

Unit 1: Business Fundamentals – Review

For-Profit vs. Non-Profit/Not-for-Profit Organisations

For-Profit Business:

A for-profit business **produces goods and/or services** to satisfy the **needs, wants, and demands of consumers** for the purpose of making a profit.

By supplying goods and services, a business can **make a profit**:

- *Profit* is the income left after all **costs and expenses are paid**
- *Expenses* are the payments involved in running a business and the assets that get 'used up' operating it
- *Cost* is the **money required to produce or provide** the goods and services
- **Profit – Expenses = Profit OR Loss**

When a business makes a profit, it can:

- **Reinvest** money for expansion
- Provide **improved** goods and/or services
- Give the owner(s) funds to spend on **personal needs** and/or wants
- The business is considered **solvent** when **debts are paid** and **financial obligations are met**



Non-Profit & Not-for-Profit Organisations:

A non-profit and/or not-for-profit organisation operates strictly to **help people in a community**

- The primary motive of a non-profit organisation is to raise funds for a specific goal
- Only charities and charitable organisations are called non-profit and are allowed to raise such funds
- A not-for-profit organisation uses any surplus funds to improve the services offered to its member. However, they do NOT distribute profits to members
- A co-operative organisation, unlike a not-for-profit organisation, consists of an independent association of persons who join together to meet social, economic, and cultural needs and goals





What is a Business?

Forms of Business Ownerships:

- I. Sole proprietorship – One owner, unlimited liability
- II. Partnership – At least two partners, need partnership agreement (verbal/written)
- III. Corporation – National/Multinational shareholders involved, corp., Inc., Ltd., 1+ owners, private; public; crown; non-profit
- IV. Co-operation – Owned and operated by people with similar interests, equal shares
- V. Franchise – franchisor and franchisee



Large or Small?

- A small or medium-sized business (SMB) can be classified by the following characteristics:
- Employs fewer than 500 people
- Estimated to be over one million in Canada
- Provides jobs for more than 60 percent of the Canadian workforce

Channels of Distribution:

A business can be classified according to how it delivers goods or services to the customer. Some of these categories are:

- Retail
- The telephone
- Catalogues
- E-Commerce

Role in the Community:

A business performs different functions in its community

Jobs

A business can be classified by the types of jobs that it provides



The Role of the Consumer

Producers are the business that make goods or provide services that consumers need or want.

Consumers are the people who purchase goods and services from producers.

A marketplace or location is where producers and consumers come together to buy and sell their goods and services

Businesses use consumer habits plus their own research to decide what quantities of goods and services they will provide to consumers. Some key questions that businesses might ask about themselves are:

- When do they want these goods and/or services?
- Where do they want them?
- What price will they pay for these goods and services?
- How many goods and/or services do they want?

Consumers greatly influence businesses in regards to what they produce and how they deliver.

Consumer Influence on Products:

In the past, businesses controlled what, when, and the amount of products and services available to consumers. With increased competitions and the appearance of more producers, consumers ultimately buy from the businesses that meet their personal needs and wants.

When Products Become Obsolete:

Over time, products and/or services can become obsolete because people are no longer in need of them.

Consumer Influence on Price

Businesses are in control when they have pricing power. They can increase prices in response to increased costs or to increase their profits

Consumers have control when they have power. They demonstrate this by 'voting with their feet' to look elsewhere for products and/or services.

Consumer Influence on Services:

Consumer purchasing power gives individuals the control to buy goods and services at the price they want and the location they like.

This power influences the products, prices, and service levels that businesses offer consumers.



Characteristics of Entrepreneurs

Entrepreneurs are individuals who are risk-takers and problem-solvers. They are acutely aware of opportunities in the marketplace and take advantage of these in their businesses. Important entrepreneurial characteristics include the following:

- Self-confidence
- A flair for innovation
- The ability to work alone
- An aptitude for managing others

Consumer Needs and Wants

Entrepreneurs often start businesses to satisfy consumer needs. Basic survival needs for individuals are food, clothing and shelter.

However, entrepreneurs can also provide consumers with new products or services that are not considered a need, but a want – something that adds comfort or pleasure to their lives.

Starting a Business

Attracting Consumer Interest

Entrepreneurs need to identify their competition. They must determine how to attract their customers and keep them.

Businesses also plan what goods and services to offer and how to distribute and market them by knowing how consumers will answer the following questions:

- Do I really need it?
- Where should I buy it?
- How much variety is there to choose from?
- How much can I afford to spend?
- Why would I want to buy here? Are there sales or coupons?
- Where else could I get it? Could I buy it used or get it as a gift?

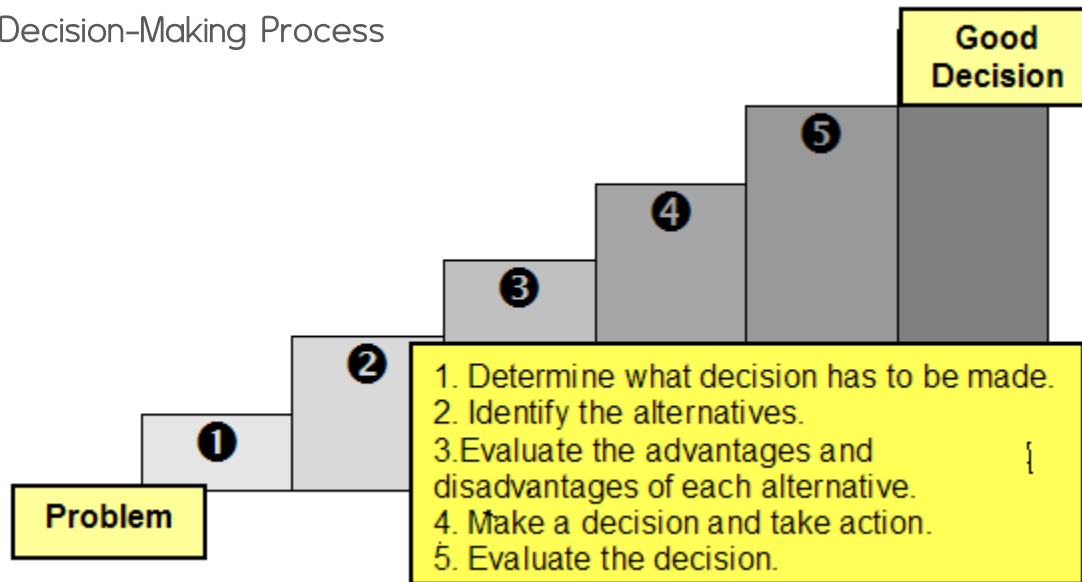
Businesses compete for consumers. Here are a few strategies that businesses use to help attract buyers to try a product or service.

- Create something new and/or improve it.
- Promote the latest trends.
- Compete with similar businesses.

Making Good Business Decisions

Entrepreneurs face many decisions on a daily basis. Even deciding how much **inventory** or stock (i.e., the quantity of goods and materials to keep on hand) must be considered carefully because of the financial resources available.

Decision-Making Process



Economic Resources

Economic resources, also known as **factors of production**, are the means through which goods and services are made available to consumers.

Most products require a combination of

- natural resources
- human resources
- capital resources

Businesses are **interdependent**, which means they rely on the goods and services from a variety of businesses to satisfy consumer needs and wants.

Economic Systems

Economic systems are a way of dealing with the selection, production, distribution, and consumption of goods and services. Government and business work together to foster activity and growth in the marketplace.



Economic systems have to answer three key questions:

- I. What goods and services should be produced within the system?
- II. For whom should these goods and services be produced?
- III. How should these goods and services be produced?

Supply, Demand, and Price

Law of Demand

Demand is the quantity of a good or service that consumers are willing and able to buy at a particular price.

Law of demand and its relationship to prices and consumers is defined as the following:

- When prices ↓ decrease consumers buy more and demand goes **up** ↑.
- When prices ↑ increase consumers buy less and demand goes **down** ↓.

Several conditions that create demand are:

- Consumer awareness
- Price
- Supply
- Accessibility

Law of Supply

Supply is the quantity of a good or service that businesses are willing and able to provide within a range of prices that people would be willing to pay. Increasing the quantity supplied as prices increase is called the law of supply.

Several **conditions** that affect supply are:

- The cost of producing or providing a good or service
- The price consumers are willing to pay for

Relating Price to Supply and Demand

Price is determined by supply and demand as well as the cost of producing or providing the good or service.

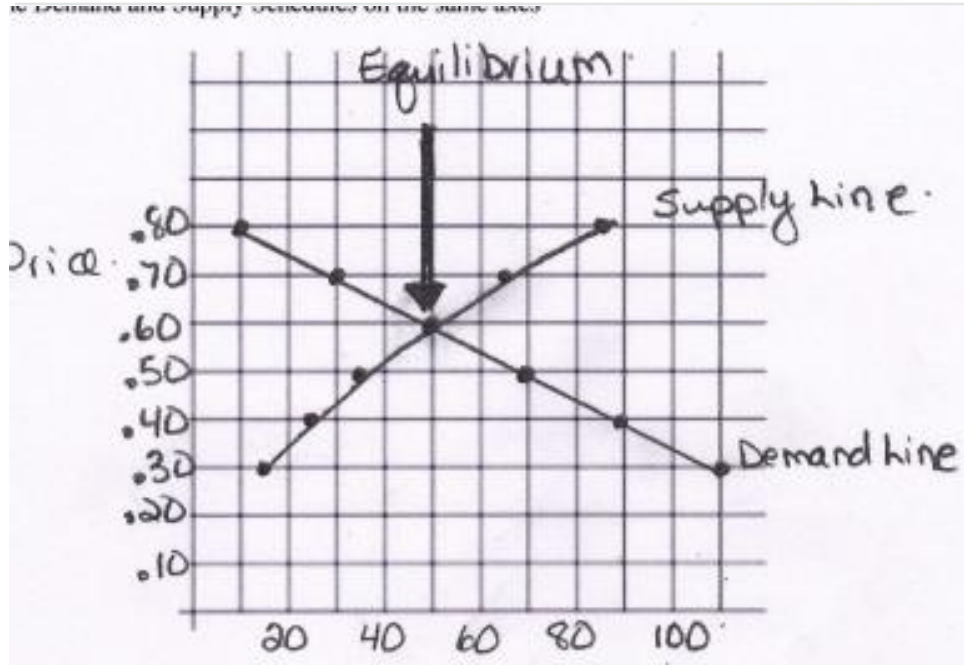
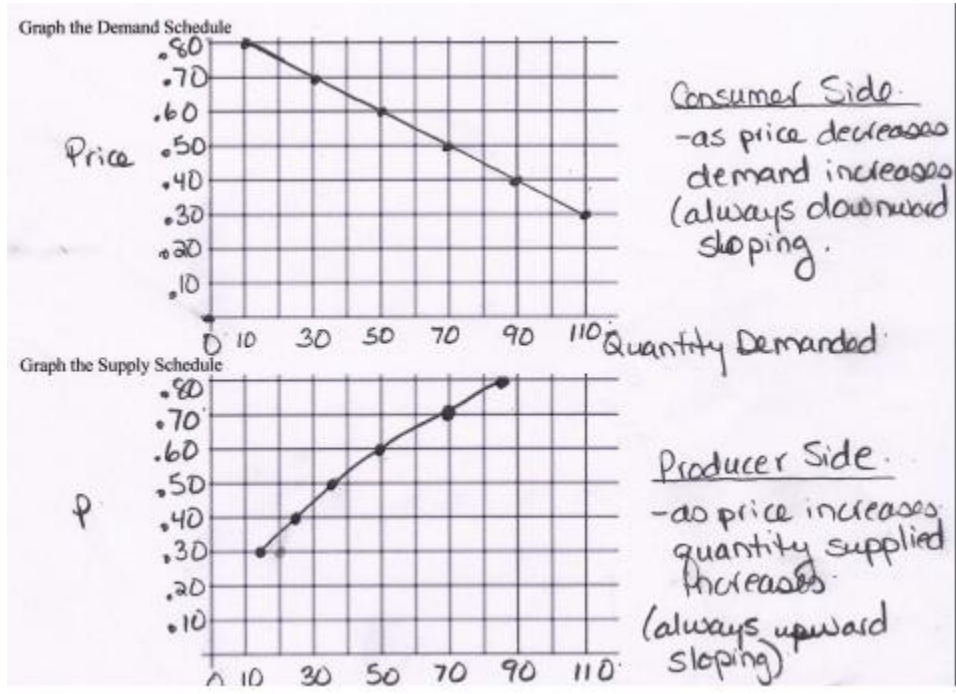
Remember:

When supply is low and demand is high, prices go up.

When supply is high and demand is low, prices go down.

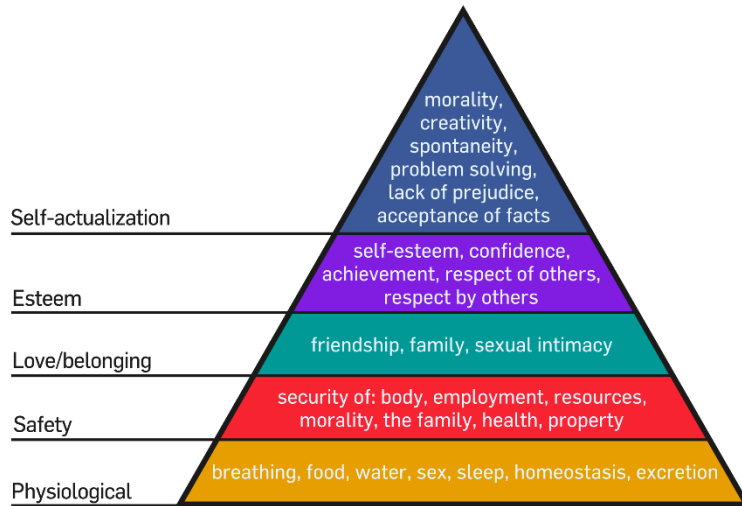


Graphing the Supply and Demand





Maslow's Hierarchy of Needs



Economic Resources

Economic resources are also known as factors of production, are the means through which goods and services are made available to consumers

Natural Resources

Materials that come from the earth – Animals, vegetables, minerals, etc.

Human Resources

Sometimes referred to as labour, people who work to make goods and services – Farmers, teachers, Nurses, etc.

Capital Resources

Includes building, equipment and machinery tools. May require substantial investment – tools, equipment, money, etc.



Going into Business

Eight Questions to Ask:

I. Why start your own business?

- Be your own boss
- Make decisions
- Be creative
- Make money
- Use skills and knowledge

II. What different types of businesses are there?

III. A) What are your skills and interests? B) Will your business be home based?

- Fewer meetings to attend
- No office politics
- More time spent on phone
- Wear casual clothes
- Technologically advanced: computer, scanners, video equipment, camcorders
- Not everyone likes working from home: personal contact or discipline, thinking & working differently

C) Will your business be web based?

- home means less meetings - online
- e-commerce – not meeting face to face
- 24/7 instead of 12 hours for 6 days
- website hits tell how popular a web-based business is
- all businesses need websites to conduct transactions online
- web pages necessary to advertise what's being sold
- web page designers get hired to design good websites &

advertisements for larger businesses but smaller businesses do it themselves

- consumers are cautious about buying goods online

IV. Where can you find information about starting a business?

- free sources of information
 - libraries
 - existing businesses
 - trade associations
 - government resources
 - internet
- Industry Canada – Strategies for Canadian businesses & consumers
- Statistics Canada – collects statistical data – example Canada's GDP

V. A) What are the start-up costs and where can you find financing?

Start up costs may include:

- mortgage
- salaries
- advertising
- equipment
- goods
- money for day-to-day operations

B) What are the start-up costs and where can you find financing?

Two kinds of financing:

- debt – borrowing money
 - must be repaid
- equity – owner(s) invests

Where to find financing:

- financial institutions
 - credit history



- business plan: success; owner experience
 - private investors
- VI. What level of risk can you expect?**
- customers may refuse to pay
 - business partner may make an unacceptable deal
 - an employee may fail to do the job
 - supplier may be late with merchandise
 - might use a product that doesn't work
 - may make a lot of money in the beginning
 - location may be bad
 - may be hard to compete with other businesses
- VII. What steps are involved in running the business?**
- raw materials needed
 - location of your suppliers
 - availability of materials
 - number of employees & their positions
 - paying off the debt
- VIII. What recourses will you need?**
- some supplies you may need:
- cash
 - furniture & fixtures
 - computers
 - tools
 - vehicles
- learn to forecast
- calculate projected revenue/profit every 3 months

Types of Corporations

Private Corporation

- Owned by a relatively small number of shareholders who do not offer or trade its stock (shares) to the general public on the stock market.
- PURPOSE: create a profit and increase the worth of the company for shareholders.

Public Corporation

- A corporation that has permission to offer its registered securities (stock, bonds, etc.) for sale to the general public, through a stock exchange.
- PURPOSE: create a profit and increase the worth of the company for shareholders.

Crown Corporation

- A Canadian corporation that is owned by the executive branch of the government.
- PURPOSE: To provide goods and services that other corporations will not provide. Also, regulates the price of certain goods i.e. water (municipal).

Non-profit Corporation

- A corporation that does not distribute its profits to owners or shareholders, but instead uses them to help pursue its goals.
- PURPOSE: To work towards a goal for the greater good.

Parent Company

Is a company that owns enough voting stock in another firm to control management and operations by influencing or electing its board of directors; the second company being deemed as a subsidiary of the parent company.

Subsidiary

- A company whose voting stock is more than 50% controlled by another company:
 - Honda Canada
 - McDonald's Canada
 - Walmart Canada

Holding Company

A parent corporation, limited liability company or limited partnership that owns enough voting stock in another company to control its policies and management. A holding company exists for the sole purpose of controlling another company, which might also be a corporation, limited partnership or limited liability company, rather than for the purpose of producing its own goods or services.

Canada's Economy

GDP

Gross Domestic Product

Total value of goods/service produced in 1 yr

GDP per Capita

GDP per person

- GDP divided by the total population
- Equal distribution
- GDP/capita is a measure of the country's living standards and can be used to see how a country's citizens are doing

Business Cycle

GDP over time

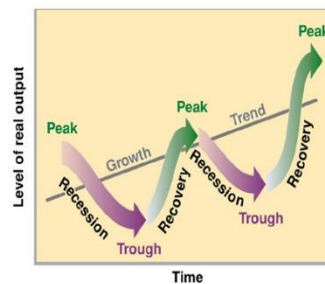
Annually, Quarterly

Peak, Decline, Trough, Recovery/Expansion

Recession, Depression

Stock Market

- I. Bull - a market in which share prices are rising, encouraging buying.
- II. Bear - a market in which prices are falling, encouraging selling.
- III. Stagnant



IV. Turbulent

TERM	DESCRIPTION – Level of output (think of GDP)
Peak	The highest point between the end of an economic expansion and the start of a contraction in a business cycle.
Decline	An economic recession is typically defined as a decline in gross domestic product (GDP) for two or more consecutive quarters.
Trough	In general, the business cycle is said to go through expansion, then the peak, followed by contraction, and then it finally bottoms out with the trough.
Expansion	The phase of the business cycle when the economy moves from a trough to a peak.
Recession	a period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters.
Depression	A severe and prolonged downturn in economic activity. In economics, a depression is commonly defined as an extreme recession that lasts two or more years.

Sectors & Services

The Economy is broken down into the following three major sectors:

The primary sector - Earth

The secondary sector – Natural resources to goods

The tertiary sector - Services

An industry refers to a more specific group of businesses or companies. The top five industries in Canada are:

No.	Industry	Details
1	Agriculture	Accounts for 8% of the country's GDP.
2	Energy	The 3 rd largest oil reserve in the world and are a world leader in hydroelectric power. It accounts for 2.9% of the country's GDP.
3	Technology	Canada's industry is one of the strongest in the world and includes areas such as digital media, wireless infrastructure, ecommerce and general internet services.
4	Services	Accounts for 80% of Canada's GDP and employs almost 75% of the population. This includes retail, business, education, and health. Tourism makes up 12% of Canada's GDP.
5	Manufacturing	Accounts for 14% of Canada's GDP which is largely made up of the automotive industry. Automotive parts production is one of the fastest growing manufacturing sectors in Canada, e.g. Magna International.