Chapter 1
Motives and Functions of a Business

Key Terms and Concepts
A business is an enterprise that provides products or services desired by customers.

The goal of a business is to be profitable!

Profit = Revenues - Expenses

Profits go to the business owners and are a major incentive and reward for success.

Annual Report Excerpts
• Walmart – “Everything we do is designed to build shareholder value over the long haul.”

• Zenith Electronics – “We are not promising miracles, just hard work with a total focus on why we’re in business: to enhance stockholder value.”

• Coca-Cola – “We create value for our share owners, and that remains our true bottom line”

Learning Objectives
• Introduce key terms and concepts
• Identify the key stakeholders that are involved in a business.
• Outline resources used to produce products/services.
• Understand the impact of the business environment.
• Key business functions and decisions.

Goal of Managers
• Maximizing the firm’s value.

Five Key Stakeholders in a Business

Owners:
Organize, manage, and assume risk of starting a business.

Creditors:
Provide loans to start businesses.

Employees:
Hired to conduct the business operations.

Suppliers:
Provide the materials needed for production.

Customers:
Buy products which satisfy their needs.
Stakeholder Interaction

Resources Required for Production

To produce a product or service, firms rely on these factors of production:

- Natural Resources
- Human Resources
- Capital
- Entrepreneurship (intangible)

Business Environment

- We cannot control the business environment!

  - Social Environment
  - Industry Environment (micro)
  - Economic Environment (macro)
  - Global Environment

Key Functions of Business

- Management
  - Means by which employees and other resources are used by the firm
- Marketing
  - Means by which products and services are developed, priced, distributed, and promoted to customers
- Finance
  - Means by which firms obtain and use funds for their business operations

Key Functions of Business

- Accounting
  - Summary and analysis of the firm’s financial condition
  - Used to make various business decisions
- Information Systems
  - Information technology, people, and procedures that provide appropriate information to make effective decisions

Common Business Decisions

- Management Decisions
  - What equipment is needed?
  - How many employees should be hired?
  - How can employees be motivated to perform well?
Common Business Decisions

• Marketing Decisions
  – What price should be charged?
  – Should the product be changed to be more appealing to customers?
  – Should the firm use advertising or some other strategy to promote its product?

• Finance Decisions
  – Should financial support come from the sale of stock or from borrowing money or some combination?
  – Should the firm attempt to obtain borrowed funds for a short-term or long-term period?
  – Should the firm invest funds in a new business project?

Business Decisions and Earnings

Lessons to Remember

• Successful businesses do not require a great invention.
  – Many focus on making life more convenient for customers.
  – Some business ideas will fail—but entrepreneurs can learn from failures and make revisions.

Looking Ahead