

2

Business Basics

How does business affect you?
Would it be possible to run your
life without businesses?

Marketing Terms

need
want
economic needs and wants
economic goods and services
exchange
money
value
time value of money
business
profit
sole proprietorship
partnership
corporation
not-for-profit organization
production
finance
management

Learning Goals

- differentiate between economic needs and wants
- describe the three uses of money
- explain how a business makes a profit
- describe three forms of business ownership
- describe the difference between a for-profit corporation and a not-for-profit organization
- identify the four functions of business and give an example of each

In order to have a good understanding of marketing, you need to understand some basic concepts about business, 2-1. This chapter will look at business in the broad sense to see how marketing fits into the total picture. This discussion will be like a photograph taken from an airplane, which shows how all the buildings, roads, rivers, and fields connect. The following chapters will then focus specifically on the topic of marketing. This chapter presents concepts such as economic



2-1

In order to understand marketing, you need to understand business.

needs and wants, the exchange, money, types of business ownership, and the four basic functions of business.

Economic Needs and Wants

What do you need to be able to live? Could you physically survive without your cellphone? Could you survive without food to eat? A **need** is something that is necessary for survival. You need air, water, food, clothing, and shelter. In our current society, needs include things you need to function in society. For example, you need schoolbooks, school clothes, and transportation to and from school.

If a genie granted you a wish, what would you want? You might want a new car, a new outfit, or a trip to your favourite vacation spot. A **want** is something you desire but could function without, 2-2.

Everyone has needs and wants. Some needs and wants cannot be satisfied by buying something. For example, you cannot buy friendship. Needs and wants that you can satisfy by buying something are called **economic needs and wants**. Often, the term is shortened to economic needs, and you assume that the term includes economic wants. The products that you buy to satisfy economic needs are called **economic goods and services**.

Businesses have economic needs as well, 2-3. A business may need a new computer, an accountant to handle the finances, or a new building.

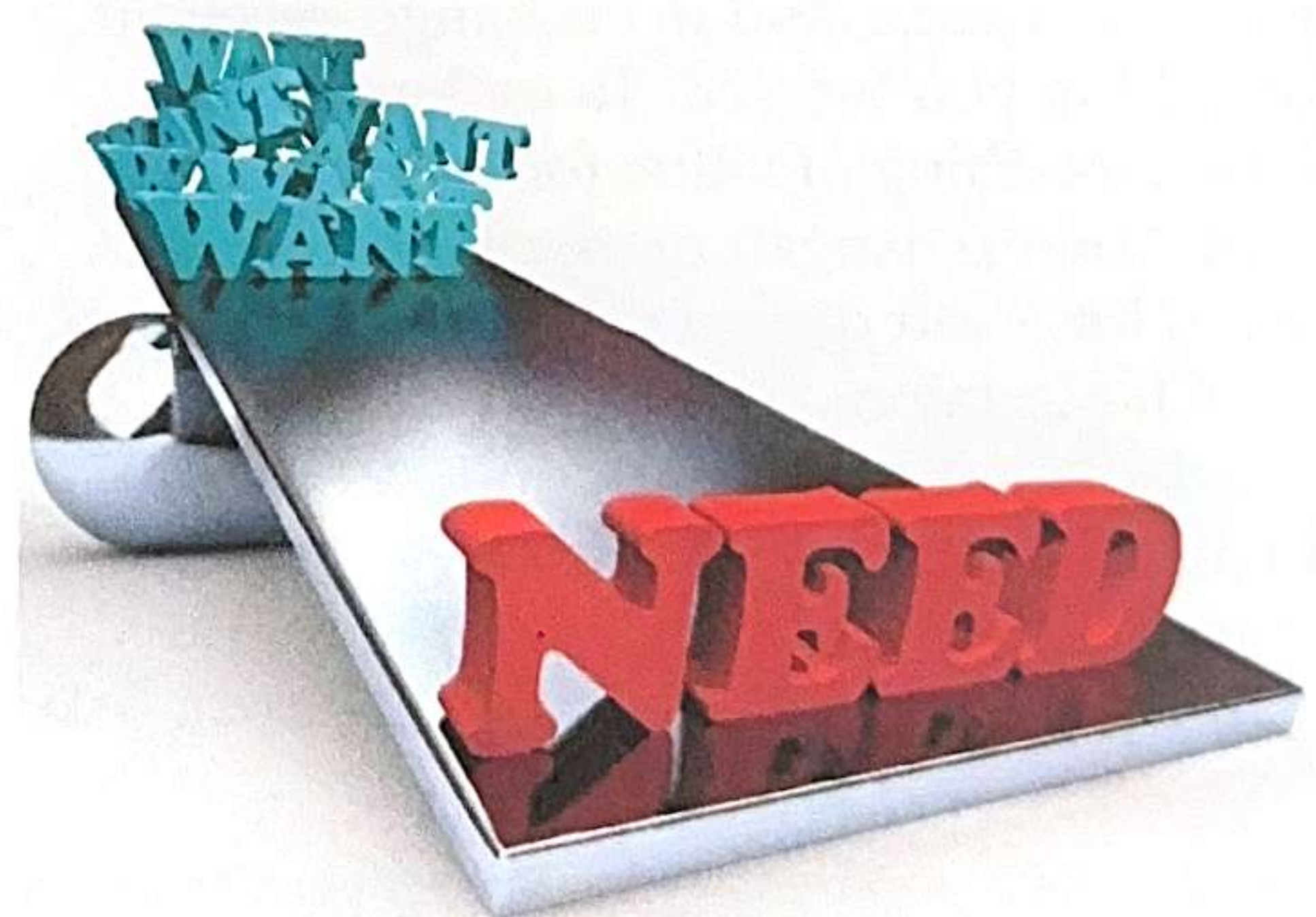


Connect...

Make a list of your needs. Circle the economic needs. Then make a list of your wants. Circle the economic wants.

The Exchange

Suppose you decide to go to a concert. On your way to buy tickets, you are thirsty, so you buy a soft drink. You put two dollars



2-2

Needs are essential for life; wants are not. What do you really need? What do you just want?



2-3

Businesses also have economic wants and needs. They might need more workers, more equipment, or more office space.

into a vending machine, and get a drink and some change. As you walk through the mall, you meet a friend who is collecting money for an animal shelter. You give her the change. When you get to the ticket booth, you give the cashier \$75 for the concert ticket.

You did what all of us do: trade money for things you need and want. You gave cash to someone, and in exchange, received something you wanted. To **exchange** is to trade something of value for something you want. You exchanged money (something of value) for a soft drink (a good) and a concert ticket (entertainment, which is a service). You also gave money to support the animal shelter (an idea or cause). Exchange is the basis of all business. Without exchanges, business and marketing would not exist, 2-4.



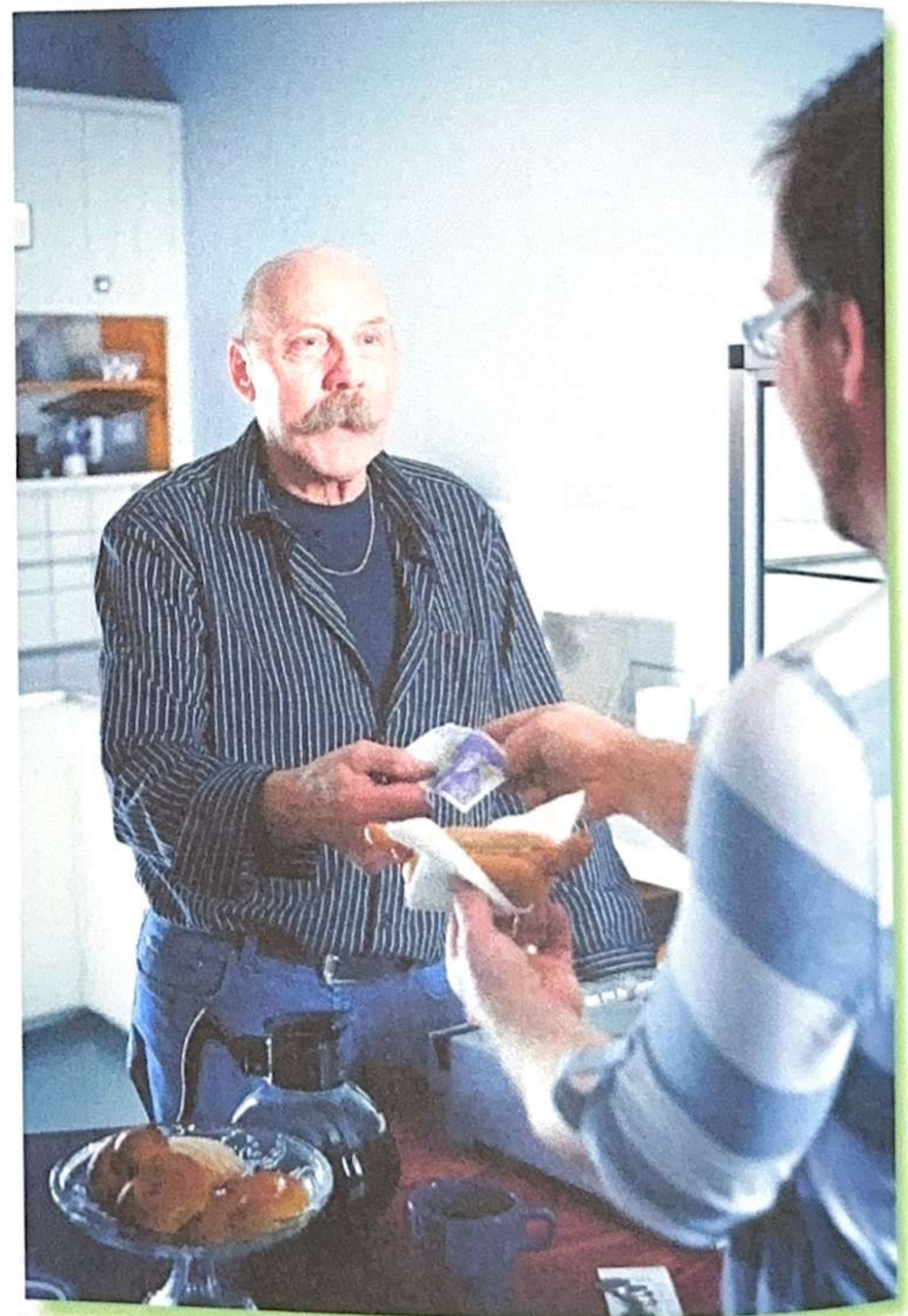
Connect...

Describe your most recent exchange. Include the product you acquired and what you exchanged for it.

Money

In the past, people would exchange goods for other goods—and continue to do so today. They would also work in exchange for food and other goods. This type of exchange is called *barter*. Barter works well in some situations but not in others. To resolve the challenges of barter, people developed a solution: money. **Money** is a consistent item that people accept in exchange for goods or work. Early forms of money included beads, salt, tobacco, and gold. Today people use paper money, coins, cheques, and debit cards.

Money makes it easier to exchange goods and services. Without money, modern



2-4

Exchange means to trade something of value for something you want. Exchange is the basis of all business.

business would not be possible. Money is used in three ways: (1) medium of exchange, (2) unit of value, and (3) store of wealth.

Medium of Exchange

Imagine if there were no money, and you were an apple picker. You get paid in apples. Whenever you want to buy something, you have to carry around a huge sack of apples. Suppose you try to barter your apples for a shirt, but the shirt seller does not want apples. He wants coffee. You have to run around (with your big sack of apples) looking for someone who will take your apples in exchange for coffee. Now imagine the situation with money. You get paid in dollars. The dollars are small and light and fit in your back pocket, 2-5. The shirt seller can charge you \$20. You can pay him with the dollars. Money is a convenient medium of exchange.

Unit of Value

Money also makes it easier to express the value of goods and services. **Value** is how much something is worth. In the barter situation, people have to determine the value of an item each time they exchange it for a new item. For example, how many apples is a shirt worth? How many shirts is a kilogram of coffee worth? What if a kilogram of coffee is worth a shirt and a half? What good is half a shirt? Money enables you to express the value of products in a precise, mathematical form.

The dollar is the unit of value in Canada. The dollar is used to express the value of goods, services, and ideas in the same way kilometres are used to express distance. How far away is that town? 50 kilometres. How much does that leather jacket cost? 300 dollars. The value of a product expressed in dollars is known as the *price*.

The word *value* also has another meaning. Value can refer to the worth of an item to an individual. Individuals do not

value all items the same way. For example, an individual may think that a leather jacket is not worth \$300. Another individual might think the jacket is worth \$300. The marketer of the jacket thinks it is worth \$300 and that many customers will pay that price. Price is the way marketers establish the value of their products.

Time Value of Money

The notion that a sum of money has greater potential worth in the future than it does today is called the time value of money. Understanding the **time value of money** can help you make important money-management decisions related to the tradeoffs between spending and saving. For example, suppose you think the previously mentioned leather jacket is too costly at \$300 even though you would like to own it. You decide to put your \$300 into a savings account at the bank because you think it will be worth more in the future. After a year, your savings account increases to \$315. During the same time, however, marketers raise the cost of the leather jacket to \$325 to cover increasing manufacturing costs. You still want the leather jacket, but now it costs



2-5

In the time of barter, people exchanged items such as salt, animals, or produce. Money is a more convenient medium of exchange.

more than it did a year ago. Did you make the right money-management decision based on the time value of money and the value you placed on the leather jacket?

Store of Wealth

Imagine a storeowner in the time of barter. She receives payment for goods in the form of apples, shirts, salt, and cows. How will she store all these big, bulky, and (in the case of the cows) living items? What if she needs to pay for something and it costs half a cow? What if the apples rot or the cows die before she can exchange them for something she needs? Money enables you to keep and store wealth in a compact, easy, and long-lasting form. Money is considered a store of wealth because it enables you to store (in other words save) money until you need it.

Connect...

Describe how you use money as a store of wealth.

What Is Business?

Business is the general term for all the activities involved in the development and exchange of products. The general term *business* includes industry, construction, mining, and farming. Business provides most of the goods and services that you use every day. Business also supplies most of the wages (money) that people use to buy those goods and services. Business is the engine that powers economies around the world. Figure 2-6 shows how money flows through an economy.

The term *business* is also used to refer to a specific person or group of people who are involved in the development and exchange of products. A business can be large or

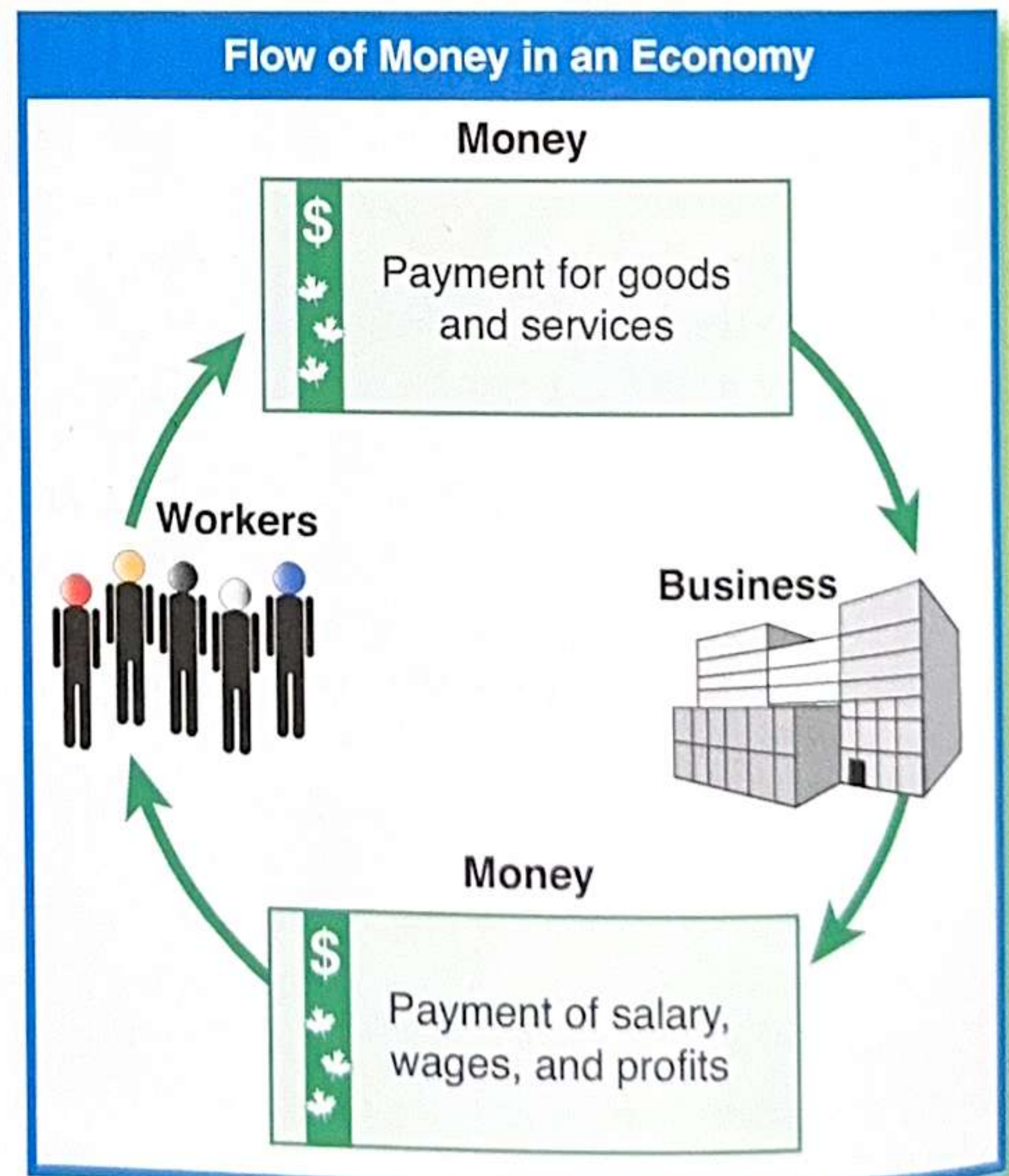
small. A lemonade stand run by children is a business. General Motors, with thousands of employees and hundreds of buildings, is also a business. Several other terms are used to refer to a business: *firm*, *company*, *organization*, *corporation*, and *enterprise*.

Connect...

Make a list of all the businesses that touch your life in just one day. Keep in mind that if you use a product in an activity, such as a toothbrush for brushing your teeth, then both the toothbrush manufacturer and the store where you bought the toothbrush touch that activity.

Making a Profit

The main goal of most businesses is to make a profit. **Profit** is the money that a business has left after all the expenses and



2-6

Business powers the economy. Money flows from businesses to workers, then from the workers back to the businesses.

costs of running the business are paid.

How does a business make a profit? A business makes a profit by marketing products that customers want and are able and willing to buy. Customers want and are willing to buy products that meet their needs and wants. Therefore, most businesses make a profit by satisfying the needs and wants of their customers.

Businesses find out what customers need, want, and will pay for. Businesses then develop, produce, distribute, advertise, and sell their products. For example, Nike knows that its customers want quality athletic shoes and the image of athletic ability. Based on this knowledge, Nike develops, produces, distributes, advertises, and sells athletic shoes.

Connect...

Think of an economic need or want that you have. Name at least one business that has a product to satisfy that need.

Forms of Business Ownership

There are millions of businesses in North America. However, there are only three main forms of business ownership: sole proprietorship, partnership, and corporation. Figure 2-7 shows a brief overview of the three types.

A **sole proprietorship** is a business owned by one person. That person has all the responsibility and gets all the profits from the business. Many small businesses are sole proprietorships. Examples include car washes, restaurants, and hair salons.

A **partnership** is a business owned by a small number of people, usually two or three. Partners share the responsibility and the profits of the business. Law firms are often partnerships.

Connect...

Are any of the businesses in your neighbourhood sole proprietorships or partnerships? List at least two of each type.

What Is a Corporation?

In the eyes of the law, the people who own a sole proprietorship or a partnership are the business. However, in the eyes of the law, a corporation is an artificial person that exists separately from the people who own it. The legal term for artificial person is *legal entity*. A **corporation** is a legal entity established for the purpose of doing business. As a legal entity, a corporation can buy property, run a business, manufacture products, earn money, lose money, sue, and be sued. As a legal entity, the corporation is separate from the people who own it. The owners are not responsible for the actions of the corporation. The corporation is responsible for its actions.

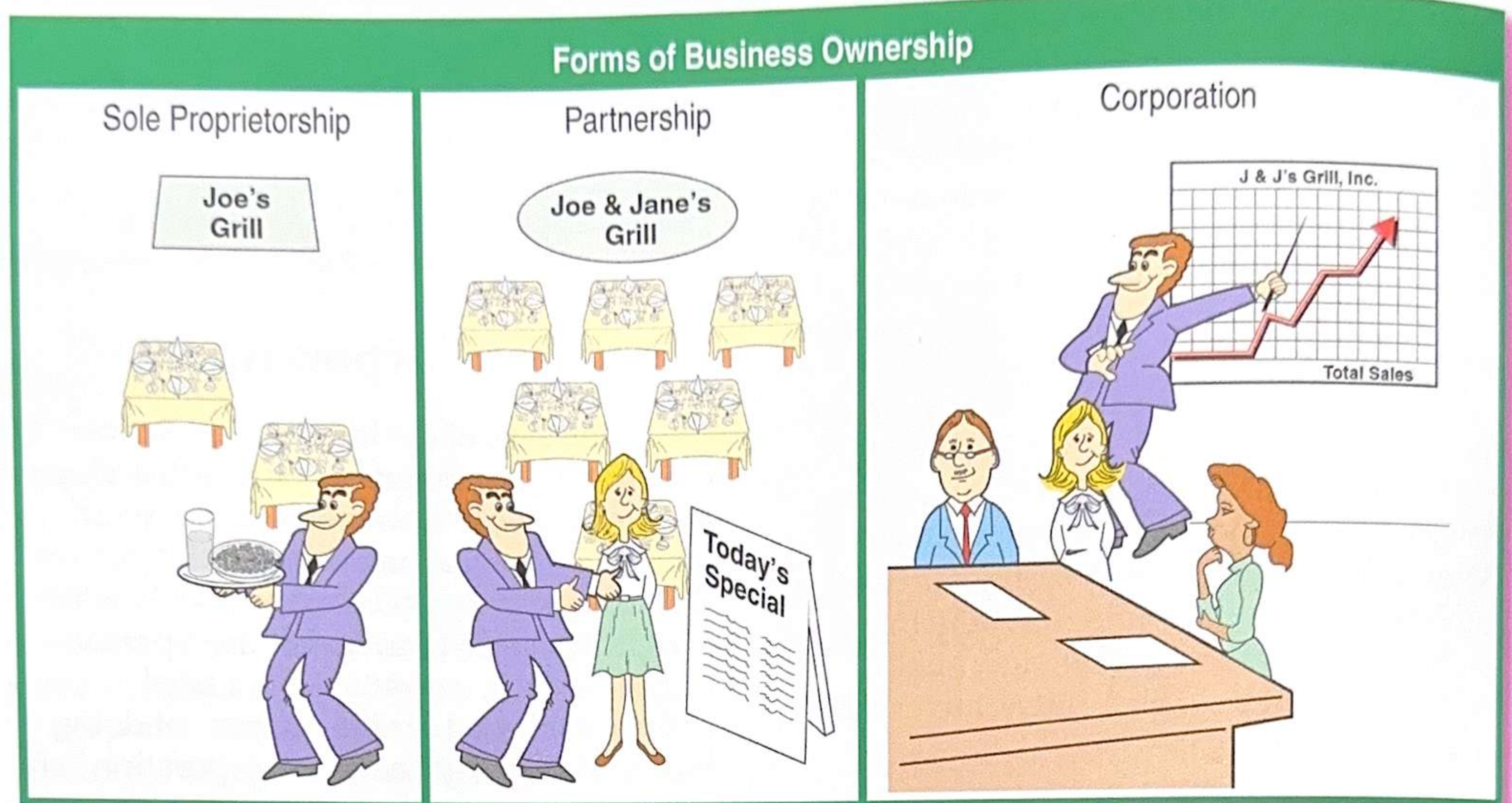
Who owns the corporation? People called *shareholders* or *stockholders* own the corporation. *Stock* is the right of partial ownership in the corporation. The corporation sells stock. The people who buy the stock become the stockholders and owners of the corporation. Many large businesses are corporations. Examples include Ford, Microsoft, and Rogers.

Connect...

Name a corporation in which you own stock or would like to own stock.

What Is a Not-for-Profit Organization?

There are two categories of business organizations: for-profit and not-for-profit. The goal of a for-profit corporation is to

**2-7**

The three most common forms of business ownership are sole proprietorship, partnership, and corporation.

make a profit for the owners. When the term *corporation* is used on its own, it refers to a for-profit corporation.

A **not-for-profit organization** is a legal entity, like a for-profit corporation. However, instead of profit, its main goal is to achieve something to benefit society. Here are some not-for-profit goals: to raise money for medical research, to protect the environment, and to provide outdoor camping experiences for children. Not-for-profit organizations are also called *non-profit organizations* or *non-profits*.

The goals of a not-for-profit organization usually fall into one of seven categories: social services; recreation and sport; arts and culture; food and health; housing; religion; and education. For example, the Red Cross is a not-for-profit organization. The goal of the Red Cross is to help people keep safe every day and to provide help during emergencies.

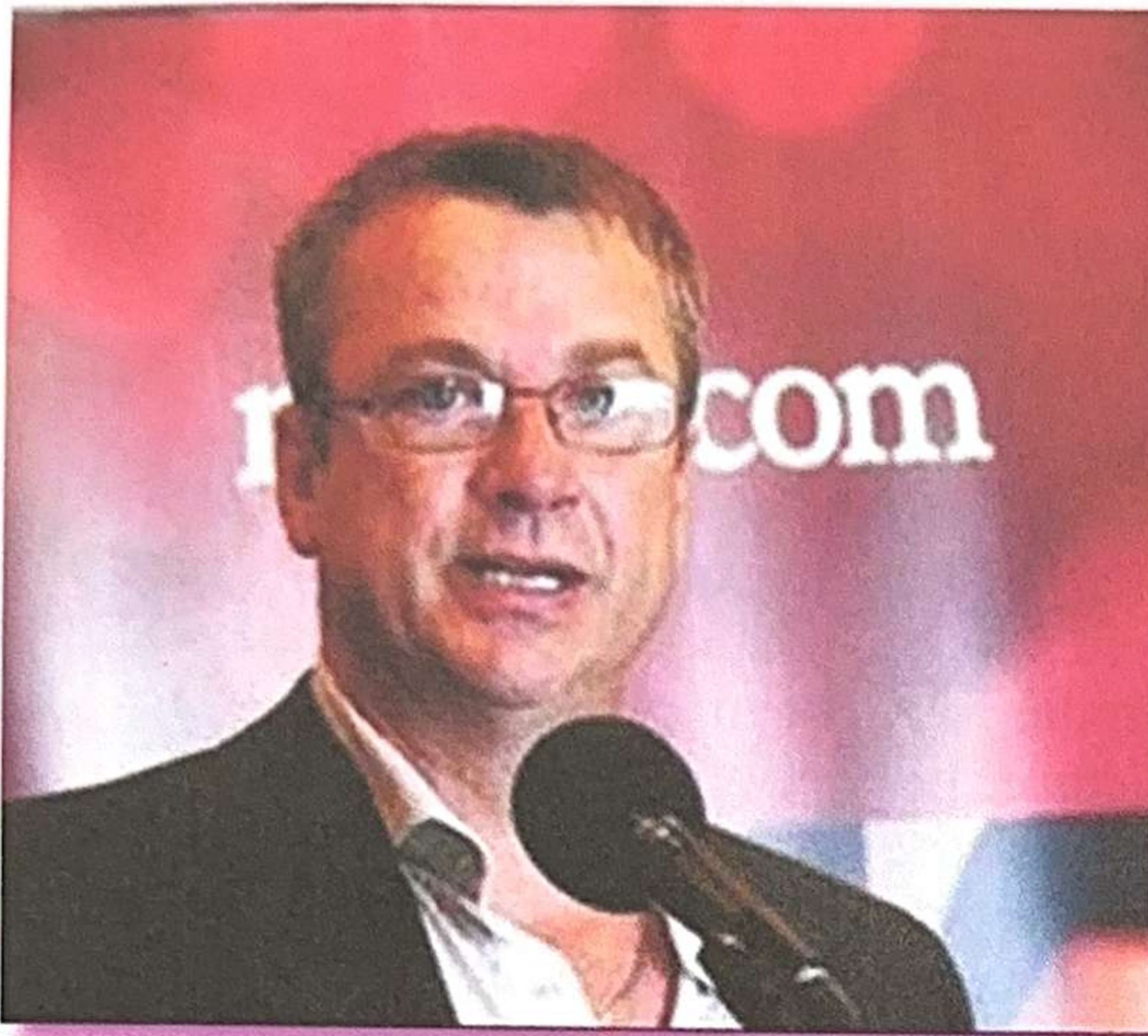
A not-for-profit organization can make a profit, sometimes called a surplus. However, any profit it makes goes back to support the

non-profit goal. There are special laws for not-for-profit organizations. For example, not-for-profit organizations are excused from paying many kinds of taxes.

Spotlight: Aboriginal Businesses in Canada

In Canada, as in other parts of the world, Aboriginal peoples participate in a wide range of business ventures that contribute to the Canadian economy. There are approximately 37 000 Aboriginal businesses in Canada including sole proprietorships, partnerships, corporations, and not-for-profit organizations. Most are owned by Métis and First Nations people. About 2 percent are owned by Inuit.

Aboriginal businesses are well-established in the areas of construction, agriculture, forestry, fishing, mining, oil and gas, 2-8. Other businesses provide services in education, science, and technology. Most Aboriginal businesses focus on their local

**2-8**

Métis entrepreneur Dan Boulard started Ferus Industrial Contracting to provide construction services in northern Ontario. His company handles contracts worth millions of dollars.

community as the primary market for their goods and services. About 25 percent do business on an international scale, selling goods and services to the United States and other countries. According to Sonya Gulati, senior economist at TD Bank Group, Aboriginal small business earnings were close to \$1 billion in 2011.

The Aboriginal not-for-profit sector in Canada also plays an important role in community life. Many Aboriginal not-for-profit organizations work to improve opportunities for First Nations, Métis, and Inuit in areas such as education, employment, health, and housing.

The Functions of Business

Function is a general word for a category of activities. Businesses carry out numerous activities. These activities are often grouped into four functions: (1) production, (2) finance, (3) marketing, and (4) management, 2-9.

Production

Have you ever seen production at a large manufacturing plant? When you think of production, you often think of huge factories and assembly lines of people putting together cars, washing machines, and TVs. **Production** is any activity related to making a product (good, service, or idea). Production includes farming, mining, construction, and manufacturing. Production also includes the work done at a TV station in preparing a program for broadcast. For services, production is often the service itself, for example, cutting and styling hair.

Finance

Businesses handle a large amount of money. Businesses handle the money that customers pay them. Businesses pay for raw materials and business services. Businesses pay their employees and taxes. Sometimes businesses borrow money from a bank. The **finance** function of business includes all activities involving money.

An important task of the finance function is planning. The people who work in finance are often responsible for developing budgets. A *budget* is a spending plan. A budget helps the business make sure it has enough money to cover expenses. It also helps make sure that the business is handling its money wisely and making a profit. If a business decides to take a loan, the financing function will plan for the repayment of the loan.

Accounting is one part of finance. *Accounting* handles paying bills, receiving payments, and keeping track of all money that enters or leaves the business.

Marketing

Marketing is the part of the business that focuses on the customer. Marketers are responsible for helping the entire business focus on the needs and wants of customers. The marketing function helps a business follow the marketing concept. You will learn

about the marketing concept in Chapter 3.

Marketing includes many functions. Some of them are selling, promotion, and pricing. The marketing function includes learning about customers so that the business can develop products that customers want and are able and willing to buy. Marketing then promotes and sells the products to customers. Marketing also follows up to find out how satisfied customers are with their products. You will learn more about the functions of marketing in Chapter 3.

Management

Management includes all the activities required to plan, organize, lead, and control

a business. Imagine the school band without a bandleader. What happens to the music? It sounds terrible. Why? Even though each of the musicians is talented, none of them can hear the sound of the whole band. The role of the bandleader is to constantly assess the sound of the whole band. The bandleader then instructs each member how to change to make the sound better. Management in a company plays a similar role. The managers look at the big picture and lead workers to make changes to make the business better. Managers plan, implement plans, and control. (In business, control means to monitor and evaluate results.) Managers also hire, train, and supervise employees.

Four Functions of Business

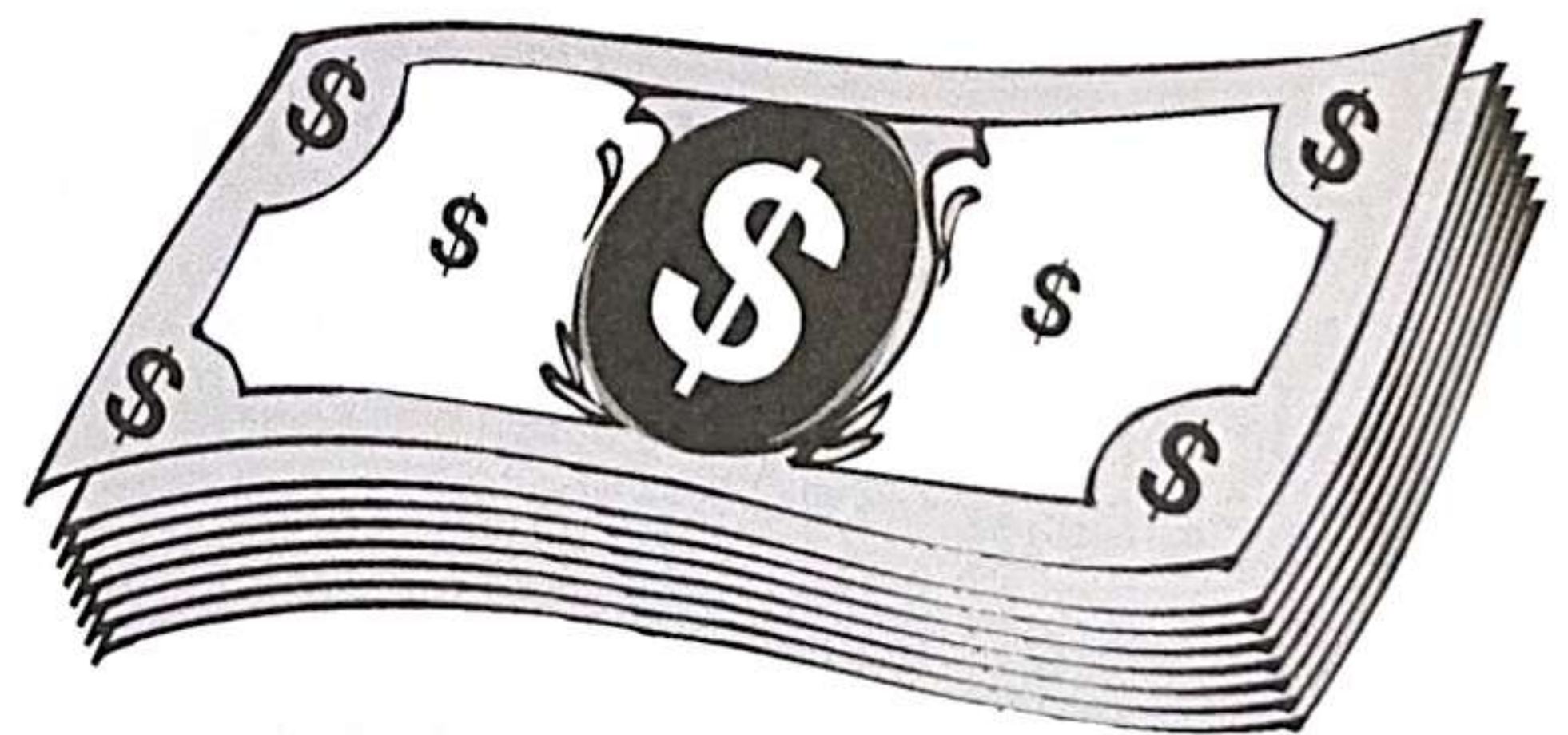
Production

Making goods, services, ideas



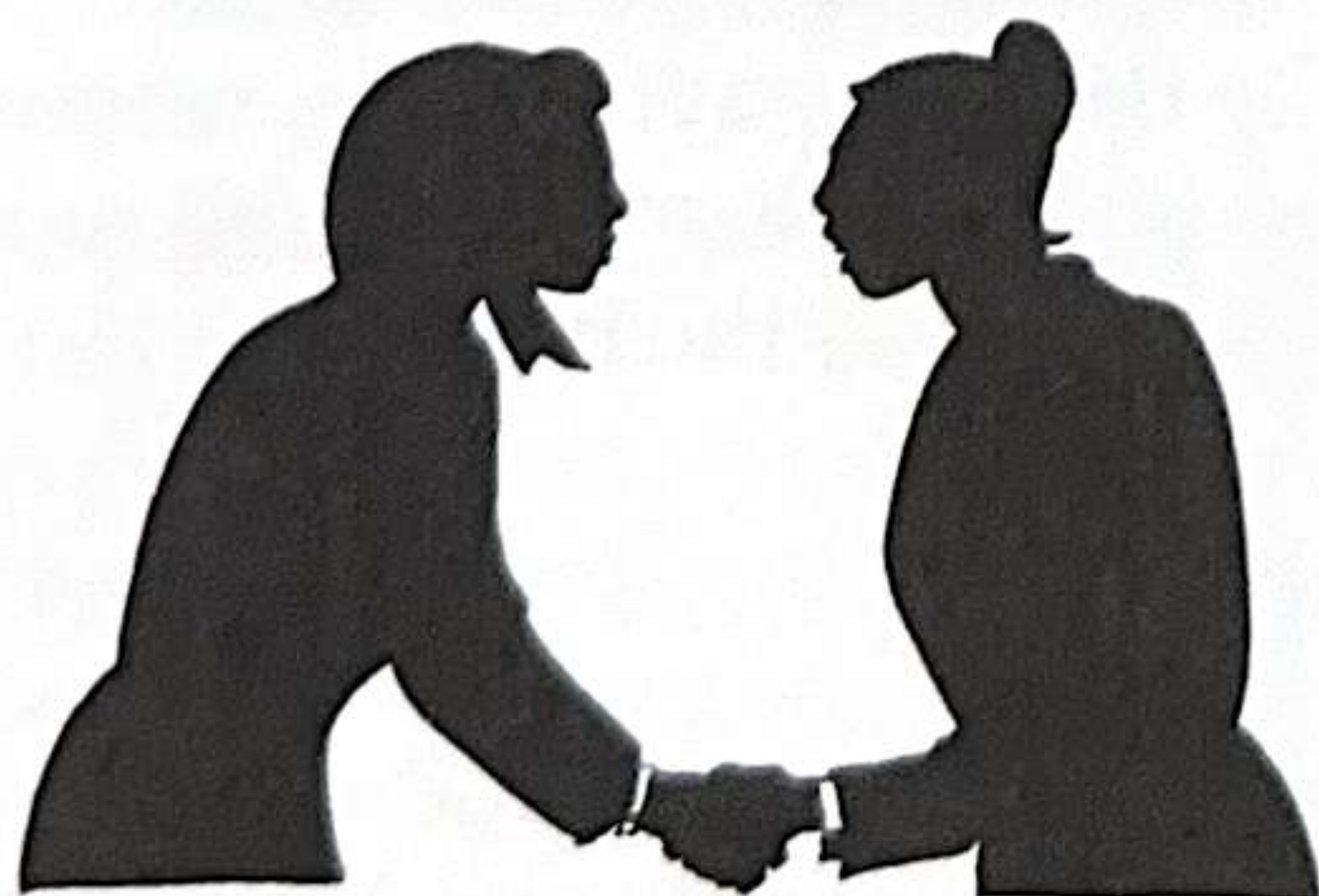
Finance

Activities related to money



Marketing

Activities focusing on the customer



Management

Planning, coordinating, and monitoring



2-9

The four functions of business work together to make a successful, profitable business.

CHAPTER 2 REVIEW

Key Learnings

- Exchange is the basis of all business and marketing.
- Money is used as (1) a medium of exchange, (2) a unit of value, and (3) a store of wealth.
- Business satisfies your economic needs by producing and marketing products that meet your needs.
- The three most common forms of business ownership are sole proprietorship, partnership, and corporation.
- The goal of a not-for-profit organization is to benefit society.
- The four functions of business are (1) production, (2) finance, (3) marketing, and (4) management.
- The role of marketing is to help the business focus on the customer.

Knowledge & Understanding

1. What makes a need an economic need?
2. Give an example of an exchange.
3. Why is money easier to use than barter?
4. Give an example of each of the three uses of money.
5. Give two meanings for the term *business*.
6. What is the main goal of most businesses?
7. Explain the differences among a sole proprietorship, a partnership, and a corporation.
8. True or False: A not-for-profit organization cannot make a profit. Explain your answer.
9. Describe each of the four functions of business.
10. Which business function includes accounting?

Thinking

1. Give examples of how *you* use money as a medium of exchange, a unit of value, and a store of wealth.
2. Draw conclusions about how the time value of money may impact how a consumer uses money as a medium of exchange.
3. Identify three businesses that meet your economic needs or wants. For each business, name the need or want that it satisfies. Then assess how well the business satisfies that need or want.
4. Identify a not-for-profit organization. What is its goal?
5. There are three types of products: goods, services, and ideas. Give an example of a production activity for each.
6. A business needs a loan to buy some equipment. Which business function would handle this activity?
7. A business wants to know if its customers are happy with its products. Which business function would gather this information? Explain.
8. How might people's needs and wants be affected by their gender, culture, race, or religion? For example, do you think you are conditioned to have certain product needs because of your gender? Explain why or why not.

CHAPTER 2 REVIEW

Application

1. Write down one economic need and one economic want that you have. Explain why one is a need and the other is a want.
2. Describe a situation in which barter would be useful.
3. Name an item you own that you would consider selling. How would you value this item? Describe its value if you were bartering for it. Then describe its value in terms of money.
4. Contact a manager of a local business. Find out how the four business functions are handled. Is there a separate department for each function? Get permission to interview one person in each area. Find out the person's job title and what he or she does during a typical day. Assemble the information into a brief report that you can share with the class.
5. Look in the "Businesses for Sale" or "Business Opportunities" section of your local newspaper. Choose a business that appeals to you. Describe the business and why it appeals to you. What type of business ownership would it have?
6. Find a website that helps people barter. Describe the website and how it works. Would you use that website to buy something? Explain why or why not.
7. Describe a business you would like to own. Which type of ownership would you choose? Why? How would you carry out the four functions of business?

Communication

1. Make a chart showing the three types of business ownership. Under each type, list at least three businesses in your community.
2. Look in the "Help Wanted" section of your local newspaper. Find at least two ads for each of the four business functions. Based on these ads, describe the qualifications needed for workers in each of the four functions. Share your results with the rest of the class.
3. Use Internet or print resources to investigate more about the time value of money. How does the time value of money impact consumers? How might the time value of money impact marketers? Write a brief summary of your findings to share with the class.