

Foundations of Business

Mandy Lange and Lisa Mulka



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First Edition

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First Edition

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Introduction

Welcome to Foundations of Business

Daily life revolves around the foundations of business. From meeting people's wants and needs to energizing the local and global economy, the activities performed by businesses have an impact on everyone. Possessing a basic understanding of how businesses function can help you make informed choices about the products you purchase, the companies you buy from, and your future business career prospects.



This text will lead you to an understanding of what a business is, how it operates, and why it is important to society. You will learn how a business is organized and develop an understanding of basic economics and the effects companies have on local, national, and global economic environments. You will also be challenged to think like an entrepreneur as you consider the financial, marketing, and structural components of a business to compile a business plan for your own entrepreneurial venture.

Foundations of Business is part of the **Skills for Life CTE Series**, helping connect classroom learning to a lifetime of real-world success. In this text, you will build core business skills, understand how businesses impact the global economy, and grow in critical thinking and creative intellect. Whether you are exploring options for a future career in entrepreneurship, preparing for postsecondary education, or beginning a journey into a deeper understanding of business, this book will prepare you with skills you will use in the classroom, the workplace, and beyond.

Skills for Life
CTE SERIES

Features

This text contains features to enhance your understanding of business concepts. As new information is introduced, making connections to practical, real-world examples of business practices reinforces prior learning. In the spirit of innovative entrepreneurship that drives a successful business, this book guides you in the creation of a personal business plan. Creative learning assessments are also provided in each chapter.

Real-World Examples

Each chapter is written with real-world examples embedded throughout to bring theoretical concepts and key ideas to life. The text includes references to popular companies to guide readers in connecting theory to real-life business practices.

Student Start-Up

At the close of each chapter, creative entrepreneurship is explored with a challenging assignment to create individual components of a business plan for an entrepreneurial venture. These components will then be compiled at the completion of the book. The Student Start-Up assignments consist of an entrepreneurial simulation in which students follow a real-world example student to help them create each component of a business plan. The real-life example provides direction, formatting, and organization tips for you as you create your own plan.

Application and Evaluation

Key vocabulary terms are bolded throughout the text and clear definitions provide deeper understanding of business concepts. Each chapter ends with a series of questions that enable you to evaluate and apply your knowledge. Short answer questions challenge you to evaluate what you have learned after reviewing the chapters. Reading, writing, speaking, and listening prompts ask you to review and expand your knowledge of business activities.

Career Considerations

Each chapter contains information about a unique career path in business administration, finance, or marketing. By reviewing various skills and responsibilities associated with each profession, you can better prepare yourself for planning professional and career goals.

Business Ties to Technology

Businesses operating in the twenty-first century utilize technology to efficiently and effectively manage operations. Chapters contain ongoing references to the multitude of technologies used in business—from accounting applications to tax-filing tools—and each chapter features a special callout on using technology to manage business functions.



This book correlates to the **Precision Exams Certification** for **Business Concepts** and **Exploring Business & Marketing**. Content from this book aligns to the Standards, Objectives, and Indicators from Precision Exams, enabling you to earn certification demonstrating your proficiency in business concepts. The Precision Exams and the Career Skills™ Certification, Exams, and Standards are the property of Precision Exams, LLC. For more information on certification, visit **precisionexams.com**.

To view the standards correlations for this text, visit **bepublishing.com**.

Understanding the Format of this Book

Foundations of Business is organized into six units and 23 chapters. The following is a brief explanation of the individual sections that make up each chapter in this book. It is recommended that you read this section to become familiar with the format of this book.

Key Terms
Highlighted key terms provide a deeper understanding of business concepts.

Figures
Vital information is illustrated for easy understanding and reference.

Career Connections
Each chapter explores a different business career.

Did You Know?
Chapters include a variety of interesting facts and statistics about business.

Images
Each chapter contains a variety of images that help illustrate the role and functions of business in society.

4 • Defining Private Enterprise

Retailers
Retailers are businesses that buy products from wholesalers and then increase the price of the goods to resell them. For example, a grocery store may purchase bananas for 10 cents per pound from a wholesaler but sell the bananas for 50 cents per pound. Because customers pay more money than the store spent on the good, the grocery store can profit. The role of retailers in a private enterprise system is to sell products they have purchased from a manufacturer directly to consumers.


Retailers in a private enterprise system are free to sell their products to consumers in the way they believe will make them the most profit. They can differ depending on how they choose to sell their products to consumers. Types of retailers include the following:

Specialty retailers
Retailers that carry only a certain brand of product, such as Hollister or Nike

Department stores
Retailers that sell a range of items in a physical store

Supermarkets
Retailers that sell food and other popular products

Online
Retailers that sell products online and ship them to consumers



CareerConnections
Logistician
Supply chain refers to the system of producing and distributing products. Logisticians are key players in distribution chains because they help organize a company's supply chain. When products need to travel from producer, to wholesaler, to retailer, to consumer, logisticians facilitate the process for businesses. Responsibilities of logisticians include:

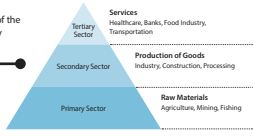
- Managing relationships with producers, wholesalers, and retailers
- Analyzing strategies for transporting products
- Examining customer needs and finding solutions to solve their problems
- Facilitating distribution of products and materials
- Reviewing cost efficient ways to increase productivity through distribution

Tertiary Sector
The tertiary sector of the economy is also known as the service sector. The **tertiary sector** is a category of businesses that provide services to the economy, rather than goods as the primary and secondary sectors do. Service businesses include healthcare organizations, banking institutions, and restaurants.


There are also trade industries in the tertiary sector that include services based on specialized skills, such as builders, plumbers, and electricians. Tertiary sector businesses may also be involved in the transportation of goods between businesses in the primary and secondary sectors. For example, a trucking company that drives wholesale food across the country to retail grocery stores is involved in the tertiary sector.

The tertiary sector relies on human resources more than any other sector. As a result, most people are employed in the tertiary sector. Tertiary sector businesses are divided into for-profit and not-for-profit businesses. Recall from Chapter 2 that not-for-profit businesses are companies that are created to benefit a public interest, and a for-profit business is an organization that generates income for its owners. See Figure 4.3 for a summary of all sectors of business.

FIGURE 4.3
Sectors of the Economy



Source: businessinsider.com





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5 • Defining International Business

Did You Know?
The World Bank is an organization that provides funds to low-income countries. It aims to decrease world poverty by facilitating the development of agriculture and technologies.

Images
Each chapter contains a variety of images that help illustrate the role and functions of business in society.

When one business purchases international goods, the company may have to convert its currency to another form. This is done in a process using the **exchange rate**, the amount one currency is worth in another form of currency. All currencies are not worth the same amount—that is, they have different worth in different forms. This is due to the concept of supply and demand of money. The exchange rate fluctuates, but it is determined by the following factors:

- Interest Rates**
Recall from Chapter 3 that the interest rate is a percentage of a loan that is charged to the borrower incrementally. Interest rates rise when demand increases, meaning there is more demand for goods in a country. This demand drives the value of currency up. Likewise, low interest rates are an economic indicator that demand for money is low, which means the value of currency decreases.
- Inflation**
Inflation is an increase in prices and fall in the purchasing value of money. High inflation affects currency because it decreases the value of money—meaning there is an oversupply of money making it worth less to foreign countries. If a country has relatively low inflation, the value of money is relatively unaffected in a foreign transaction.
- Government Debt**
Countries with a large amount of national debt can see their currency affected in an exchange rate. This is because governments often borrow against their own debt, owing other countries money. High debts can also be a sign of inflation, meaning currency supply has increased and is worth less because a country cannot pay off its debt.
- Balance of Trade**
Recall from earlier in the chapter that balance of trade is the difference between a country's imports and exports. Balance of trade affects exchange rates because when countries have a trade deficit (when they are importing more than exporting), the value of their currency goes down. The balance of trade as it applies to currency is known as the current account.


The exchange rate impacts the domestic economy by affecting its expenses and revenue. For example, if one US dollar equals 63 rupees, the US is making one dollar per 63 rupees. As the value of the rupee rises and falls, US businesses will make more or less money accordingly. The more money a country's currency is worth, the more money it will bring in from foreign exports.

Productivity
Productivity can have a profound impact on profits. The concept of productivity is a measure of economic output in terms of a worker's input. When more work is accomplished with less time and effort, productivity increases and waste decreases, so businesses aim to be as productive as possible to maximize profit.

For example, a company that creates custom coffee mugs may discover that they make 12 mugs a day when their workers design mugs by hand. That limits their revenue to the sale of 12 coffee mugs per day. But if that company has their workers use computer design technology to create the mugs, they could make 48 mugs per day. The result is that more product is created using the same amount of work, meaning the business can make greater sales without having to increase their expenses much—beyond the investment of the computer design technology. In this way, profits increase due to increased productivity.

FIGURE 4.7
$$\text{Revenue (amount earned)} - \text{Expenses (amount spent)} = \text{Profit}$$

Business Ties to Technology
Due to technological advances, businesses have found new and efficient ways to deliver goods and services to people, resulting in new industries developing. One of these industries is the telehealth industry, which consists of companies who deliver medical services to customers using technological advancements. Some telehealth companies connect people to their doctor's office through an application that allows them to request appointments, message a nurse, and view their test results. Other companies arrange videoconferences between patients and doctors, or offer personal training through video messaging. The telehealth industry is an example of how changing technology can lead to an entirely new category of business.

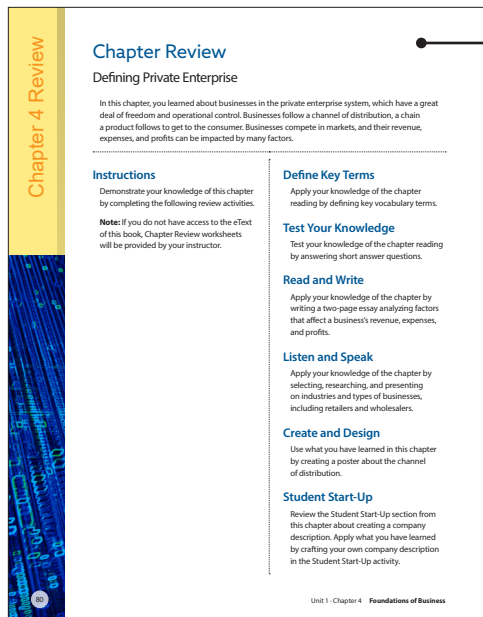
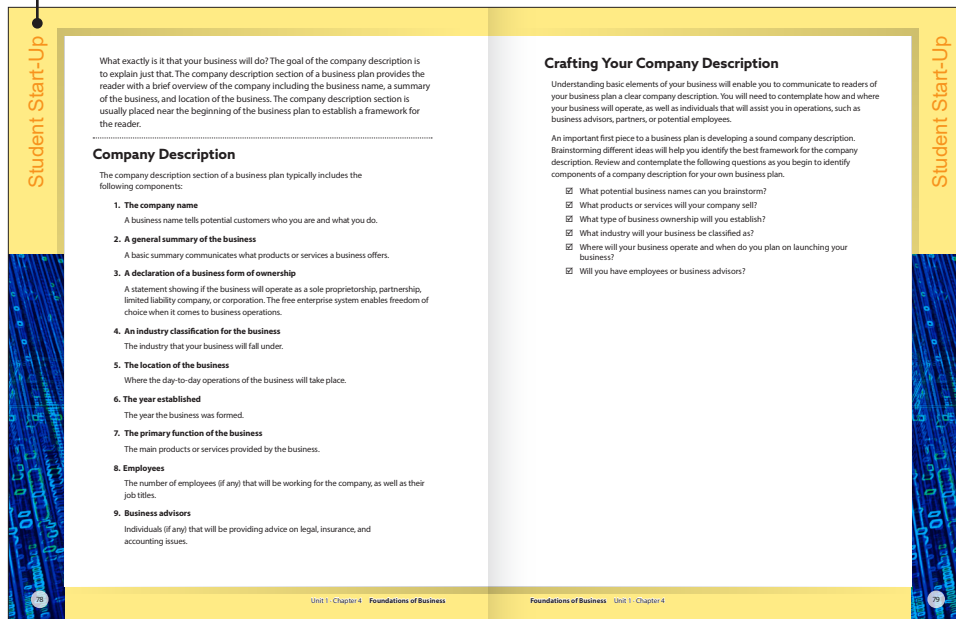


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Business Ties to Technology
Chapters contain reference to the multitude of technologies in business.

Student Start-Up

Each chapter highlights information on one component of a business plan with a prompt to guide readers in developing their own plan.



Chapter Review

Each chapter concludes with a series of hands-on activities that test students' knowledge of key terms, abilities to respond to a writing prompt, the application of problem solving and critical thinking skills, and capabilities to demonstrate creativity and innovation. Each Chapter Review includes the following activities:

Define Key Terms

Students define the key terms presented in each chapter, helping them to prepare for the Chapter Assessment.

Test Your Knowledge

Students demonstrate their comprehension of chapter topics by completing a series of short answer questions.

Read and Write

Students apply their understanding of the concepts presented in the chapter by responding to a writing prompt.

Listen and Speak

Students demonstrate their knowledge of the chapter by planning and presenting an informal presentation.

Create and Design

Students utilize creative thinking skills and develop innovative ideas in designing and creating a variety of documents related to business activities.

Student Start-Up

Students create components of a business plan that will be assembled and reviewed in a portfolio at the end of the book.

Unit 1

Business & Economics

Chapter 1

Examining Business and Economics

Chapter 2

Understanding Characteristics of Business

Chapter 3

Understanding Characteristics of Economics

Chapter 4

Defining Private Enterprise

Chapter 5

Defining International Business

Chapter 6

Exhibiting Ethical and Lawful Practices

asset
business
business activity
business ethics
business plan
customer
economic activity
economic resource
economic system
economics
entrepreneur
good
investment
liability
market
need
net worth
product
profit
service
standard of living
tax
wage
want

Chapter 1

Examining Business and Economics

Our daily lives revolve around the foundations of business—every store we visit, building we enter, or car we drive was made possible because of a business. Even if we are unaware of it, our daily decisions are influenced by the combination of business and economics. The impact of business is far reaching and, as you will learn in this chapter, it is a necessary catalyst for a functioning economy.

Objectives

After reading this chapter, you will be able to:

- ☑ Explain the function of businesses
- ☑ Understand how businesses benefit society
- ☑ Explain how economics relates to business

Introduction to Business and Economics

Consider the day you have experienced so far. Are you sitting in a building or a park? Did you grab fast food or make yourself a lunch? Did you ride in a car, on a bike, or walk on a sidewalk? No matter what you answered, you've been impacted by a business in some way today. Businesses play an important role in your life. The car or bike you rode was likely made by a business that specializes in transportation. The sidewalk, building, or park you used was built by a business organization. The lunch you ate was made available to you by a business in the food industry. As you progress through this chapter, you will be introduced to some of the key concepts of business, many of which will be discussed in greater depth in subsequent chapters.

The concept of **business** refers to the aspects of making, selling, and providing products in exchange for money. A **product** is anything that can be bought or sold. We also use the term business to describe a specific company or organization, such as Amazon or Walmart. Because we interact with businesses on a constant basis, understanding their nature is critical to making wise choices regarding your finances, employment, and well-being.



Businesses function within an **economic system**, an organized way in which a state or nation distributes its resources and provides goods and services to the community. To fully understand the nature of business, it is important to have an understanding of economics. **Economics** is the science of how individuals, businesses, and governments make decisions about satisfying unlimited wants with limited resources. It is a science that examines the production, consumption, and transfer of wealth.

Your daily spending decisions are influenced by the combination of business and economics. For example, when you earn money from working a job, you make very specific choices about how to spend it. Do you spend your earnings at restaurants or food from a grocery store? Do you shop at a local retail store or on an international website? Understanding fundamental economic and business concepts can help you make the best choices for your finances and well-being. It may also help you obtain a foundation for future employment in the business world.

CareerConnections

Chief Executive Officer (CEO)

The position of Chief Executive Officer (CEO) is a prominent one: Mark Zuckerberg (Facebook), Mary Barra (General Motors), Jeff Bezos (Amazon), and Indra Nooyi (PepsiCo) are just a few of the famous names leading some of the world's largest companies. If you think you have what it takes to start, lead, and grow your own company, you may want to learn more about what it takes to become a CEO.

A CEO is typically viewed as the main person in charge of a company. Although there are various levels of management that help a business function effectively, the CEO has the power to make the most important decisions regarding the direction of the business. Depending on the size of the company, the CEO has different responsibilities—for smaller companies, the CEO has direct influence over hiring and smaller financial decisions, but in larger companies the CEO usually only oversees the company's growth or vision. Some of the responsibilities of a company's CEO include the following:

- Deciding the company's vision and direction
- Balancing economic resources
- Making ethical corporate decisions
- Creating a positive and productive workplace culture

Business Activities

The goal of a business is to earn money by making a profit. A **profit** is the financial gain calculated by the difference between amount earned and amount spent by a business. For instance, you may be familiar with the company Microsoft, which created the popular computer operating system Windows. Microsoft has created many programs that have changed the way we use computers, but its chief purpose is to make money so it can continue to stay in business and pay its employees. Businesses need to profit in order to function. Otherwise, they couldn't afford to continue operating. Anything a business does that helps it generate a profit is called a **business activity**. There are three types of business activities detailed below and in *Figure 1.1*.

Operational Activities

Operational activities make up the majority of daily activities conducted by a business. They include operations that contribute to the net worth of a company. **Net worth** refers to the total value of a business determined by assets minus liabilities. **Assets** are what a business *owns*, while **liabilities** are what a business *owes*. Items such as bank accounts, land, and equipment are considered assets. A company's loans and debts are liabilities. Operational activities may include production of products, research into improving products, and hiring employees.



Business owners categorize operational activities into business functions. Business functions are four forms of operational activities that play necessary roles in running a business. They include finance, production, marketing, and management.

Production

Production functions involve all activities concerning the creation of products. Recalling the example of Microsoft, some of its production functions may include developing new software, hiring new software engineers, or fixing bugs within current software.

Marketing

The marketing functions of a business serve to ensure the business is meeting the demand of its customers and able to compete with other companies. Research into competitors, analyzing trends, and social media marketing are all important business functions that keep a company performing effectively.

Management

Daily choices about the direction of business activities are part of the management function of operational activities. They can include leading employees, supervising work, or planning the future of a business.

Finance

Financial functions, also known as financial activities, are any daily activities that involve money. Financial functions might include budgeting, paying employees, collecting money from sales of products and programs, or performing accounting procedures.

As a company grows or shrinks, its net worth is affected in the same way. For example, think back to the company Microsoft. It started as a small company that interpreted codes. With few employees and limited technology, it had minimal assets and many liabilities, which meant that fewer operational activities were performed.

As it grew into the household name of computer software it is today, Microsoft gained many more assets, more money to pay off its debts, and thousands of employees with jobs to perform to ensure the company can compete with other software companies. Computer programmers, information technology professionals, graphic designers, and other employees perform daily operational activities to help Microsoft continue to expand.



Investing Activities

Investing activities refer to investments a business makes. Making an **investment** means using money to create wealth over time and is achieved through investment vehicles such as stocks, bonds, mutual funds, and real estate, among others. For example, businesses can conduct investing activities by purchasing a building or placing money into investment vehicles.

Businesses may also make investments into updating premises or materials. A small computer programming company, for example, might invest in technology updates to be able to complete tasks with greater efficiency. The company may make this investment into new technology so that over time their employees would be able to complete additional operational activities more accurately and efficiently.

Financial Activities

Financial activities involve the input and output of money into a business. Activities include paying suppliers and employees for the work or products they have provided. Financial activities also involve collecting money from sales and investments a business makes.

Consider the financial activities of a company like Microsoft. For every program or device Microsoft sells, money is brought into the company. That money has a variety of uses. It could be used to pay employee salaries, maintain premises, or advertise the latest products. The revenue could be used to pay the companies from whom they purchase small computer or tablet parts, or to sponsor an event. Because there are so many inputs and outputs of money for a corporation as large as Microsoft, accountants monitor the company's expenses closely. You will learn more about the financial activities of corporations in Chapter 2.

FIGURE 1.1

| Operational | Investing | Financial |
|------------------------|---|-----------------------------|
| Production of products | Purchase of maintenance | Collecting money from sales |
| Providing services | Purchase of buildings | Repaying debt |
| Research | Providing loans to providers or customers | Selling stock |
| Administrative duties | Buying stock | |
| Customer service | | |
| Hiring employees | | |



Nintendo, one of the biggest video game companies in the world, didn't make video games originally. Nintendo started in 1889 to manufacture card games in Japan.

Source:
lifewire.com

The Role of Business in Society



Apple doesn't make the iPhone itself. It relies on many international suppliers to manufacture the phone and make its parts. One of the suppliers for Apple uses for the screen of its iPhone X is Samsung: its rival in the smartphone industry.

Source:
bbc.com

Profiting is essential to a business, but that does not mean that businesses only exist to benefit their owners. Businesses play critical roles in the advancement and progression of our world. Reflect on the earlier example of Microsoft and their goal to earn a profit. The computers and software created by Microsoft, including word processing and spreadsheet programs, have given people tools to grow, connect, and prosper. Thanks to their technology and pioneering in the field of computer science, a generation of children have grown up learning to type and connect on a computer or mobile device. Microsoft isn't alone in advancing society. Countless businesses have innovated, improved, and played a vital role in our lives. Businesses have three crucial roles in society: (1) providing products to customers, (2) creating markets, and (3) increasing economic benefits.

Providing Products

Recall that a product is anything that can be bought or sold to meet a customer's want or need. Think about the last item you purchased at a supermarket. Did the store provide you with something you needed, such as food, or something you wanted, such as a bundle of flowers? A **need** is something essential to survival, whereas a **want** is something we desire but could ultimately live without. Needs include food, shelter, and clothing. A smartphone and the internet are wants—it's hard to imagine, but we could live without them.



Products provided by a business are either goods or services. The differentiation between goods and services is that **goods** refer to tangible items that are produced and sold to consumers, such as clothing or groceries. A **service** refers to the performance of a particular task in exchange for money. For example, a painter provides a service in coming into a home and painting the walls. Businesses sell their products to **customers**, people who purchase the goods and services businesses offer.

Creating Markets

Businesses play an important role in society by enabling goods and services to be bought and sold. Places where goods and services are exchanged are called **markets**. By creating markets, businesses provide people with the opportunity to get what they want or need. For instance, think about the last purchase you made. Whatever good or service you purchased, the transaction was made possible through a marketplace.

There are many different types of marketplaces. Marketplaces can be physical places, such as the grocery store, or they can be virtual, like a website or phone app. There are also specialty markets, or places where the goods and services being sold are industry specific. For instance, a butcher specializes in selling meats—you would not likely find paper goods like toilet paper or paper towel for sale within this specialty market. This is in contrast to a broader marketplace, such as a grocery store, that would likely sell meat alongside paper goods. For more information on markets in the US economy, refer to Chapter 3.

Increasing Economic Benefits

Businesses greatly impact local, state, and national economies. One of the most significant contributions a business makes in the economy is offering employment. Businesses hire employees to execute tasks and, in turn, pay them **wages**—money earned in exchange for work. When people have employment, they can use their wages to purchase goods and services from other businesses, and the economy thrives.

Businesses also pay a large portion of taxes. A business's profits are subject to **tax**, or mandatory payments to the local, state, and national government for public services. Taxes provide funds to help run many public spaces and services, as well as support social welfare programs. The more money a business makes, the more they contribute through taxes to support public services such as the improvement of schools or infrastructure development and road improvements.

When employment is high, people have more money to spend on goods and services. Thriving businesses contribute to an elevated standard of living for their community by making more goods and services available to customers. **Standard of living** refers to the level of wealth, material goods, and necessities considered to be essential to an individual or group in a particular geographic area. The standard of living enjoyed by populations varies within each city, state, and country, and the definition of having “enough” varies among different populations. Consumer spending involves making choices as to what to buy, how much to buy, and how much we are willing to pay for goods and services.



The Relationship between Business and Economics

You make many decisions before you make a purchase from a business. You consider whether or not the good and service is worth your money for the quality or quantity you will receive. Spending your money is one way you participate in economic activity. **Economic activity** refers to the production, distribution, and consumption of goods and services. Both businesses and consumers play a part in economic activity. For businesses to be successful, they have to understand the choices their consumers make and account for those choices in the distribution of their products.

Familiarity with economics can help a business make the best possible decisions to satisfy the wants and needs of consumers with a limited amount of resources.

Economic resources are the goods and services businesses use to meet consumer wants and needs. Businesses rely on the concept of economic resources to get what they need to produce products or provide services. Economic resources are divided into three categories: land, labor, and capital.

Land

Land resources include all of a nation's natural resources, or raw materials found in nature. Timber, water, plants, fossil fuels, and animals are examples of valuable land resources. The drawback to these resources, however, is that they run out quickly and are difficult to renew. Companies have to utilize land resources strategically in order to meet consumer demands and maintain the integrity of natural resources. One controversial example of overtaxing land resources is the use of fossil fuels. Oil companies need to extract fossil fuels in order to create gas and oil to sell. Because fossil fuels take thousands of years to form, they cannot be replaced as quickly as they are used. For this reason, companies make careful choices about how and where they extract fossil fuels.

Labor

Labor, or human resources, is the human work used to produce consumer goods and services. Any service a person does for a company is labor. This can include sales people selling goods, a painting contractor painting a deck for a homeowner, or human resources employees interviewing potential candidates. Companies may choose to outsource some of their labor to other countries in order to operate in the most cost effective manner. While most managers look for skilled employees, they also have to consider which laborers they can afford to hire. For example, some technology companies might make a financial decision to contract information technology workers from another country because they can pay lower wages to their international employees than to local workers.



Capital

Capital refers to the equipment a business uses to produce goods and provide services. Buildings and machinery are two common sources of capital a business uses in its daily operations. The capital used by a business is very important because a business needs to ensure that its employees can work in a safe environment. For example, a construction company must use safe and sturdy materials and machines that won't put their workers or the public in unnecessary danger. If they neglect to test their equipment to make sure it works safely and properly, they could be subjected to a lawsuit.

The wants and needs of consumers are unlimited, but economic resources are limited. For this reason, businesses have to make intelligent decisions about which products to create, buy, and sell. A sound understanding of economics can give businesses an edge to compete in today's dynamic market.



Business Ties to Technology

Business ethics refers to the moral and social responsibility of businesses to demonstrate ethical behavior in their policies and decision-making. Employees of a business are expected to adhere to moral and ethical standards inside and out of the workplace.

A modern ethical dilemma in business involves social media. In today's technological world—where communication is instant and often impersonal—it is important for users of digital media to keep in mind that actions, online and otherwise, affect others. This is especially important in a business setting because businesses are expected to maintain a standard of integrity to benefit people and society at large.

With social media use, for instance, there may be a significant difference between what is acceptable to post at (or about) work and what you would post in your personal time. Complaining about your coworkers, sharing details about patients, or posting about private company matters are all violations of business ethics. Many companies now monitor their employees' social media activities to ensure ethical behavior.

With the widespread usage of smart internet technology, understanding business ethics is more important than ever as a current or future employee. Review your company's policies for using the internet at home and at work, and refrain from posting anything that could jeopardize your company's commitment to upstanding moral behavior.



Throughout this book, you will learn about the different components that make up a business plan. You will explore possible business ventures to pursue for a business and entrepreneurial simulation and create your own business plan. To get started, learn about the functions of a business plan below and the importance of brainstorming interests and skills.

What is a Business Plan and Why Have One?

A **business plan** is a series of documents that serve as a blueprint for building a business. An **entrepreneur** is a person who organizes, operates, and assumes the risk for a business venture. A business plan includes information about the business, the industry in which it competes, its products and services, its customers, its competitor, and its finances. Creating a business plan allows entrepreneurs to develop a vision for a new business or assess the current status of an existing business. A plan also enables a business to attract potential investors, acquire funding, and develop new customers.

It is important to understand that most business plans are not identical. In fact, depending on the type of business, business plans can vary greatly. For instance, a business plan for a retail store may include details about inventory, whereas a service-based business may not require an inventory overview. Although business plans vary, the most common components are listed below. You will explore these components in detail throughout each chapter of this book.

Cover Page

Includes the company name, address, author, and date

Executive Summary

The first section of a business plan that summarizes what the business is and how it plans to profit

Company Description

Provides details about the business, including age, history, legal form of ownership, industry classification, structure, location, number of employees, and primary functions

Description of Products and Services

Details the products and services offered to customers

Market Analysis

Explains conditions and trends in an industry, including the target market, demographics of target market, and competitive analysis

Marketing Plan

Plans for maintaining and building the customer base, pricing, promotion, and advertising plans

Social Media Marketing Plan

Establishes a plan for creating and maintaining an online business presence through social media

Operating Plan

Details the operations of the business, from acquiring materials and supplies to the distribution of the products and services to customers

Funds Required and Expected Uses

Detailed plans for the use of any funds and plans for repayment if a loan is necessary

Financial Statements

Includes a profit and loss statement, balance sheet, and cash flow projections

Owner's Credentials

Provides the owner's resume listing professional and work experience

Supplemental Attachments

Contains additional documents and marketing materials to provide readers with a better vision of the business

Brainstorming Business Ideas

If you've never considered becoming an entrepreneur or what it would be like to explore your own business venture, it can be difficult to know where to begin coming up with business ideas. There are many factors to consider when choosing a business to start and run. It is helpful to think first about your interests and abilities. For example, if you like taking pictures, you could consider starting a photography business. If you are skilled at working on computers, you could consider launching a computer repair business. A simple way to choose an idea for an entrepreneurial venture is to build upon a skill or talent that you already possess.

Review and contemplate the following questions and then complete the Student Start-Up activity to analyze different business ventures and choose a business for the simulation:

- ☒ What do you like to do?
- ☒ What are the talents that you possess and enjoy?
- ☒ Do you like working with people?
- ☒ What do you know a lot about?
- ☒ Where are your strengths?
- ☒ What goods or services do you enjoy as a consumer?
- ☒ What needs do you observe in your community?

Chapter Review

Examining Business and Economics

In this chapter, you learned about the concept of business and which activities a business must undertake to operate successfully and make a profit. Businesses use economic resources to benefit society by providing products, creating markets, and generating economic benefits. Understanding the relationship between business and economics can help you to make informed decisions throughout your life.

Instructions

Demonstrate your knowledge of this chapter by completing the following review activities.

Note: If you do not have access to the eText of this book, Chapter Review worksheets will be provided by your instructor.

Define Key Terms

Apply your knowledge of the chapter reading by defining key vocabulary terms.

Test Your Knowledge

Test your knowledge of the chapter reading by answering short answer questions.

Read and Write

Apply your knowledge of the chapter by writing an essay illustrating how economic resources are related to businesses.

Listen and Speak

Apply your knowledge of the chapter by selecting, researching, and presenting on business activities.

Create and Design

Use what you have learned in this chapter to create and design a poster showcasing a real-world entrepreneur.

Student Start-Up

Review the Student Start-Up section from this chapter about developing business ideas. Apply what you have learned by completing the brainstorming exercise in the Student Start-Up activity.