Introduction to Business

A business is an enterprise that provides products or services desired by customers.

Key Business Decisions

- **Product/Service**: What is our business?
  - What type of product/service should be produced/provided?

- **Production**: How do we do it?
  - How should the product be produced?

- **Promotion**: How do we reach our customers?
  - How should the product be promoted?

- **Financing**: Where do we get and how do we spend our money?
  - How should the company obtain funds to finance the cost of producing the product?

The Three Buckets

All activities of a business fall into one of three activities:

1. **Operating**
   - Day to day activities (such as buy supplies, sell goods etc.)
   - Typically short-term culmination

2. **Investing**
   - Buy and sell assets (such as fixed assets and other long-term investments)

3. **Financing**
   - Sources and uses of cash not provided by operating activities (such as borrow/repay a loan, sell stock, pay dividends)
Key Stakeholders

- Owners
- Creditors
- Employees
- Suppliers
- Customers

Interaction among Owners, Employees, Customers, Suppliers, and Creditors

Creating a Business Idea

- Identify a competitive advantage.
- Differentiate the product or service from competitors.
- Determine necessary resources.
- Assess feasibility of the idea.

Impact of Technology

- E-business or e-commerce
  - Use electronic communications to produce or sell products and services
    - Sales to individual customers
    - B2B e-business: transactions between a business and its suppliers
      - Generates $301 billion in revenue and creates 1.2 million jobs each year
E-Business Examples

- **Amazon**
  - Online seller of books, music and other products
  - Low overhead costs allow price discounting
- **Yahoo!**
  - Internet search engine and the most visited site on the Web
  - Offers variety of services - free email, web page hosting, custom-designed start-up pages
  - Generates revenue by selling advertising
- **eBay**
  - Online auction service

Key Functions of Business

- **Management**
  - Means by which employees and other resources are used by the firm
- **Marketing**
  - Means by which products and services are developed, priced, distributed, and promoted to customers
- **Finance**
  - Means by which firms obtain and use funds for their business operations

Key Functions of Business

- **Accounting**
  - Summary and analysis of the firm's financial condition
  - Used to make various business decisions
- **Information systems**
  - Information technology, people, and procedures that provide appropriate information to make effective decisions

Common Business Decisions

- **Management Decisions**
  - What equipment is needed?
  - How many employees should be hired?
  - How can employees be motivated to perform well?
Common Business Decisions

Marketing Decisions
- What price should be charged?
- Should the product be changed to be more appealing to customers?
- Should the firm use advertising or some other strategy to promote its product?

Finance Decisions
- Should financial support come from the sale of stock or from borrowing money or some combination?
- Should the firm attempt to obtain borrowed funds for a short-term or long-term period?
- Should the firm invest funds in a new business project?

Forms of Business Ownership

Sole Proprietorship
- Owned by a single owner.

Partnership
- Co-owned by two or more people.
- Co-owners must register with the state and may need an occupational license.

Corporation
- State chartered entity that pays taxes and is legally distinct from its owners.

Sole Proprietors

- Must be willing to accept full responsibility for firm performance
- Business profits are not shared with creditors
- Need strong leadership skills, must be well organized, and communicate well with employees
Sole Proprietorship

- Advantages
  - All earnings go to the sole proprietor
  - Easy organization
  - Complete control
  - Lower taxes

- Disadvantages
  - Sole proprietor incurs all losses
  - Unlimited liability
  - Limited funds
  - Limited skills

Types of Partnerships

- General Partnerships
  - All partners have unlimited liability.

- Limited Partnerships
  - Some partners have personal liability that is limited to the cash or property they invested in the firm.
  - One or more general partners who actively manage the business, receive a salary, share in profits and losses, have unlimited liability.
  - Personal earnings received from the partnership are subject to personal income taxes.

Partnerships

- Advantages
  - Additional funding
  - Losses are shared
  - More specialization

- Disadvantages
  - Control is shared
  - Unlimited liability for general partners
  - Profits are shared

Other Business Forms

- S Corporation
  - Firm has 75 or fewer employees.
  - Owners have limited liability, but are taxed as if the firm were a partnership.

- Limited Liability Corporation (LLC)
  - Has all the favorable features of a general partnership but also offers limited liability for the partners.
Corporations

- Individual or group must adopt corporate charter and file it with the state
  - Describes name of the firm, stock issued, firm's operations
  - Must also establish bylaws
  - Shareholders have limited liability
  - Shareholders elect members of board of directors

Stockholders

- Elect members of board of directors who are responsible for establishing general policies of the firm
  - Elect president and other key officers who run the business
- Earn return on investment in two ways
  - May receive dividends
  - Stock may increase in value

Corporations

- Advantages
  - Limited liability
  - Access to funds
  - Transfer of ownership
- Disadvantages
  - High organizational expense
  - Financial disclosure
  - Agency problems
  - High taxes

Think about it

Who owns a Company?
The Stockholders
Who controls a Company?
The Stockholders
Who runs the Company?
Executive Management (called “C” level, as in “CEO, CFO, COO”- think of “C” as Chief)
So if the shareholders control the Company, but management runs things, how do the shareholders maintain control?
The Corporate bylaws grant this power to the Board Of Directors (BOD). The shareholders VOTE for the BOD to represent them. The BOD is management’s boss; they are responsible for insuring that the Shareholders’ objectives are carried out by management.

BOD are under increasing pressure in the “post-Enron” era.
Illustration of Double Taxation

Example of an Organization Chart