

What Is Business?

by Sophia



WHAT'S COVERED

When you hear the term, "business," what do you think of? Do you think of businesses in general? Do you think of the study of business, like we're doing now? Do you think of a small mom and pop grocery store down the street, or perhaps a larger company? This tutorial will cover the meaning of the term "business," and provide an overview of the basics of business. Our discussion breaks down as follows:

1. What Is Business?

1a. What Do Businesses Do?

1b. Why Study Business?

1c. Profit vs. Losses

2. The Free Enterprise System

3. Basic Economics of Business

4. Entrepreneurship

1. What Is Business?

A **business** is simply an organization that attempts to earn a profit through the sale of goods or services. Those goods or services can be practically anything you can think of, but what they all have in common is that they fulfill a need or a want in our everyday life.

⇒ **EXAMPLE** Needs may include things like food, clothing, or shelter; while wants could be something like the brand new Sea-Doo, or the latest model car or electronic device--things that we don't necessarily need to survive, but we want.



TERM TO KNOW

Business

An organization that attempts to earn a profit through the sale of goods or services.

1a. What Do Businesses Do?

Businesses help do several things that add value to individuals' lives and to society as a whole, such as:

- Improving our quality of life by fulfilling our wants and needs and by providing goods and services that we consume every day.
- Providing a choice for what it is we want to buy. Do I want to buy a Mac, for example, or do I want to buy a PC?
- Providing opportunities, not only for us as consumers, with the wide array of products that we have to choose from, but also for new startup companies to enter the market and exploit a niche in the market, a gap in those wants and needs that they see. They also provide opportunities for jobs for people like you and me.

1b. Why Study Business?

What is important about business? Well, the study of business impacts your job and your job search, regardless of the field that you're in. Understanding what's going on around you and the terms of business not only helps you to be a better employee, it also helps make you a more valuable and more sought-after employee.

In addition, it helps you to be a better consumer. Understanding the terminology of business can help you understand, for example, if you are getting a good deal on a loan or not.

1c. Profit vs. Losses

Two important aspects of all businesses are profit and losses.

- **Profit:** This is what remains after all business expenses have been deducted. In order to continue, a business must be able to make money or create something of equivalent value for its owners and investors
- **Loss:** This is when expenses become larger or greater than sales or revenue.

Profits are always good. Losses, as you can probably guess, are not. A profit means you're being successful, and you're able to pay your employees and grow your business and stay in business. A loss means you may not be in business for very much longer.



TERMS TO KNOW

Profit

When revenue and sales are greater than expenses, there is a profit.

Loss

When expenses are greater than sales, there is a loss.

2. The Free Enterprise System

The **free enterprise system** is defined as a market system with little control and regulation of the business by the government. In this capitalistic system, consumers are free to choose what products they want to buy, what

wants or needs they want to fulfill, how they want to fulfill them, and how much they want to pay for those services.

By doing this, they help guide something called the "invisible hand." Now, the invisible hand was an idea that was first introduced by a man named Adam Smith in his famous book, *The Wealth of Nations*.

By "invisible hand," we refer to the hand that guides the market in a free enterprise or capitalistic system. There's no central authority or central planning that tells the market what it produces and where it sells it and for how much. The consumers and the businesses make that choice by signals they get from each other.



TERM TO KNOW

Free Enterprise System

A market system with little control and regulation of business (by the government).

IN CONTEXT

Take the humble pencil, for example. Think about what it takes to make a simple pencil and put it in your hand.

You have to find the wood, the graphite lead, and the rubber and the metal for the erasers. You have to find places to process all of those things--to manufacture it, to deliver it, and to sell it. Then, you have to have all the support that goes along with all those employees for each individual business.

All of this happens without any central authority telling it what to do. It's pretty amazing, if you think about it.

3. Basic Economics of Business

When discussing the basic economics of business, the first thing we want to look at is the difference between microeconomics and macroeconomics.

Microeconomics is an area of economic study that focuses on specific markets, choices, and behaviors that affect price, cost and demand.

⇒ **EXAMPLE** Think of microeconomics as that individual transaction you have with everyday business. It refers to those small things, like how much can a business charge before the consumer stops buying? How much is a consumer willing to pay? How much of something will they want to buy and how often will they come back to buy it?

Macroeconomics, on the other hand, is a wider field of study. It's an area of study that focuses on the impact of variables on economic infrastructure in its entirety. This can be on a regional, national, or global level.

⇒ **EXAMPLE** If you listen to the business news, you'll hear references to terms like the consumer price index, or coverage of what the market's doing, or what the Federal Reserve (Fed) wants to do with interest rates, by increasing or decreasing the amount of available money in the market. These are all things that have to do with the economy of the United States as a whole, and that is the macroeconomic view or larger picture.



Microeconomics

Focus on specific market



Macroeconomics

Focus on a regional, national, or global level



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4. Entrepreneurship

Entrepreneurship tends to attract highly creative people that are growth- and expansion-focused. What they do is to help fill these unfilled needs and wants within the market. They help drive that invisible hand that we were talking about earlier.

An **entrepreneur** is a person who pursues a business venture with growth and expansion as a primary goal.



HINT

Just because you start a business, doesn't necessarily mean you're an entrepreneur. Growth and expansion are going to be one of your primary goals in order to be called an entrepreneur by this definition.

Consider the following examples of entrepreneurship.

Entrepreneur	Business	Story
Levi Strauss	Levi Strauss and Company	Levi Strauss partnered with a man called Jacob Davis to start the Levi Strauss and Company. They identified what was a need at that time, and they helped fill that need.

		Workers back in the late 1800s were going through clothes very rapidly. They were ripping and tearing, and they used denim to patch those holes. First, they created a set of coveralls. Then, they created a set of jeans that lasted much, much longer. They filled that need to have durable clothing. Over time, the company has grown not only to provide a need--clothing--but also to provide a want, like those 501's that consumers want to have.
Arianna Huffington	Huffington Post	<p>Arianna Huffington found a niche in the market. In this case, the gap in the marketplace that they found stemmed from the fact that the <i>Drudge Report</i> was wildly popular, but there wasn't a liberal version of it to report that side of the news. Therefore, that's what the <i>Huffington Post</i> became. They focused on daily trends within the news.</p> <p>They didn't worry about how many articles, necessarily, that they had; they simply put their resources into all of them. What they found was that they were getting home runs every once in awhile. They didn't worry so much about the misses because the home runs were what established their name. Basically, they found something that worked, and they put resources into it.</p>



TERM TO KNOW

Entrepreneur

A person who pursues a business venture with growth and expansion as a primary goal.



SUMMARY

Today we looked at **what business is**. We defined this thing we call business, including what it does and why we study it. We learned about the dynamics of profit and loss, as well as the free enterprise system. We learned about **the basics economics of business**, discussing the microeconomic and macroeconomic view of the economy in general. Lastly, we learned about **entrepreneurship**, those highly creative people who are growth-focused and fill those gaps in the market to help drive the "invisible hand."

Good luck!

Source: Adapted from Sophia instructor James Howard



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Loss

When expenses are greater than sales - there is a loss.

Microeconomics

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Profit

When revenue and sales are greater than expenses - there is a profit.