**Introduction to Business**

**Business Defined**

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

- Product
  - What type of product should be produced?
- Production
  - How should the product be produced?
- Promotion
  - How should the product be promoted?
- Financing
  - How should the company obtain funds to finance the cost of producing the product?

Business Decisions

- Decision to Create a Business
  - How to Produce the Product? (Management Decision)
  - How to and Price the Products? (Marketing Decisions)
  - How to Finance the Business?
- Performance of the Business
- Value of the Business
### Key Stakeholders

- Owners
- Creditors
- Employees
- Suppliers
- Customers

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

[Diagram showing the interactions between Owners of Firm, Firm Run by Its Employees, Customers, Suppliers, and Creditors with associated financial flows such as (Invested), (Purchases), (Dividend), (Loans), (Repayment of Loans), Payments for Supplies, and Products or Services.]
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

How Business Decisions Affect a Firm's Earnings

Exhibit 1.4
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?
Common Business Decisions

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.

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**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
**Illustration of Double Taxation**

1. Investment In Firms
2. Corporate Business Operations
3. Corporate Earnings
4. Taxes
5. Federal Government
6. Personal Income Taxes
7. Dividends
8. Retained Earnings
9. Owners

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**Example of an Organization Chart**

- Board of Directors
  - President
    - Chief Financial Officer
      - Accountants and Financial Analysts
    - Sales Manager
      - Sales Representatives
    - Advertising Manager
      - Advertising Assistants
    - Assembly-Line Supervisor
      - Assembly-Line Workers
    - Supplies Manager
      - Warehouse Workers