

## *Chapter 1*

### **Motives and Functions of a Business**

### **Learning Objectives**

- ➊ Introduce key terms and concepts
- ➋ Identify the key stakeholders that are involved in a business.
- ➌ Outline resources used to produce products/services.
- ➍ Understand the impact of the business environment.
- ➎ Key business functions and decisions.

### **Key Terms and Concepts**

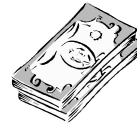
A **business** is an enterprise that provides products or services desired by customers.

The goal of a business is to be **profitable!**

$$\text{Profit} = \text{Revenues} - \text{Expenses}$$

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

### **Goal of Managers**



- **Maximizing the firm's value.**

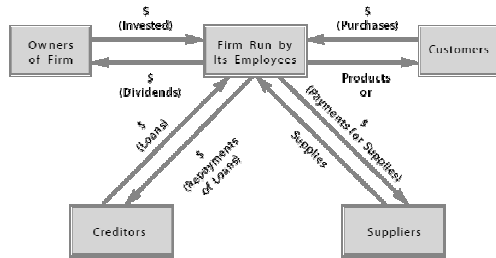
### **Annual Report Excerpts**

- 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”

### **Five Key Stakeholders in a Business**

- ➊ **Owners:**  
Organize, manage, and assume risk of starting a business.
- ➋ **Creditors:**  
Provide loans to start businesses.
- ➌ **Employees:**  
Hired to conduct the business operations.
- ➍ **Suppliers:**  
Provide the materials needed for production.
- ➎ **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

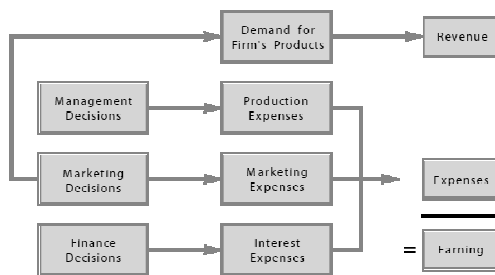
- What price should be charged?
- Should the product be changed to be more appealing to customers?
- Should the firm use advertising or some other strategy to promote its product?

## Common Business Decisions

### • 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

