

College Guild  
PO Box 696, Brunswick, Maine 04011

# Introduction to Business

## Unit 1 of 6

### Defining a “Business”

Welcome to the College Guild course **Introduction to Business!**

**Overview:** A sidewalk lemonade stand run by children. Walmart, with its more than two million employees. What do these two things have in common? They are both businesses. In this course, we will discuss critical concepts related to business and what makes for a successful one.

What exactly is a “business” and what are its goals? What are the key jobs needed to make a business run, and what are the different ways a business can succeed? How does a business measure success anyway? What does it take to start a business from scratch? We will dive into these questions and more, as well as take a look at some of the most famous businesses in history along the way.

#### Guidelines for all College Guild courses:

1. **Answer all the questions that are in bold print, using black or blue ink or dark pencil if possible.** After we receive and review your completed unit, we will send you feedback from your reader along with your original work and the next unit. You don't need to return the questions – it saves us both postage.
2. There is **no specific deadline** to complete any unit, but we would get concerned if we hadn't heard back from you after two months.
3. Remember how often the mail service loses things. **If you don't hear back from us after a month, please write to make sure we received your unit** and sent out the next one.

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Important! Most questions in this course are essay questions and have no single correct answer.

#### Glossary of Terms:

1. **Consumer** – any person who buys goods and services for their own use.
2. **Offshoring** – moving the production of goods to foreign countries where labor is cheaper, in order to lower manufacturing costs.
3. **Profit** – money gained by the business after paying its expenses; the difference between the money earned from sales and the money needed to provide the product/service.
4. **Revenue** – total money a business collects from selling its products or services within a specific timeframe, usually a year.

## Part 1: Defining a “Business”

What exactly is a “business?” The dictionary offers this definition: *a business is an entity providing and selling a good to a customer with the intent of making a profit.* We can dive into each component one by one:

- An entity can be an individual person, a group of people or a large organization
- A good can be a physical product or a service. More on this below.
- Like the business entity, the customer can be a person, a group of people or a large organization
- Profit is the money gained by the business: basically, the difference between the money earned from the sale and the money needed to provide the product. More on this below.

The oldest known businesses existed about 3,000 years ago in India and China, where early business-people formed groups to buy and sell goods, to enter into contracts, and to own land. But the importance of business continues today. It’s hard to appreciate how important business is to human society as we know it, since it is so tied into how we all live, work, and play. Imagine your life today, and consider what it would look like if businesses did not exist. Take your breakfast, for example: unless you yourself grew (or hunted) what was on your plate, the food you ate was produced and sold by a business. It was also likely transported to where you are by a different business. Yet another business made the forks, spoons and plates you used to eat. Most areas of modern life are impacted in some way by businesses.

### 1. What about your life would be different if businesses did not exist? Would your life be better or worse?

There is a common phrase: “money is the root of all evil.” But by the definition above, the intent of business is to make a profit, or money. Does this mean that all businesses are evil? What about a business like a lemonade stand run by children on hot days? We can safely assume that not all businesses are evil, and indeed for many businesses, making as much money as possible is not the only goal.



Bill Watterson, Calvin and Hobbes

## Goals of a Business

Beyond making money, a business can have several goals. To understand these, it is helpful to think about the different “stakeholders” of a business. A stakeholder is anyone who has an interest in the business succeeding; the main categories of business stakeholders are:

- Owners: people who own the business
- Employees: people who work for the business to make and sell the its products
- Customers: people or groups who buy products from the business
- Suppliers: people or groups who provide the inputs needed to make the business run

Foot Locker was started in 1974, starting with one store selling shoes in the City of Industry in California. The company now has annual sales of \$8 billion and **profit** of almost \$500 million, which creates a lot of value for its owners. The company is also focused on creating value for its other stakeholder groups: Foot Locker provides tremendous value for its employees, by filling over 30,000 jobs in its 3,000+ stores worldwide. The company creates value for its customers by providing shoes and apparel that help those people to perform better in sports, or to look their best wearing the latest trends. Foot Locker also creates value for its suppliers (Nike, Adidas and others) by providing popular stores for customers to see, try on and buy their products. By looking at its impact across all its stakeholder groups, you could argue that a business such as Foot Locker is creating an overall positive impact on our larger society, and not just making money.

- 2. Which stakeholder group is the most important for a business to create value for? Why?**
- 3. There are sometimes instances when a business acts to serve one stakeholder group, which can cause conflict with the interests of another group. Please describe an example of such a case, either real or fictional.**
- 4. Imagine you are the CEO (Chief Executive Officer, or top person in charge) of that company. Please write a short letter to the employees of the company describing how you would deal with the situation.**

Companies set their goals according to which stakeholders they see as most important. These days, many businesses are expanding their goals to include higher purposes beyond serving direct stakeholders. For example, the clothing company Patagonia is committed to improving the environment, and donates all of its profits to environmental causes while actively promoting eco-friendly practices like reusing and recycling old goods instead of throwing them away. Warby Parker is an eyewear company that, for every pair of eyeglasses it sells, will donate a pair to someone in need. Yet other companies work to champion the empowerment and employment of historically marginalized groups, such as women and minorities.

- 5. What is one higher purpose that you think businesses should dedicate themselves to? Why is the one you chose more important than others?**

## Categories of Business

Businesses come in many different shapes, sizes and types. The most common ways to categorize businesses are based on the following:

What goods it sells: Products vs. Services

- Products are generally tangible items: things that customers can physically touch and hold. Examples: food, books, cars.
- Services are activities: actions the company performs for the customer's benefit. Examples: cooking food, cutting hair, flying a passenger plane.

Who it sells to: Business-to-Business ("B2B") or Business-to-Consumer ("B2C")

- B2B businesses are companies that sell products or services to other businesses. Example: Nike selling its shoes to Foot Locker.
- B2C businesses sell directly to individuals, or **consumers**. Example: Foot Locker sells shoes to shoppers.

Who owns it: Public vs. Private

- Public companies have stock that is bought and sold on a public marketplace like the New York Stock Exchange. Any person or group with enough resources can buy stock in a company and become a partial owner of that company. Most public companies are large corporations, with multi-million dollars of annual sales.
- Private companies may issue stock and have shareholders, but their stock is not traded on public markets.

Monetary Goal: For-Profit vs. Not-for-Profit

- All businesses are For-Profit! As stated above, all businesses exist (at least in part) to make a profit.
- Not-for-Profit entities (or "Nonprofits") are not technically businesses, even though they may operate like them. These organizations exist primarily for a larger social good (example: to combat homelessness); making money can also be a goal, that is not the main goal for nonprofits.

There are advantages and disadvantages to each type of business mentioned above. For instance, one drawback for a product-based company is it may need to pay for the design, manufacture, transport and storage of its products many days (or even years) before it can sell the products. On the other hand, a disadvantage for service businesses is they typically rely on specially-trained employees to perform its services for customers, staff that may be in short supply.

- 6. Please list three examples of product-based businesses and three examples of service-based businesses (the examples can be real or fictional).**
- 7. If you were to start a business, what type of business would it be? Why? Choose one or more of the characteristics listed above.**

### The Functions within a Business

Whether a business is made up of just one person or has more than two million employees like Walmart, there are critical functions that all businesses must complete. "Functions" are activities that must be performed for a business to achieve its goals. In a small company, one person may perform many or even all of these functions. On the other hand, a huge corporation may have dedicated groups, each with hundreds of employees for executing each function. We will quickly define each function below, and the rest of the course will explore these in more detail.

The main business functions include:

- Production / Operations – this function is the core of the company, as it focuses on making the product or providing the service that is being sold. Without this function, the business would have nothing to sell.
- Marketing – the marketing function promotes and sells the business's product to customers. This activity defines who are the right customers to go after, how to reach them, and how best to talk about the product being sold.

- Finance & Accounting – these functions focus on the management and tracking of all the money in a business: how money is made, how it is saved and how it is spent.
- Management – any business uses resources (money, inventory, teams of people) to operate. Management is the process of planning and organizing those resources to drive the business towards its goals.
- Strategy – all successful businesses have a plan. The strategy function is the process of setting a business plan to set a vision for the company's future, to overcome competitive threats, and to grow.

Just as the human body can live only if many different organs work together, all of these functions must work together for a business to succeed. Different businesses may be stronger at specific functions than others, and this rest of this course will give examples of businesses with different areas of strength. However, a business that runs well will have all the above functions taken care of, and it is very difficult to say one is more important than the others.

- 8. Many companies have a person (or several people) dedicated to the management of other people. What do you think are the key personality traits and skills that would make a person a good manager?**

It is very hard for new businesses to succeed, because there are so many functions that must be done well. In fact, 1 out of 5 new businesses fail in the first two years, and only ½ of new businesses survive until their 5th year.

- 9. In small businesses, oftentimes one person will be responsible for all of the above business functions. Do you think this helps or hurts the business's chances for success? Why do you think that?**

### Measuring Business Success

Defining success within business is the same as within any other area: it depends on what the goals are. We have already established that the core goal of any business is to make money, so the most basic and frequently used measures of business success are related to the ability to make money:

- Revenue, or sales, measures the total money a business collects from selling its products or services within a specific timeframe (usually a year). Companies with higher **revenue** are generally seen as more successful: they make more products and serve more customers than smaller ones do.
- Profit, also called income, is the money gained by the business, and is a key measure of business success. Profit equals the company's total revenue *minus* the company's total costs. Profit can be distributed to the business's owners, or can be reinvested into the company to expand operations, hire more people, or to strengthen other areas of the company. Successful companies are typically very profitable, but many successful businesses have been unprofitable (where costs are greater than revenues) while in their early stages, with the expectation they will grow large enough to become profitable once they are established in the near future.
- Growth refers to the increase in a business's revenue over time, and is expressed in %-age terms. In business, bigger is better, and growth measures how quickly a company is getting bigger. Growth can be achieved through different means, including expanding into new markets or introducing new products or services.

- 10. Which do you think is a better situation: a business with low profits with sales that are growing quickly, or one with high profits but sales are shrinking? Why?**

Businesses typically have other goals beyond making money, so other measures are also commonly used to measure success. Here are a few examples:

- Headcount is the total number of employees working for a business at a specific point in time. As with revenue, higher headcount is usually seen as better: companies with more employees have more resources and have created more jobs for society. However, businesses can also be seen as having too much headcount if their costs are too high or their staff is not productive.
- Market Share measures the competitive strength of a business in its market, and is expressed in %-age terms. For instance, if Foot Locker sold half of all the shoes sold in the US, the company would have 50% market share of the US shoe sales market. A business with high market share indicates it is winning vs. the competition, perhaps by selling a better product, offering better service or selling for lower prices.
- Brand Recognition measures how well the business is known within its likely customer base. Sticking with Foot Locker as an example: if 7 out of every 10 shoe buyers know of Foot Locker, the business has 70% brand recognition with potential customers. A business's brand recognition is tied closely to its size and its ability to market itself effectively.

### 11. Can you think of other ways to measure the success of a business?

#### Case Study: Nike

The company known as Nike Inc. today was originally founded as “Blue Ribbon Sports” in 1964 by a college runner, Phil Knight, and his former coach, Bill Bowerman. They started the company from a desire to create superior but less expensive running shoes than what was available at the time. After the success of its early products, they renamed the company “Nike” in 1971, after the Greek goddess of victory. Nike continued to grow steadily, driven by innovations like Nike “Air” technology, and in 1980 became a publicly-owned company (a company whose stock is available for anyone to buy or sell on a stock exchange). The company has been an expert in growing its brand, in large part due to sponsorships of iconic athletes. In the most famous case, Nike partnered with Michael Jordan in 1984 to create the “Air Jordan” sub-brand – Jordan products on their own drive more than \$5 billion in sales for Nike today. The company has since sponsored stars like Tiger Woods, Roger Federer, Serena Williams and LeBron James.

Today, Nike is one of the world's largest companies, with annual sales of more than \$50 billion and annual profit of over \$6 billion. Nike's growth has been steady and impressive – during the 20 years from 2002 to 2022, the company grew its sales by five times and its profit by ten times, even through economic recessions and the global COVID-19 pandemic. In that timeframe, Nike almost quadrupled its workforce and now employs more than 83,000 people. 95% of US consumers know the Nike brand, and it is the most popular sneaker brand across the world. By most financial and operational measures, Nike is seen today as one of the most successful companies in the world.

However, the company has not been perfect and has created several controversies. Since its start in the 1960's, Nike has **offshored** the production of its shoes to foreign countries where labor is cheaper than in the US, possibly contributing to the decline in US manufacturing jobs. During the 1990's, Nike was criticized for using overseas sweatshops (factories where workers are paid very low wages for long hours and under poor conditions) and even child labor to make its products. In 2019, Nike was criticized for siding with the Chinese Communist Party and not supporting pro-democracy protests in Hong Kong. In 2022, several Nike employees accused top executives of sexual harassment and building a toxic work environment. In 2023, Nike was sued for misleading consumers with false claims that its products are sustainable and environmentally friendly.

- 12. Which business function (or functions) contributed most to Nike’s growth?
- 13. Considering what you know about Nike, do you think it is a successful company? Why or why not?
- 14. What is the most important thing for Nike to focus on in the future?

**Self-Reflection Exercise**

- 15. What is the most successful business you know, and how do you measure its success?
- 16. Sometimes businesses can become too focused on making money and may harm their employees, customers or society. What should be done to prevent this from happening?
- 17. What do you most want to learn by taking this Introduction to Business course?

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*Remember: First names only & please let us know if your address changes*

**Appendix  
Introduction to Business: Unit 1 of 6**

**Sources:**

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