do things for you

Goods

- Durable
    - Reusable products
        - Clothes, cars, pens
- Nondurable / perishable
    - One time use goods
        - Food

Capital Good

- Goods used by industry to produce other goods and services
    - ex) machinery, cranes. Dump trucks

Consumer Service

- Intangible products that sold to the consumer
    - ex) hotel rooms, airplane ticket, insurance

Business Functions

Marketing

- Identifies consumer wants based on market research
- Pricing
- How and where to promote
- How to sell and distribute

Finance and accounts

- Flow of money in and out of business
- Provides financial information to management
- Key division to all companies
- Accounts payable
- Accounts receivable

Human resource management

- Identifies workforce needs of business
- Recruits potential employees
- Selects and trains staff
- Motivational systems to retain staff and encourage productivity
- Employment contracts
- Redundancy and redeployment of staff

Operations management

- Insures (providing for) resources are available for production
- Maintains production levels
- Maintains quality levels
- Oversees production efficiency

Changes in Economic Structure:

Industrialization

- The growing importance of the secondary sector on the economy.
- When did this occur in our country?
- What was the impact on our society?
- What benefits have we enjoyed?
- Increase standard of living
- Reduced imports into our country and increased exports to other countries
- More jobs as manufacturing expands
- More profits to companies, so more taxes to governments
- Raw materials worth more to other countries because they have been processed

Deindustrialization

- In developed economies, the reliance on the secondary sector becomes less important as activity increases in the tertiary sector.
    - Moving from manufacturing to service
- Why does it occur?
    - Rising income allows more services to be purchased rather than goods
    - Cheaper labor used by rival companies may force secondary firms to close
    - Employment patterns change making it difficult for factory workers to find work in the secondary sector

Why start a business?

- Loss of employment
- Desire for independence
- Clear need for a product or service you can provide
- Desire to earn a higher income by working for yourself

A public company is a company that people can buy stocks in.

Entrepreneur VS. Intrapreneur

Entrepreneur

People who set up their own new business

- They have an idea
- They invest some of their own savings and capital
- They accept responsibility
- They accept the risk of failure

Intrapreneur

Someone within an existing organization that takes responsibility for a project or an idea

Entrepreneurial Traits

- Innovative
- Commitment and self-motivation
- Multi-skilled
- Leadership skills
- Belief in oneself
- Risk-taker

Primary Sector

- Extraction oriented activities
- Pulling natural resources
    - Fishing, farming, oil drilling

Secondary Sector

- Manufacturing and processing industries
    - Bking, clothing, construction, assembly

Tertiary Sector

- Service oriented industries
    - Retailing, transportation, banking, tourism

Benefits to your community!

Why do governments want to encourage start ups?

- Who is employed?
- What happens when more goods and services are produced?
- What happens to successful small companies?
- Who has great new ideas

Common Problems with Start Ups:

Competition

- Other companies in the market place who are established and have better knowledge of the industry.

Lack of record-keeping

- Inadequate records to keep track of bill paying, inventory, and payroll

Lack of finance and working capital

- Inadequate personal funding resources, lack of knowledge, to secure government grants, insufficient knowledge of managing day-to-day cash needs

Poor management skills

- Lack of leadership, planning, communication, sales, and marketing skills

Changes in the business environment

- Outside factors that may make your business obsolete, new competitors in the market place, or legal changes.

Business Plan

Components

- Executive summary
    - Overview of new business
- Description of business opportunity
    - What will be sold, why, and to whom
- Marketing and sales strategy
    - Why will customers by, how will sell
- Management team and personnel
    - Skills of entrepreneur and the management team
- Operations
    - Where are production facilities, IT system
- Financial forecasts
    - Sales projections, cash flow, profits

Who uses it?

- Investors
    - Explain why the business idea has a reason to be successful
- Business owner/ managers
    - Provides benchmarks for profitability and growth
- Banks
    - Can be used to secure loans
- Employees
    - Can help explain the focus and objectives of the business
- Suppliers
    - Can express why a long-term relationship may be important to establish

Customers v. Consumers

The customers are the people purchasing the goods and the consumers use it.

09/18/19

1.2 Types of Organizations

Types of organizations

- Profit, non-profit, and non-governmental
- Sole Trader/ Proprietors
- Partnerships
- Companies/ Corporations

The classifications of business

The private sector

- Private and Public sectors
- Profit-based and non-profit based

The Sole Trader/ Proprietor

- This is the most common form of business organisation. One person provides the finances and in return, has fall control of the business and is able to keep all the profits
- Advantages:
    - Easy to set up - no legal formalities (gov)
    - Owner has complete control
    - Owner keeps all profits
    - Able to choose times and patterns of working (in theory)
    - Able to establish close personal relationships with staff and customers
    - The business can be based on the interest and skill of the owner
- Disadvantages
    - Unlimited liability- all of the owner's assets are potentially at risk
    - Often faces intense competition from bigger (ex. food)
    - Owner is unable to specialize in areas of the business and all aspects of management
    - Difficult to raise additional capital
    - Long hours often necessary to make business pay
    - Lack of continuity- as the business does not have separate legal status, when owner dies the business ends too
        - Unless left in will to next owner (not automatic)

Partnership

- Partnership are agreements between two or more people who carry ob a business together, usually with a view of making a profit
- The Deed of Partnership (contract) establishes the right and privileges of the partners. This document includes issues such as voting rights, distribution of profits, the management role of each partner and who has the authority to sign contracts.
- Advantages:
    - Partners may specialize in different areas of business management
    - Shared decision making
    - Additional capital injected by each partner
    - Business losses shared between the partners
    - Greater privacy and fewer legal formalities that corporate organizations than companies/ corporations
- Disadvantages:
    - Unlimited liability for all partners
    - Profits are shared
    - There is, as with sole traders, no continuity and the partnership will have to be reformed in the event of the death of one partner
    - All partners are bound by the decision of any one of them
    - Not possible to raise capital from selling shares
    - A sole trader, taking on partners will lose independence of decision making

Limited Company (LLC)

- 3 differences between limited companies and sole traders and partnerships
- Limited companies have:
    - Limited Liability
        - Financial protection in the event the company fails
        - Sole Traders and Partnerships are finally responsible for all claims against company
    - Legal Personality
        - A company is its own entity having an identity separate of that of its owners
        - "It is its own person" so to speak in the eyes of the law
    - Continuity
        - The company will continue to exist in the event of death of its owners
        - A sole trader or partnership is automatically dissolved
    - Ownership
        - The company issues shares (small ownership in the company)
        - Shareholders own shares in a limited company

Private Limited Company (Ltd.)

- It is a company - has (limited) issued shares
- Its shares are not available for sale to the public (not on stock market)
- Tend to be relatively small companies
- Business name ends is Limited or Ltd
- Shares can only be transferred privately and all shareholders must agree to the transfer
- Private Limited Companies are often family businesses owned by members if the family or close friends
- The directors of these companies tend to be shareholders and are involved in the running of a business
- Avantages
    - Shareholders have limited liability
    - More capital can be raised as there are no limits on the number of shareholders
    - Control of companies cannot be lost to outsiders
    - The business will continue even if one of the owners dies
- Disantages
    - Profits have to be shared amongst a much larger number of members
    - There is a legal procedure to set up the business; this takes time and is expensive
    - Firms are not allowed to sell shares to the public, this restricts the amount of capital that can be raised
    - Financial information filed with the register can be inspected by any member of the public
    - Competitors could use this to their advantage

Public Limited Company (Ltd.)

- It is a company - has shared issues
- Its shares are available for sale to the general public. Its share price is quoted on the stock exchange.
- A board of directors controls the management of the company appointed at an annual meeting. These are members are voted by the public.
    - Other companies
    - Experts in the field
    - Could request a specific person
- Advantage
    - Can raise money by issuing shares of stock
    - Offers owner limited liability. Owners are liable only up to the amount of their investments
    - People can easily enter or leave the business by buying or selling their shares of stock
    - The business can hire experts to professionally manage each aspect of the business.

- Disadvantages
    - Start-up is costly- legal assistance is required as well as business consultants and financial advisors
    - Corporation are subject to more government regulations than partnerships or sole proprietorships
        - Bureaucracy- from one desk to another to another (lengthy process)
    - Share prices fluctuate; risk of takeover
    - Short-term profit objectives of major shareholders

The public sector organizations

- The Public Sector is made up of organizational which are owned and controlled by central and local government or public corporations. They are funded by government and in some cases from their own trading 'surplus' or profit
- Tax breaks by government
- Staff may be paid less and less up-scale
- Public Sector business still have important roles to play in certain areas of business activity

Public Corporations

- Public corporations are owned and controlled by the government
- Profit is not their main goal
- They are meant to serve or meet the needs of citizens
- Examples: PBS / United States Postal Service
- Advantages
    - Managed with social objectives rather than profit
    - Loss-making services might be kept operating if the social benefit is great
    - Finance is mainly from the government
- Disadvantages
    - Tendency towards inefficiency because there are no profit targets
    - Subsidies from government can encourage inefficiencies
    - Government may interfere u business decisions for political reasons