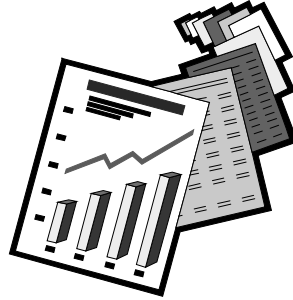


Introduction to Business



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Business Defined

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

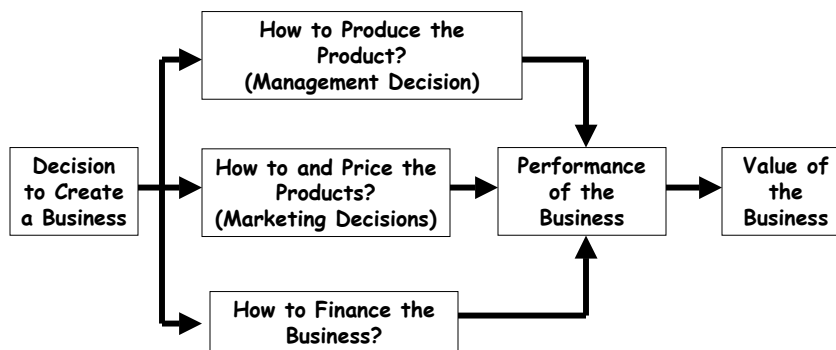
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1-2

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



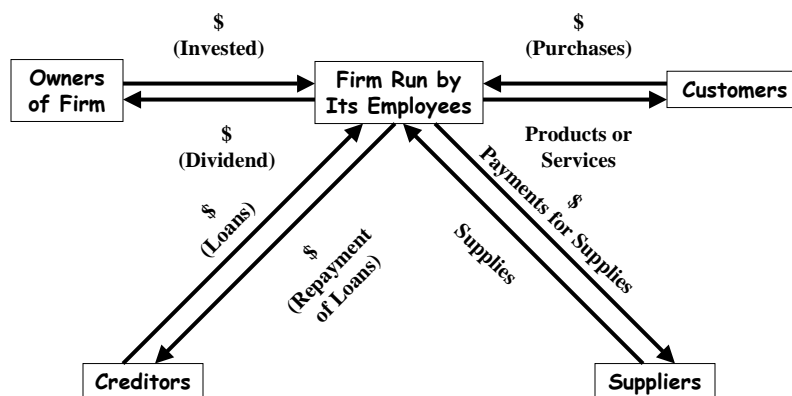
Key Stakeholders

- Owners
- Creditors
- Employees
- Suppliers
- Customers

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1-5

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



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Exhibit 1.1

1-6

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

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1-9

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

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1-10

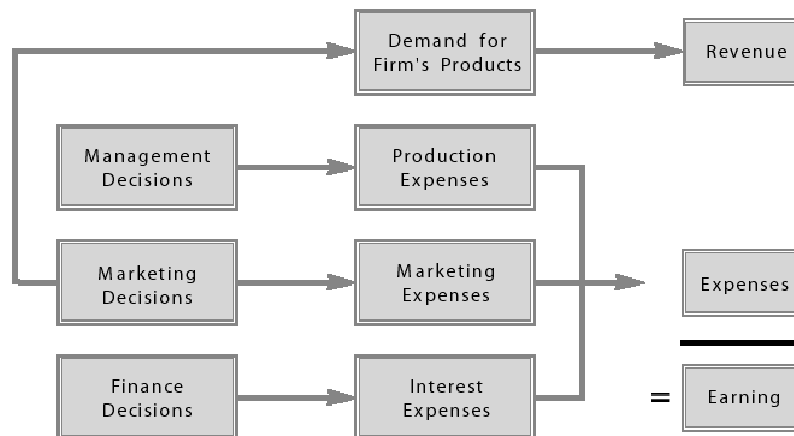
Key Functions of Business

- **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

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1-11

How Business Decisions Affect a Firm's Earnings



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Exhibit 1.4

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Common Business Decisions

● Management Decisions

- What equipment is needed?
- How many employees should be hired?
- How can employees be motivated to perform well?



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1-13

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?

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1-14

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 | ● Disadvantages |
| – All earnings go to the sole proprietor | – Sole proprietor incurs all losses |
| – Easy organization | – Unlimited liability |
| – Complete control | – Limited funds |
| – Lower taxes | – 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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1-19

Partnerships

- | | |
|--|---|
| ● Advantages | ● Disadvantages |
| <ul style="list-style-type: none">- Additional funding- Losses are shared- More specialization | <ul style="list-style-type: none">- Control is shared- Unlimited liability for general partners- Profits are shared |

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1-20

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

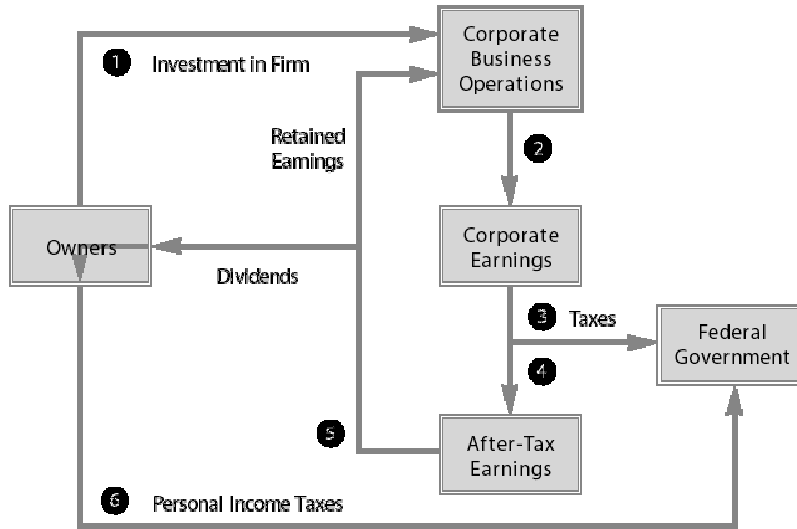
Stockholders

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

Illustration of Double Taxation

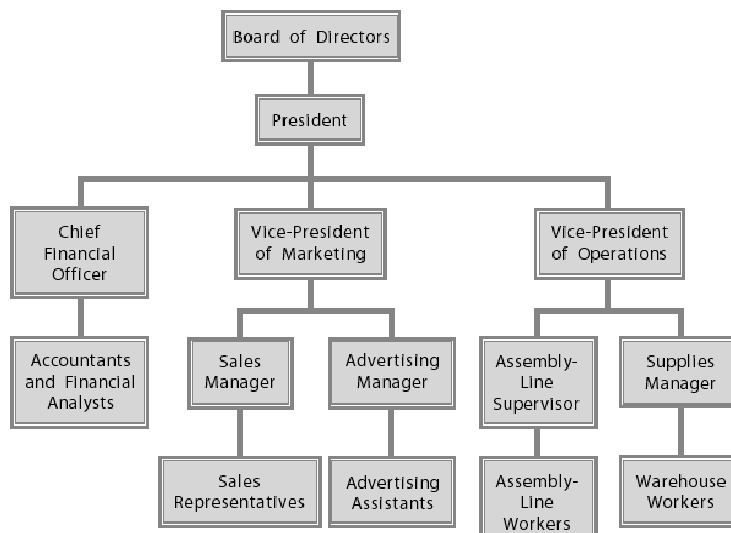


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Exhibit 2.3

1-25

Example of an Organization Chart



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Exhibit 8.1

1-26