

## Chapter 2 :: Business in our Economy

### Section 2.1~ Business Activities

#### Jump Start

Brianna and Brittney started their cookie business knowing that consumers would like their special cookies, and they were right—they are successful. They decide to expand their business by adding a line of cakes using a special recipe they developed with a honey base. They let customers taste samples of their cakes in stores, and the customers love them. Now with cookies and cakes to make and sell, they change the name of their expanded business to B&B Bakery. With a larger business, more employees, and more sales, it is even more important than before that Brianna and Brittney keep things running smoothly. What basic business activities must they perform to be successful?

#### Types of Businesses

U.S. consumers buy goods and services from many kinds of businesses. You and your family might buy produce from farmers' markets or supermarkets and clothing from stores in shopping malls. You might buy a variety of merchandise over the Internet. You use the service of a computer repair store to repair your computer or printer. Businesses buy goods and services too. They buy products to resell, raw materials to use in producing products, and supplies to help them operate. Both consumers and businesses buy goods and services from three major types of businesses in our economy: producers, intermediaries, and service businesses.

#### Producers

Businesses that create products used by individuals and other businesses are called *producers*. If they take resources from nature to make their products or for direct consumption, they are referred to as **extractors**. Examples of extractors are oil refineries, coal and copper mines, and lumber mills. Farmers are another example because they cultivate land and use other natural resources to grow crops and raise livestock for consumption. A major group of producers is **manufacturers**, businesses who get supplies from other producers and convert them into their own products. Automobile companies are a good example of a manufacturer.

Many business activities start with products provided by producers. For instance, a builder gets started with lumber, equipment, and other materials to begin building a house. A computer company obtains a variety of components and parts from various manufacturers in order to assemble its computers.

#### Intermediaries

Businesses involved in selling the goods and services of producers to consumers and other businesses are referred to as **intermediaries**. They provide an important function in our economy. The most common types of intermediaries are retailers and wholesalers. A *retailer* sells products directly to consumers at a place of business. A *wholesaler* is an intermediary business that sells the products of a manufacturer or extractor to a retailer. Some intermediaries help in distributing and selling products and services. Specialized

intermediaries include trucking companies, railroads, storage centers, advertising centers, sales offices, and data processing centers.

### Service Businesses

Many businesses do not make products that we can see or handle. They offer something that is intangible, but that is nevertheless important. Instead of offering products for sale, a **service business** performs activities that are consumed by customers. Examples of typical service businesses include doctors, lawyers, accountants, painters, baby sitters, landscapers, dentists, and pet sitters. Types of service businesses that have emerged with the electronic age include web designers, Internet service providers, and online travel agents. Both businesses and consumers use service businesses.

### Business Activities

A business must operate efficiently to stay profitable regardless of its size. One business might be large and complex and operate on a global basis while another is small and operates in just one community. Although there are many types and sizes of businesses, all must perform the following six basic business activities in order to be successful.

### Generate Ideas

A business starts with a new idea for a product or a service. The idea could be a simple but new way to carry out an ongoing business process. It should improve what is being done and offer something that is better than what is available now. Competition in the marketplace demands that what is being offered is at least as good as or better than what the competition is offering. In that way, the consumer can select the best product or service for the best price. Research and development departments of large companies work full time to discover new products, services, and operating ideas. In small companies, managers keep abreast of new developments by reading trade publications and attending trade shows and seminars.

### Raise Capital

The need for capital resources to operate a business is critical. This is especially true for small businesses. When the economy is in a downturn or a recession, it is often very difficult for small business entrepreneurs to obtain start-up capital.



When are ideas likely to lead to successful products or services?

Governments at times offer stimulus packages or other incentives to help small businesses. Financial resources are needed to purchase buildings and equipment, hire and train employees, obtain licenses, and obtain items needed for day-to-day operations.

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### **Buy Goods and Services**

Goods and services may be bought for resale or for use by a business. The owner of a men's clothing store, for instance, must buy shirts, slacks, suits, and coats to sell in the store. The store owner also needs a cash register, display cases, and other supplies. Examples of services that businesses purchase include advertising space in a newspaper or magazine and web page design.

Businesses that manufacture products must buy raw materials needed for their production process. Buying raw materials such as wheat, oil, plastic, steel, or chemicals is an important activity in operating a business. Manufacturers of automobiles purchase supplies such as tires, air bags, air conditioning units, batteries, and transmissions that are installed on the assembly lines.

### **Employ and Train Personnel**

The most important resource for a business is people—it cannot operate without them. Except for one-person businesses, all businesses need to have a system for carrying out activities that attract, employ, and train employees. Human resources activities include recruiting, interviewing, and hiring employees. New employees receive training so that they perform their jobs correctly. Further training becomes necessary when procedures change, new tasks are added, or new technology is introduced.

Managing human resources requires knowledge of equal opportunity laws, health and safety regulations, and employee rights on issues such as promotions, transfers, layoffs, and firings. Except in very small businesses, these activities are carried out by a human resources department.

### **Market Goods and Services**

Marketing activities are directed toward providing the kind of product or service consumers desire. Without good marketing, even the best products and services might not be known and, therefore, not purchased by consumers.

Many marketing activities begin before a product is produced and ready to sell. Marketers assist in designing and developing products based on what they learn about customers' needs and wants. Marketers have skills and knowledge on how to present the qualities of the products and services to the general public or to a specific target audience.

## Maintain Business Records

All businesses must have some type of recordkeeping system so that owners and managers know the financial standing of the company. Computer technology is used extensively to produce a variety of reports useful in analyzing financial data related to the company's performance. The failure to keep adequate records is a major reason why some businesses fail.

Owners and managers need financial data and reports to track performance and make decisions. Customers need information about orders and payments. Governments require businesses to submit employment and other tax-related information. Computer programs help make recordkeeping easier and more accurate and also allow access to information on a timely basis.

## Think Critically

1. If you were to start any one of the three types of businesses, and had access to all the resources needed, what kind would you start? Why?
2. What do you think are some of the reasons why service businesses are the fastest-growing sector of the economy?
3. Which activity that a human resources department performs do you think is the most important? Why?
4. If you were a business owner, what would you want to know about your business that could be provided by records? Make a list of those things.
5. **Business Math** *Separation* refers to an employee who has left a business, whether the employee has quit or was fired. Employment records for three businesses are as follows:
  - Gizmo Inc.: 700 employees, 56 separations;
  - WidgeCo: 1,800 employees, 108 separations;
  - Techno Builders: 1,200 employees, 78 separations.

Calculate their employee turnover rate percentages.

Turnover rate = Number of separations / Number of employees

Turnover rates:

Gizmo Inc. \_\_\_\_\_

WidgeCo \_\_\_\_\_

Techno Builders \_\_\_\_\_

Company with the highest rate of separation: \_\_\_\_\_

Company with the lowest rate of separation: \_\_\_\_\_

Why would these numbers be useful to human resource people?