Entrepreneurship 3209

Business Basics

- **Profit vs Non Profit organizations**
  - **Profit = income**
  - **Profit organizations operate with making a profit being its goal**
  - **Non-profit organizations do not seek a profit and operate for the good of the community**
- **Expenses**
  - **Expenditures that are involved in running a business (e.g. wages, paper, ink)**

Business Basics

- **Revenue**
  - **The total amount of money a business takes in**

- **Revenue – Expenses = Profit (or Loss)**

- **Solvency**
  - **The ability to pay you debts and meet financial obligations**

Business Basics

- **Small or medium sized business (SMB)**
  - **Fewer than 500 employees**
  - **Over two million SMBs in Canada, employing 60% of the private sector workforce**

Forms of Business Ownership

- **Sole Proprietorship – owned by one person**
- **Partnership – usually owned by two or more partners**
- **Corporation – business is an ‘artificial’ person created by law and is owned by shareholders**
- **Co-operative – owned by its workers or by members who buy from the business**
- **Franchise – one business licenses another to use its name, operating procedure and so on; as a hybrid, can have any form of ownership**

Business Basics

- **Goods – Items that can be seen or touched and, if attractive enough, bought!**

- **Services – Assistance provided, usually in return for a payment, that satisfies needs and wants**

- **Channels of distribution:**
  - **Brick and mortar stores – Wal-Mart**
  - **Telephone**
  - **Catalogues**
  - **Internet**

Next…Topic 1: Essential Concepts in Business

3 Parts:

1. **Relationship between consumer needs and wants**

2. **Relationship between supply, demand and price**

3. **Economic Sectors**

Unit 1

Topic 1.1

CONSUMER NEEDS AND WANTS

Consumer Needs and Wants

- Read pp 16-17 ‘Consumer Need and Wants’

- **<u>Need</u> – An item necessary for survival**
    - **Examples include: Food, clothing or shelter**

Consumer Needs and Wants Con’t

- In this context, we’re referring to physiological needs

Consumer Needs and Wants Con’t

- **Want – An item not necessary for survival but that adds pleasure and comfort to life**
  - **Examples include: ??**

- Thinking about wants vs. needs, how would you now describe what a business is?

Consumer Needs and Wants Cont'd

- **A <u>business</u> can be understood to be the process of using resources to provide a good or service to meet consumer needs and wants with the intent of earning a profit**

- How does the way you meet your needs and wants differ from your parents? From your distant ancestors?

Consumer Needs and Wants Cont’d

- **Economic Systems (the way people meet their needs and wants):**
  - Substance;
  - Barter; and
  - Market economies

Consumer Needs and Wants Cont'd

- **Substance (or Subsistence) Economy**
  - **an economy which is not based on money**
  - **in which buying and selling are absent; and**
  - **which commonly provides a minimal standard of living**
  - People provide their own needs and wants through physical means (catch/grow their own food, build their own shelter, etc)
  - Typically only found in *very* isolated regions as well as in your history books

Consumer Needs and Wants Cont'd

- **Advantages of a substance economy:**
  - Your food can't get any more organic!
  - **Very sustainable – they consume only what they need; relying on the renewable nature of the world**
  - **Greed, while undoubtedly present, is minimalized**
  - Can you think of any more?

Consumer Needs and Wants Cont'd

- **Limitations of a substance economy:**
  - **Very low standard of living**
  - **Would not produce many advances in technology** (typically only tools that met only our needs and not our wants)
  - **Very few wants would be met**
  - Can you think of any more?

Consumer Needs and Wants Cont’d

- **Barter Economy:**
  - **A method in which goods and services are exchanged for other goods and services**
  - **In today’s world it is rarely the only system in any one society (usually have both a market place and bartering)**
  - E.g. In Spain there is a growing number of exchange markets. These barter markets work without money. Participants bring things they do not need and exchange them for the unwanted goods of another participant. Swapping among three parties often helps satisfy tastes when trying to get around the rule that money is not allowed.

  - Can you think of any local or regional shops that barter?

Consumer Needs and Wants Cont’d

- **Advantages of Bartering Economy:**
  - **Environmental impact – rather than disposing unwanted goods, many are reused**
  - **You don’t have to spend extra money**
  - **If you are not bartering for a profit, you do not have to pay income tax**
  - **Inflation (how the prices of items increase) has no affect**
  - Can you think of any more?

Consumer Needs and Wants Cont'd

- Limitations of Bartering Economy:
  - **Absence of a common measure of value – with money, it is easy to figure out what something is worth.**
  - **Indivisibility (cannot be sold in pieces e.g. car, washer) of certain goods - If Person A wants a washer and Person B wants dishes and Person A does not haven enough dishes to equal the worth of a washer, a trade cannot be done.**
  - **Taxation – You are taxed if you barter for a profit**
  - Can you think of more?

Consumer Needs and Wants Cont’d

- **Market Economies**
  - This is the economy we are most familiar with
  - **An economy in which decisions regarding investment, production, distribution and prices are based on supply and demand**
  - Money is introduced here
  - **Everything is given a monetary value**
  - **Creates much more wealth than the other systems**
  - Has brought us into the world we live in now

Consumer Needs and Wants Cont'd

- **Advantages to Market Economies**
  - **Money flows to where it will get the greatest return, which causes the economy to grow (greater wealth in society)**
  - **If you have a great idea that meets the wants of consumers, it is possible to build great wealth**
  - **Has helped society build an overall greater quality of life**
  - **Allows for so many wants to be met**
  - Can you think of any more?

Consumer Needs and Wants Cont’d

- **Limitations to Market Economies**

  - **With consumption really high, there is negative environmental impact**
  - **For those who choose not to participate, have poor luck, or do not have a skill set to meet the demands of the world, poverty can be harsh**
  - **Some argue it places too much importance on meeting wants as opposed to needs**

  - Can you think of any more?

2

DEMAND AND PRICE

Supply, Demand and Price: Establishing a talking point

- In order to understand the complexities of supply and demand, it is important to first discuss how consumers can influence products, price, and services.

- Read pp 10-14
  - Complete questions 5-9

Supply, Demand and Price

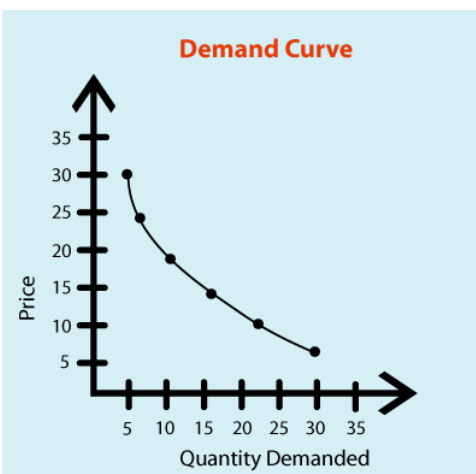
- Supply
  - **The quantity (amount) of a good or service that <u>producers</u> can provide**
  - **determined by the costs of producing it and by the price people are willing to pay for it**
- Demand
  - **The quantity of a good or service that <u>consumers</u> are able and willing to buy**

Supply, Demand and Price

Law of Demand

- The economic principle that demand goes up when prices goes down; and, conversely, comes down when prices go up

See figure 1.3 on pg 28



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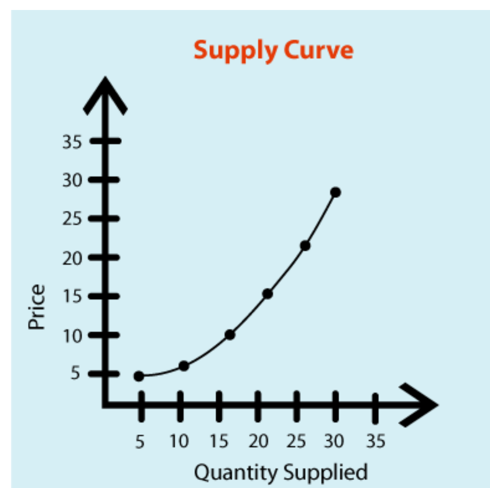

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Supply, Demand and Price

Factors That Can Increase or Decrease Demand

- (Table 1.2, pg 29)

(1) Changing Consumer Income

- As income increases, people tend to buy more than before. Ex: A cabin, or more electronics.
- However, the opposite may be true as well. E.g. With a larger income one may buy less groceries as they may eat at restaurants more often.
- **In either case, they choose to spend more on WANTS.**

Supply, Demand and Price

(2) Changing Consumer Tastes

- Increase or decrease.
  - EX: Fashionable items, fads…these change over time.

(3) Changing expectations for the future

- If consumers think that prices or income will increase, they will often purchase more
- The opposite is true as well, when they anticipate a decrease in price or income
  - Ex: Someone is more likely to purchase something when they anticipate a raise. Also one is less likely to purchase a video game console if the price is rumoured to decrease.

Supply, Demand and Price

(4) Changes in population

- An increase in population results in the demand in many sectors. This is particularly true when segments of population see a large increase in population.
- Ex: If the number of senior citizens in a town increases greatly, the goods/services they demand will reflect the change.

Supply, Demand and Price

- Also consider:
  - Availability of substitutes
    - If people can find a good replacement as a better price, there may not be as much demand for certain other products.
    - Ex: Buying "store brand" vs. brand name
  - Time period of adjustment
    - Ex: People are not likely to buy new gaming consoles if they were to release new ones every few months.

Supply, Demand and Price

- Factors That Can Increase or Decrease Supply
- (Table 1.2, pg 29)

(1) **Changes in Number of Producers**

- An increase in producers will increase supply – if demand remains the same, price will drop!

(2) **Changes in Price**

- If prices decrease then people may stop producing it.
  - Ex: If cod prices fall, fishermen will catch other species of fish

(3) **Changes in Technology**

- Changes in technology can reduce the cost of production, encouraging more businesses to start producing.
- Ex: Computer circuits are continually getting smaller and smaller, so producers can make more with the same amount of materials.

Supply, Demand and Price

(4) Changing Expectations for the Future

- Many producers attempt to predict economic conditions and consumer demand for *two to five* years in advance. Ex: Automobile companies
- They increase or decrease supply accordingly.

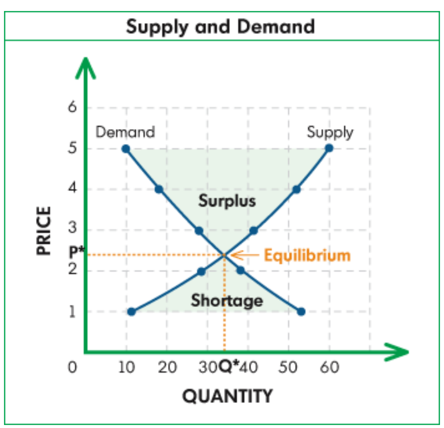
(5) Changing Production Costs

- If a local baker owner finds a lower cost for ingredients, they can produce more goods for the same cost.
- The opposite may be true as well, should the supplier increase costs

Supply, Demand and Price

- **Relating Price to supply and demand**
  - If demand is high while supply is low, prices tend to be high
  - If demand is low while supply is high, prices tend to be low

  - When the quantity of goods that a producer is willing to supply at a certain price matches the quantity of goods that consumers are willing to buy at that price, then the **equilibrium price** has been met



Why would there be a shortage and surplus as indicated in the diag diagram?

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ECONOMIC SECTORS

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economic sectors

- Economic activity can be categorized in many ways, depending on purpose
- When considering ownership the classifications public and private are typically used
- Another classification that is frequently used organizes businesses according to what type of economic good is produced. These are:
  - Primary industries;
  - Secondary industries;
  - Tertiary industries; and
  - Quaternary industries

economic sectors

- **Primary Industries** - Involves the extraction and production of raw materials

  - Includes the following industries: fuel and energy, logging and forestry, water, agriculture, mining, fishing and trapping



economic sectors

- **Secondary Industries** - Involves the transformation of raw or intermediate materials into goods

- e.g. manufacturing steel into cars, or textiles into clothing

economic sectors

- **Tertiary Industry** - Involves the provision of services to consumers and businesses
- - E.g. baby-sitting, banking, server

Today's Babysitter

"I'm sorry, sir . . . I don't give suggestions any more."

THE SATURDAY EVENING POST

economic sectors

- **Quaternary Industry** - Involves the research and development needed to produce products from natural resources (and its by-products)

- consists of those industries providing information services, such as computing and information technologies, consultancy (offering advice to businesses) and R&D

- In the quaternary sector, companies invest to ensure further expansion. It is seen as a way to generate higher margins or returns on investment

- E.g. A logging company might research ways to use partially burnt wood to be processed so that the undamaged portions of it can be made into pulp for paper; education; financial planning