# CHAPTER 1: BUSINESS BASICS

# CHAPTER OPENER

Many students come to an introduction to business class not quite sure about what’s in it for them. However, the course has something for everyone, from those who have been in the business world a while to those without any experience at all. As the book unfolds, students will develop an understanding of the foundations of business and will be able to apply what they already know about business to many parts of the course.

This first chapter dives right into the world of business:

* explaining the differences between goods and services
* differentiating between for-profit businesses and not-for-profit organizations
* identifying and describing the factors of production

Next, the chapter covers the ways in which competition, the social environment, globalization, and technological growth both challenge and provide opportunities to business owners. Students will then be introduced to different types of businesses in terms of their scope. Finally, the chapter will make the vital connection between their current life skills and the business environment.

# DETAILED LECTURE OUTLINE

1. **The Business Landscape**
   1. Business Defined
      1. What exactly is a business?
         1. **Businesses** are entities that offer products and services to their customers in order to earn a profit.
         2. A **profit** is earnedwhen a company’s **revenue** (the money it brings in) exceeds its **expenses** (the money it pays out).
         3. When expenses exceed revenue, the company posts a *loss.*
      2. What kinds of products do businesses offer?
         1. Products can be either a *good* or a *service.*
         2. **Goods** are physical products a business sells.
         3. A **service** is an intangible product that is bought or sold.
         4. Some companies (such as restaurants) offer products that are both goods *and* services.
         5. Countries change over time in whether goods or services dominate their economic system.
      3. What do businesses do with their profits?
         1. As profits are generated, a company can reward its employees, increase its productivity, or expand its business.
         2. A successful business benefits both the owner and society because they offer desired goods and services, provide employment, and generate income and spending in the economy.
      4. What about not-for-profits?
         1. **Not-for-profit organizations** donot pursue profits for its owners, but instead seek to service the community through social, educational, or political means.
         2. Profits are used to further the organization’s causes by expanding the services they provide.
   2. The Factors of Production
      1. What do businesses use to create the products they sell?
         1. The **factors of production** are the resources used to create goods and services. These include:
            1. **Labor** refers toany physical or intellectual work (ideas and knowledge) that people contribute to a business’s production.
            2. **Natural resources** are raw materials provided by nature that are used to produce goods and services.
            3. **Capital,** both*real*and *financial:*

**Real capital** refers to the physical facilities used to produce goods and services.

**Financial capital** refers to money used to facilitate a business enterprise.

* + - * 1. **Entrepreneurial talent:**

An **entrepreneur** assumes the risk of creating, organizing, and operating a business and directs all of a business’s resources.

* + - * 1. **Intellectual property** consists of privately owned, intangible assets developed as a result of people’s intellect and creativity.

Examples include patents, copyrights, and trademarks.

* + - * 1. **Technology** refers to goods and services such as computers and software that make businesses more efficient and productive.

1. **Common Business Challenges and Opportunities**
   1. Competition
      1. How does competition influence business?
         1. **Competition** arises when two or more businesses vie to attract customers and gain an advantage.
         2. Competition forces companies to improve their product offerings, lower their prices, promote their brands, and focus on customer satisfaction.
            1. It weeds out less efficient companies and less desirable products from the marketplace.
         3. Companies need to deliver customer satisfaction, understand the power of social networking, and empower their employees.
            1. **Social networking** **sites** are websites that make it easier for people to connect with one another online for the purposes of building and supporting social relationships.

Companies are increasingly using social networking to connect to their customers, promote their products, offer discounts, and build relationships.

* + - * 1. It is also essential to empower workers to feel free to deal with customer needs by giving them greater decision-making responsibilities.
  1. Social Environment
     1. How does the social environment affect business?
        1. A **social environment** is an interconnected system of demographic factors such as race, ethnicity, gender, age, income distribution, sexual orientation, and other characteristics.
        2. Three specific issues surrounding the social environment present potential challenges and opportunities for today’s businesses.
           1. An aging population

Baby boomers, the generation born between 1946 and 1964, make up the majority of the aging population in the United States.

The aging U.S. population presents opportunities for businesses but it also presents challenges for the U.S. economy.

Potential problems include funding entitlement programs such as Social Security and Medicare.

Caring for the needs of an older population presents growth opportunities for businesses, especially retirement centers, healthcare, pharmaceutical companies, and the travel industry.

* + - * 1. Increasing workforce diversity

The U.S. Census Bureau reports that the minority population in the United States is about 35 percent, making 1 in 3 residents a minority.

Companies must develop diversity initiatives such as nondiscrimination policies, a minority network, or diversity education to manage, retain, and promote a diverse workforce.

The term *minority* applies to more than just people of different ethnicities.

Minority groups might represent gender, culture, religion, sexual orientation, or disability and all groups must be treated fairly.

* + - * 1. The green movement

Anxieties about global warming and climate change have motivated businesses to become involved in a **green economy**—one that factors ecological concerns into business decisions.

The demand for more green products presents new opportunities for entrepreneurs to meet those needs.

“Green-collar” jobs can revitalize large swaths of the U.S. manufacturing economy.

* 1. Globalization
     1. How has globalization affected business?
        1. **Multinational enterprises—**companies that have operations in more than one country—are among the leaders of a movement called globalization.
        2. **Globalization** is a movement toward a more interconnected and interdependent world economy.
           1. Economies around the world are merging as technology, goods and services, labor, and capital move back and forth more easily across international borders.
           2. A growing number of companies are **offshoring**—relocating their production facilities overseas or subcontracting components to foreign companies to achieve lower manufacturing costs.
           3. Globalization presents both benefits and risks to the U.S. economy.

Lowered production costs allow firms to lower the cost of products for consumers, yet people remain concerned about workers in the United States who lose their jobs to workers overseas.

* + - * 1. Globalization poses other risks for U.S. companies, including:

Increased competition from international companies

Fluctuations in the value of the U.S. dollar

Security and patent protection concerns

Unstable political climates in foreign countries

* 1. Technological Changes
     1. Why does the pace of technological change present challenges to businesses today?
        1. Companies must stay on the cutting edge of technology to remain competitive, and that is an expensive and time-consuming operation.
        2. Advancements in technology are completely changing the foundation and focus of how many businesses are run.
     2. What benefits does technology provide to business?
        1. Technology, when used and implemented effectively, can help streamline businesses and cut costs.
        2. Companies can also use new technology systems to increase productivity.
        3. Technology makes it possible for employees to **telecommute,** or work from home or another location away from the office.
     3. What role does the Internet play in technological growth?
        1. E-commerce
           1. **E-commerce** consists of three different kinds of business trade: *business-to-consumer (B2C), business-to-business (B2B),* and *consumer-to-consumer (C2C).*

B2C interactions take place between a business and a consumer.

B2B interactions involve the sale of goods and services from one business to another.

C2C transactions have become possible through consumer-driven storefronts where individuals offer goods directly for sale to customers.

* + - * 1. E-commerce has been growing rapidly since the new millennium, and e-commerce will continue to be a driving force in the economy.
      1. Online security
         1. Widespread access to information that the Internet affords affects businesses in a variety of ways.
         2. As the number of people and businesses who trade and store personal information online rises, so does the number of people who are victims of **identity theft**—the illegal gain and use of personal information.
      2. Privacy
         1. E-mails, internal documents, and chat transcripts all contain private information that is not intended for public viewing but many of these documents can be accessed online because of online storage in the “cloud”.
         2. With this universal access, it is increasingly difficult to ensure that information remains private.

1. **Types of Businesses**
   1. Local and Regional Businesses
      1. What defines local or regional businesses?
         1. A **local business** is usually one of a kind and relies on local consumers to generate business.
         2. **Regional** **businesses** serve a wider area than local businesses, but do not serve national or international markets.
      2. What special challenges do local and regional businesses face?
         1. The most common challenge is managing money. Poor financial planning and unfavorable economic conditions can lead to bankruptcy.
         2. **Undercapitalization** occurs when a business owner cannot gain access to adequate funding.
         3. Business owners also have to take taxes and insurance costs into consideration, such as health insurance and liability insurance.
   2. National Businesses
      1. What defines national businesses in the United States?
         1. A **national** **business** serves the country and provides goods and services to virtually all U.S. residents.
         2. National businesses do not serve an international market.
      2. What special challenges do national companies face?
         1. Because laws vary from state to state, national companies must be aware of state laws in every state where they do business.
         2. National companies also face a longer, more complex **supply chain**—the flow by which products, information, and money move between a supplier and a consumer.
   3. Multinational (International) Businesses
      1. What categorizes a company as multinational (or international)?
         1. *Multinational businesses* make and/or sell products in several countries.
         2. They provide goods or services to international consumers or serve only one country but have suppliers or production facilities in other countries.
      2. What special challenges do multinational corporations face?
         1. Multinational corporations must be familiar and comply with the laws of the countries in which they operate.
         2. Cultural differences such as language barriers, values, and customs relating to business etiquette also have an impact.
         3. Multinational companies also must contend with economic differences, such as different levels of economic development, interest rates, and inflation rates.
2. **Life Skills for Business**
   1. How Do You Receive Funding?
      1. You’re receiving money from somewhere, such as from work, a family member, a student loan, or savings.
   2. What Are Your Expenses?
      1. Expenses such as rent, clothing, food, and tuition must be paid for with cash, credit, or a loan.
   3. How Does the Social Environment Affect Your Life?
      1. This includes learning from people who are different from you, embracing diversity, and finding ways to make your lifestyle more eco-friendly.
   4. How Does Globalization Affect Your Life?
      1. You purchase items designed and/or manufactured in other countries.
      2. As globalization continues, the chances that you will work in a foreign country for part of your career continue to climb.
   5. How Do You Keep Up with New Technology?
      1. Whether or not you consider yourself to be tech-savvy, chances are you still use some sort of technology to run your life.
   6. What Sort of E-Commerce Do You Use?
      1. You may purchase items online or sell things on sites such as eBay.
   7. How Do You Keep Your Business Secure?
      1. You help keep your information secure by changing online passwords regularly, making sure your wireless connections are secure, and removing personal information from social networking sites.
   8. What Types of Financial Goals Do You Have?
      1. To reach your financial goals, you need to make informed decisions about how you spend and save your money.

**NOTE:** End the lecture by asking students to write down the muddiest points or main points of the lecture. This will allow you to know what might need to be reviewed during the next lecture.

# SUPPLEMENTAL ACTIVITIES

# Supplemental In-Class Activity: Ice Breaker

## What Do You Know About Business?

**Activity Overview:** This activity helps students assess their level of knowledge about business and set their own learning goals for the class.

**Time Limit:** 20 minutes

**AACSB: Diverse and multicultural work environments**

**What to Do:**

1. Ask each student to take out a piece of paper and divide it into two columns. In the first column, students should write the most important four or five things they currently know about business, and in the second column, the four or five things they would like to learn. Tell them if they are having difficulty coming up with items to list, take a look at the table of contents of the text. It will give them some clues so that they don’t feel frustrated when completing this task. (5 minutes)
2. Divide students into groups of three to five people and ask them to share their lists with one another. As they listen, they can delete or add anything that seems relevant. (5 minutes)
3. Ask them to switch groups so that they are with all new people, and repeat the process of sharing their lists. (5 minutes)
4. Ask students to switch to a third group of all new people. With this group, the goal is to synthesize their lists into one big idea of what they know, and one big idea of what they want to learn. (5 minutes)

**Don’t Forget:** This activity allows students to get to know one another as well as set expectations for the course. The underlying agenda is to get them talking to one another, setting the stage for active participation throughout the class.

**Wrap-Up:** Wrap up the discussion by having each group report back to the class. You may want to record their responses and post them in the room for reference as you move through the course.

# Supplemental In-Class Activity 1

## Structuring Businesses by Industry

## Objective 1-3

**AACSB: Application of knowledge**

**Activity Overview:** Gives students an understanding about how various legal structures can help more in some businesses than others.

**Time Limit:** 10–15 minutes

**What to Do:** Set up student teams of three to four each. Have them select an *industry* (not a business) that is well-known locally. Have the team determine which legal structure or ownership would be best for a company starting out in that industry and explain why.

**Don’t Forget:** Make sure the industries are varied to allow for different structures that might be the best.

**Wrap-Up:** Ask students what they learned.

# Supplemental Homework Activity 2

## Interview a Manager

## Objective 1-1

**AACSB: Application of knowledge**

**Homework Assignment:** Students are asked to interview a business owner or senior manager, finding out how demand and supply affect the business, what essential factors of production are most important, and the impact of economic indicators on the business.

**Deliverable:** A brief paper detailing the outcome of the interview. Answers will vary, but students should recognize that demand and supply affect every business in some way. Typical factors of production cited in this answer include capital, labor, physical resources, information resources, and entrepreneurship. Economic indicators affect businesses differently at different times, depending on whether they are manufacturers or retailers. Ultimately, price increases in an industry will affect the buying power of consumers, which will affect how much is produced and purchased.

# At-Home Completion Time: 1 to 2 hours.

**ENHANCING THE ONLINE COURSE**

## Business Biography: Ask students to consider the role of business in their lives. Have them write a two paragraph business biography that highlights their own background, but with a connection to the business world (such as “my uncle owned a hardware store”). Ask students to post these on the discussion page as they would their typical biographies at the beginning of the semester. (Objective 1-1 AACSB: Application of knowledge)

## Profit vs. Not-for-Profit: Ask students to develop a visual using open source graphics to depict the differences between profit and not-for-profit organizations as well as goods and services. Have students post their “illustrations” of these concepts on the discussion board. (Objective 1-1 AACSB: Application of knowledge)

## Mindmap: Ask students to create an online “mindmap” (a chart with connected “branches”) using the graphics tools on the computer. This mindmap would depict the factors of production as they relate to business. Ask your students to write a paragraph describing how all the branches contribute to the business and post these on the discussion board or post them as graded assignments. (Objective 1-1 AACSB: Application of knowledge)

Podcast: Create a short discussion on the topic of types of businesses. Record it using the microphone on your computer. You can create a podcast of the mini-lecture using the RSS link that is usually one of the features in an online environment. (**Objective 1-3)**

# ANSWERS TO END-OF-CHAPTER MATERIALS

# Self Test

## Multiple Choice

1-1 Which of the following are the factors of production?

a. Labor, natural resources, capital, entrepreneurs, technology, and intellectual property

Learning Objective 1-5: What are the four types of businesses?

AACSB: Analytical thinking

1-2 Goods are products a business sells like

b. conveyer belts.

Learning Objective 1-1: What is profit and what is the difference between a good and a service?

AACSB: Application of knowledge

1-3 Which of the following is a current sociocultural trend?

d. An increase in the population of Americans ages 65 and over

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Application of knowledge

1-4 A green economy

b. factors ecological concerns into business decisions.

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Application of knowledge

1-5 If a firm decides to shift the production of goods or services to an overseas company, this is called

b. offshoring.

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Application of knowledge

1-6 The four types of businesses are

b. local, regional, national, and multinational.

Learning Objective 1-5: What are the four types of businesses?

AACSB: Analytical thinking

1-7 B2B and B2C interactions are

a. common now because of the explosive growth of e-commerce.

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Application of knowledge

1-8 A social environment is an interconnected system of different demographic factors such as

c. gender, age and income.

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Application of knowledge

1-9 Which of the following is NOT a common challenge facing most national companies?

a. Undercapitalization

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Application of knowledge

1-10 You are managing your own life like a business when you

a. consider how your expenses, the social environment, and globalization impact your life.

Learning Objective 1-6: How do life skills translate to the business environment?

AACSB: Reflective thinking

**True/False**

1-11 Profit is another word for revenue.

🞏 **False**

Learning Objective 1-1: What is profit, and what is the difference between a good and a service?

AACSB: Analytical thinking

1-12 Identity theft is mainly a problem for senior citizens.

🞏 **False**

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Application of knowledge

1-13 The supply chain is the process by which products, information, and money move between a supplier and the consumer.

🞏 **True**

Learning Objective 1-5: What are the four types of businesses?

AACSB: Analytical thinking

1-14 Globalization poses risks to the U.S. economy because of security and patent protection concerns.

🞏 **True**

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Application of knowledge

1-15 A not-for-profit organization uses any revenue to reward the management team.

🞏 **False**

Learning Objective 1-2: How do for-profit businesses and not-for-profit organizations compare?

AACSB: Application of knowledge

**Critical Thinking Questions: Suggested Answers**

**1-16** Answers will vary.

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Analytical Thinking

**1-17** Answers will vary, but many students will recognize the importance of green practices. Some compa­nies, such as retailers, will affect the environment little; instead promoting the green options available to customers as being very important. On the other hand, many students will recognize that manufacturers need to pay particular attention to the environment in the implementation of their produc­tion processes and would tout this in any marketing campaign. Going green can be expensive but the trade-off is poor publicity, loss of sales, etc.

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Analytical Thinking

**1-18** Answers will vary, but many students will recognize that an online presence can drive business into a store, facilitate shopping, appeal to varying demographics but can also cannibalize in-store purchases.

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Analytical Thinking

# Team Time

## The Competitive Edge

Answers will vary. However, the point of the exercise is to stress the dynamic nature of competition. Those companies that are responsive to consumer demands and offer a unique and distinct high-quality product at a reasonable price will win more market share and earn higher profits. Another key to business success is to foster good customer relations and repeat business by remaining responsive to changing customer demands and anticipating customer desires before they are expressed.

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Application of knowledge

# Ethics and Corporate Social Responsibility

## Cultural Awareness: Unwritten Laws

Answers will vary. However, it is important for multinational companies to research the values and customs of a foreign country with whom they intend to conduct business because the best laid business plans can go awry if foreign cultural sensitivities are offended. Some of the important cultural factors include language, educational levels, gender relationships, etiquette, and religious values, as well as attitudes toward cooperation between management and labor and toward work in general.

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Diverse and multicultural work environments

**Web Exercises**

**1-19 Are You Savvy to Society?**

Students’ answers will vary. However, it is important for local businesses to research the demographics of the population in the area to determine if the business can thrive in the area. Demographic factors include race, ethnicity, gender, age, income, and sexual orientation of the population.

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Application of knowledge

**1-20 The Language of the Global Marketplace**

Students’ answers will vary. Google, WorldLingo, and other companies have free online website translation services that translate text and Web pages. Babelfish.com and LanguageLine.com have a variety of services, including an on-demand video remote interpreting service, pay-as-you-go interpreting services, and document translation services.

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Application of knowledge

**1-21 Business Technology On-the-Go**

Students’ answers will vary depending on the trend selected.

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Application of knowledge

**1-22 Nonprofit Business Is Still Business**

Students’ answers will vary depending on the tools selected.

Learning Objective 1-2: How do for-profit businesses and not-for-profit organizations compare?

AACSB: Application of knowledge

**1-23 Comparing Companies**

Students’ answers will vary depending on the companies and states selected.

Learning Objective 1-5: What are the four types of businesses?

AACSB: Application of knowledge

**Suggested Answers MyBizLab**

**1-24** Answers will vary but this is an opportunity for students to tap into their entrepreneurial imagination and envision their future considering the factors of production, organization, and communication.

Learning Objective 1-4: How do competition, the social environment, globalization, and technological changes challenge and provide opportunities to business owners?

AACSB: Application of knowledge

**1-25** Answers will vary.

Learning Objective 1-5: What are the four types of businesses?

AACSB: Application of knowledge