An Introduction to Business

A business is any activity that provides goods or services to consumers for the purpose of making a profit. When Steve Jobs and Steve Wozniak created Apple Computer in Jobs's family garage, they started a business. The product was the Apple I, and the company's founders hoped to sell their computers to customers for more than it cost to make and market them. If they were successful (which they were), they'd make a profit.

Some organizations are not set up to make profits. Many are established to provide social or educational services.

However, function in much the same way as a business. They establish goals and work to meet them in an effective, efficient manner. Thus, most of the business principles introduced in this text also apply to nonprofits.

Functional Areas of Business

The activities needed to operate a business can be divided into a number of *functional areas*: management, operations, marketing, accounting, and finance. Let's briefly explore each of these areas.

Management

Managers are responsible for the work performance of other people. Management involves planning for, organizing, staffing, directing, and controlling a company's resources so that it can achieve its goals.
Managers *plan* by setting goals and developing strategies for achieving them. They *organize* activities and resources to ensure that company goals are met. They *staff* the organization with qualified employees and *direct* them to accomplish organizational goals. Finally, managers design *controls* for assessing the success of plans and decisions and take corrective action when needed.

Operations

All companies must convert resources (labor, materials, money, information, and so forth) into goods or services. Some companies, such as Apple, convert resources into *tangible* products—iPhones, iPods, Macs. Others, such as hospitals, convert resources into *intangible* products—health care. The person who designs and oversees the transformation of resources into goods or services is called an operations manager. This individual is also responsible for ensuring that products are of high quality.

Marketing

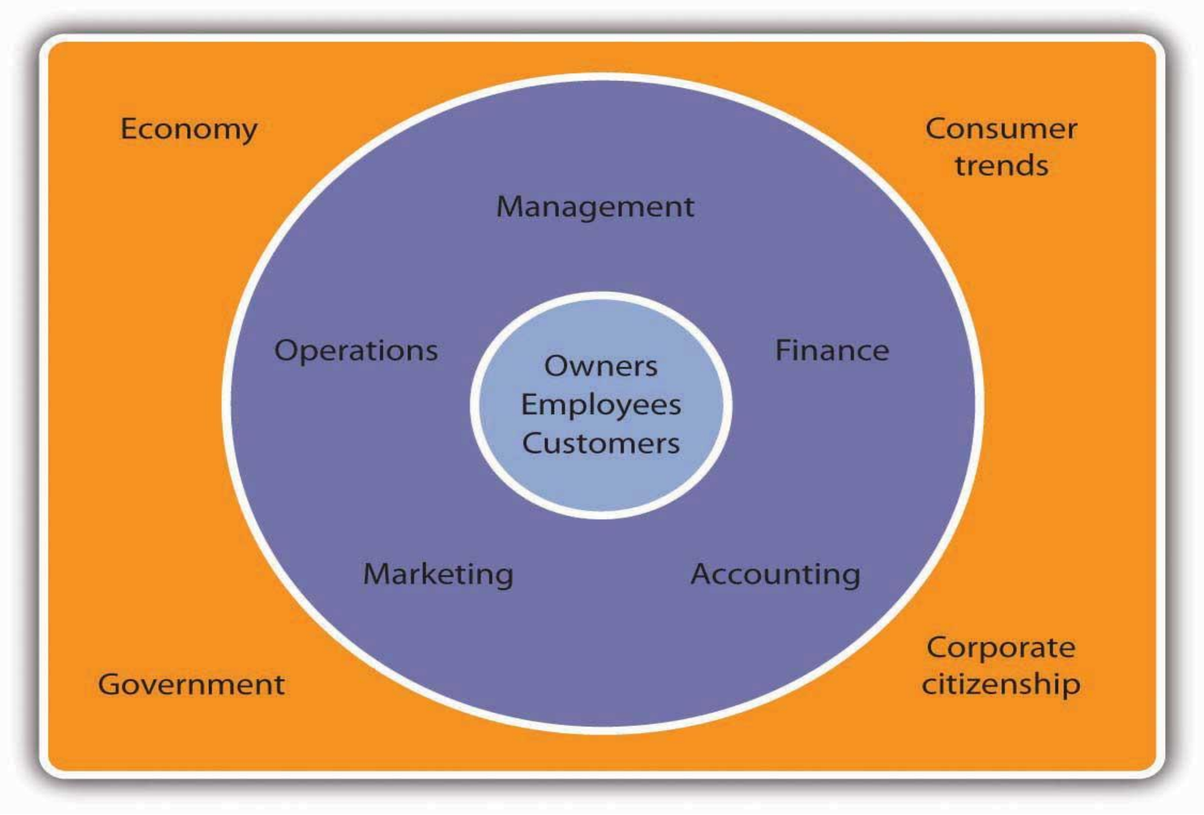
Marketing consists of everything that a company does to identify customers' needs and design products to meet those needs. Marketers develop the benefits and features of products, including price and quality. They also decide on the best method of delivering products and the best means of promoting them to attract and keep customers. They manage relationships with customers and make them aware of the organization's desire and ability to satisfy their needs.

Accounting

Managers need accurate, relevant, timely financial information, and accountants provide it. Accountants measure, summarize, and communicate financial and managerial information and advise other managers on financial matters. There are two fields of accounting. *Financial accountants* prepare financial statements to help users, both inside and outside the organization, assess the financial strength of the company. *Managerial accountants* prepare information, such as reports on the cost of materials used in the production process, for internal use only.

Finance

Finance involves planning for, obtaining, and managing a company's funds. Finance managers address such questions as the following: How much money does the company need? How and where will it get the necessary money? How and when will it pay the money back? What should it do with its funds? What investments should be made in plant and equipment? How much should be spent on research and development? How should excess funds be invested? Good financial management is particularly important when a company is first formed, because new business owners usually need to borrow money to get started.



External Forces That Influence Business Activities

Advantages of Small Business Ownership

- *Independence*. As a business owner, you’re your own boss. You can’t get fired. More importantly, you have the freedom to make the decisions that are crucial to your own business success.
- *Lifestyle*. Owning a small business gives you certain lifestyle advantages. Because you’re in charge, you decide when and where you want to work. If you want to spend more time on nonwork activities or with your family, you don’t have to ask for the time off. If it’s important that you be with your family all day, you might decide to run your business from your home. Given today’s technology, it’s relatively easy to do. Moreover, it eliminates commuting time.
- *Financial rewards*. In spite of high financial risk, running your own business gives you a chance to make more money than if you were employed by someone else. You benefit from your own hard work.
- *Learning opportunities*. As a business owner, you’ll be involved in all aspects of your business. This situation creates numerous opportunities to gain a thorough understanding of the various business functions.
- *Creative freedom and personal satisfaction*. As a business owner, you’ll be able to work in a field that you really enjoy. You’ll be able to put your skills and knowledge to use, and you’ll gain personal satisfaction from implementing your ideas, working directly with customers, and watching your business succeed.

Disadvantages of Small Business Ownership

- *Financial risk*. The financial resources needed to start and grow a business can be extensive. You may need to commit most of your savings or even go into debt to get started. If things don’t go well, you may face substantial financial loss. In addition, there’s no guaranteed income. There might be times, especially in the first few years, when the business isn’t generating enough cash for you to live on.

- *Stress*. As a business owner, you *are* the business. There's a bewildering array of things to worry about—competition, employees, bills, equipment breakdowns, customer problems. As the owner, you're also responsible for the well-being of your employees.
- *Time commitment*. People often start businesses so that they'll have more time to spend with their families. Unfortunately, running a business is extremely time-consuming. In theory, you have the freedom to take time off, but in reality, you may not be able to get away. In fact, you'll probably have less free time than you'd have working for someone else. For many entrepreneurs and small business owners, a forty-hour workweek is a myth; see Figure 5.7 "The Entrepreneur's Workweek". Vacations will be difficult to take and will often be interrupted. In recent years, the difficulty of getting away from the job has been compounded by cell phones, WiFi laptops, and personal digital assistants (PDAs), and many small business owners have come to regret that they're always reachable.
- *Undesirable duties*. When you start up, you'll undoubtedly be responsible for either doing or overseeing just about everything that needs to be done. You can get bogged down in detail work that you don't enjoy. As a business owner, you'll probably have to perform some unpleasant tasks, like firing people.