Introduction to Business Study Guide

Information Sources

Business Information Sources

Primary Data: Data gathered by the researcher for the first time.

Secondary Data: Data taken from other previously gathered data, split into two categories

- Internal- data from within the business/organization that you are a part of
- External- data from an outside organization/business

Consumer Information Sources

- Advice from others (family, friends, experts, sales staff)
- Media (television programs, videotapes, radio programs, the internet, e-mail)
- Government/Community agencies (Better Business Bureau, U.S. Office of Consumer Affairs, Consumer Protection Agency, Small Business Administration, Federal Trade Commission)
- Consumer-Oriented Publications (Consumer Reports, consumer research, newspaper articles)
- Point-of-Purchase Sources (labels, packages, displays)
- Advertising (print, television, radio, internet)

Financial Statements

Balance Sheet:

- Assets=Liabilities(Debts)+Equity
- Assets are fixed assets: land, buildings, equipment
- and current assets: cash, accounts receivable, marketable securities, notes receivable, and inventory
- Liabilities are assets owed to others: accounts payable, notes payable, interest payable, wages payable, taxes payable
- Equity: stocks, earnings, equity
- “snapshot” of economic picture
- Reports the resources of the entity, useful for evaluating ability of company to meet long-term obligations, comparative balance sheets very useful from one time to a later time.
- change in the equity is essentially income

Income Statement:

- results of entity’s operations during a period of time
- Net Income=Revenue-Expenses
- Revenue are inflows
- Expenses are outflows

Cash Flow Statement:

- company may be profitable but lose cash, this is where cash flow statement comes in, useful in ability to pay bills, encompasses a time period
- analysis of all transactions in business, where it got cash and how cash was used
- Sources of cash, uses of cash, change in cash balance
- operating activities, investing activities, financing activities
- Info comes from beginning and ending balance sheets and income statement
- improve cash flow statement by decreasing accounts receivable, increasing revenue, decreasing expenses

Government Regulations/Laws

Laws:

- Sherman Law is against monopolies
- Clayton Law is no tying products one another, forcing people to buy one thing with another
- Robinson Patman Act is against price discrimination on customers
- Wheeler Lea is against deceptive advertising and false advertising
- Fair Labor Standards Act - Minimum Wage
- Safety and Health Act of 1970 - provide safe and sanitary work environments
- Employee Retirement Income Security Act-receive retirement plan and health plan benefits
- Immigration and Nationality Act-only US citizens and individuals with work visas can work, business must keep I-9 file on hand

Regulations:

- Government regulates advertising: must be truthful and not misleading, back up claims made, fair to competitors and consumers
- Government regulates employment and labor: protect minimum wage, benefits, safety and health compliance, working conditions, equal opportunity employment, privacy regulations
- Government regulates environment
- Government regulates privacy
- FDA ensures safety of food and drugs
- FCC regulates broadcast signals (TV and Radio)
- FTC protects consumers from unfair practices
- CPSC regulates everything that is not regulated by others (not food and drugs etc.), created by Consumer Product Safety Act in 1972

Small Business Administration is government agency, give loans made through partnering banks to startups and small businesses, helps small business start + grow. It manages the Loan Guarantee Program, 504 Fixed Asset Financing Program, and MicroLoan Program

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Business Plan

What is a business plan? It is a written plan of a company's future and goals. Used by entrepreneurs to convey goals to potential investors.
General Content/Order (see below in-depth for changed and new other sections):

1. Executive Summary
2. Business Description
3. Market Strategies
4. Competitive Analysis
5. Design and Development Plan
6. Operations and Management Plan
7. Financial Factors

In-Depth on the many sections in order from first to last:
1) Executive Summary
The executive summary tells the reader key, but main info, such as where your business is (in terms of goals etc), where you want to take it, and why it will be successful. This is usually written last, but is always the first section of a business plan. It also includes other key, but main info, such as a mission statement (explains what the business is about), company info (who, when, where) and what your

products are. Finally, it has product information as well it concludes with financial info such as examples of company growth, what financing you are seeking (if any) and info regarding current investors along with a summary of future plans.

- Mission statement and goals, company info, product overview, growth highlights, current investors, future plans

2) Company Description

The company description provides high-level review of a company, describes the nature of a business + market, and an explanation of how your product satisfies that market. A good description explains how your product/service meets those needs, and list specific consumers that you are serving. End the company description with your competitive advantages.

- Review of the company - description of business + market, why your product serves the market, who specifically is in your target market, competitive advantages

3) Market Analysis

Should illustrate industry and market knowledge as well as research findings on market and conclusions.

- Industry Description and Outlook -- Describe your industry using historic growth rate and current size. List major customer groups in industry.
- Information about your target market -- research and include information about target market
- Distinguishing Characteristics -- critical needs of customers, demographics and location, special trends they follow
- Size of the primary target market -- forecasted growth of market, purchases
- Market share -- include how much market share can be gained and number of customers to obtain in geographic area
- Pricing and Gross Margin targets -- define pricing structure, detail gross margin levels
- Competitive Analysis -- Identify competition by product line or service and market segment; Market share, strengths and weaknesses, barriers of market, window of opportunity to enter market, indirect or secondary competitors
- Regulator Restrictions -- include any customer or government regulatory requirements affecting business and how business with comply

4) Organization and Management

Includes company's organizational structure, details of ownership in company, profiles of management team, qualifications of Board of Directors

Answer who does what in your business, what is their background and why are you bringing them into the business as board members or employees. Give a detailed description of each division or department and its function. Include the board members and how you intend to keep them there. Salary, benefits, incentive, promotions. Include the legal structuring of the business: corporation, partnership, etc.

Ownership info:

- Names of owners
- Percentage ownership
- Extent of involvement with the company
- Forms of ownership
- Outstanding equity equivalents (i.e., options, warrants, convertible debt)
- Common stock (i.e., authorized or issued)

- Management Profiles
- Provide resumes from each ownership member

5) Service or Product Line
Specific benefits of product or service, describe product/service and its benefits to its potential and current customers.
- Ability to meet customer needs
- Advantages of competition
- Current development stage
- Product Life Cycle
- Existing or Pending Patent/Copyright filings
- R&D being conducted by own company and others in market as well as expected findings

6) Marketing and Sales
- Define market strategy
- Overall Marketing Strategy:
    - Market penetration
    - growth strategy (building business)
    - Channels of distribution strategy
    - Communication Strategy (how to reach customers)

7) Funding Request (optional, whether or not you seek funding)
Include Current Funding requirement, future funding requirements, what you expect to use funding for.

8) Financial Projections
Develop this section only after analyzing market and setting clear objectives.
Include:
- Historical Financial Data
    - income statements, balance sheets, cash flow statements, collateral
- Prospective Financial Data
    - forecasted income statements, balance sheets, cash flow statements
- Short analysis of financial information, ratio and trend analysis of information

9) Appendix
Includes
- Credit History (personal and business)
- Resumes of key managers
- Product pictures
- Letters of Reference
- Details of Market Studies
- Relevant magazine articles or book references
- Licenses, permits, patents
- legal documents
- copies of leases
- building permits
- contracts
- list of business consultants

Types of Businesses

Sole Proprietorships

Sole Proprietorships are the most popular form of business, requiring only one person and little resources to start up. Only one owner can own the company in order for it to be considered a sole proprietorship.

- PROS
  - Start up is very inexpensive and easy
  - Only needs to register his or her name and secure local licenses
  - Can freely mix business and personal assets
- CONS
  - Personally liable for company's debts
  - Rarely survive the death of owner
  - Cannot sell shares in the company

Partnerships

A partnership is when two (or more) people join together to form a company. This can be done formally (with documents specifying power etc.) or informally (on a handshake)

- PROS
  - Start up is relatively inexpensive and easy
  - Do not have to pay the minimum tax that is required for corporations or LLCs
  - More sources of capital + knowledge
- CONS
  - All owners are personally liable for the company's debts
  - Partners have to bear with other partner's decisions
  - Poorly organized partnerships (like on a handshake) can lead to conflict regarding decision making etc.

Other forms of Partnerships:

- *Limited Partnership* - Allow partners to have limited liability, along with limited input. More attractive to investors of short term projects.

C Corporation

An C Corporation is the main form of corporation in the United States. It has the power of a person in a legal sense, meaning that it can be sued and commit crimes, but that it can also file lawsuits and buy and sell property.

- PROS
  - Owners are protected from personal liability regarding the debts of the company
  - Can easily turn public
  - Can easily raise capital by selling securities
  - Can easily transfer ownership via transfer of securities
  - Unlimited lifetime
- CONS
  - Annual meetings + many formalities
  - Most expensive to set up
  - Require annual fees and periodic filings to the state

S Corporation

An S Corporation is a form of corporation that elects to become an s corporation. In order to have an election to become an s corporation, a company must have only one class of stock, have less than 100 shareholders and be a liable entity. Also, shareholders must be US citizens (however certain non-profit corporations can become shareholders)

- PROS
  - Eliminates double taxation
  - Owners are protected from personal liability regarding the debts of the company
- CONS
  - All officers and owners of an s corporation must make a salary
  - Require annual fees and periodic filings to the state

Limited Liability Corporation

An LLC Corporation is the newest form of corporation in the USA, being founded from the 1960s-1980s (depending on the state). It combines the simplicity of a partnership with the tax benefits of a corporation

- PROS
  - Few ongoing formalities - don't require annual meetings
  - Owners are protected from personal liability regarding the debts of the company
- CONS
  - Very hard to go from LLC to a public company. Would likely need a change to a regular corporation before filing to go public.
  - More expensive to set up than partnerships
  - Requires annual fees + filings to the state

Ethics

Ethics is the study of moral choice and values, and involves choosing between right and wrong. To behave ethically is to choose what it right.

Code of ethics: The level of ethical behavior demanded by an individual, business or culture. Can be very high (very ethical) or very low (very unethical). It is important to have a written code of ethics so that you and your employees are reminded of the importance of acting ethically and know what it considered 'unethical'.

Responsibilities to Customers: All customers should be respected with respect and honest, and you should avoid misleading or scamming them. Never exaggerate merits of a product or fail to inform them of applicable dangers of a product. Most importantly, all disputes should be handled in a fair manner where both sides of the issue are seen.

Responsibility to Suppliers: As with customers, the key responsibilities are the same. Be fair, honest and respectful to all of your suppliers, and give them enough time to fill your order. Refuse to partake in dishonest and/or illegal schemes and if you decide to change suppliers give your old supplier and fair and honest reason.

Responsibilities to Creditors/Investors: It is important to use the money you receive from creditors with caution and care. Be honest about losses and don't attempt to cover them up.

Marketing

Market Penetration: Amount of total public that the general item encompasses. For example, percentage of general public using cellphones in general (NOT exclusive to one brand) is market penetration (percentage of people that use it)
Market Share: Amount of the percentage of Market Penetration that one company has. For example, in the cell phone market, Apple would have a percentage of market share of the total amount of cell phone user population.
Market segmentation: the act of segmenting a group of people (demographically, psychographically, geographically) and launch ads/marketing campaigns to gain that entire sectioned off group of people. each company usually tries to focus their resources on gaining their target market
the act of market segmentation ---> turns into a company's target market

Marketing Mix:
product- What does the customer want from the product/service? What needs does it satisfy?
price- What is the value of the product or service to the buyer?
place- Where do buyers look for your product or service?
promotion- Where and when can you get across your marketing messages to your target market?

Taxes

Type of Business	**Taxation**	**Forms Required**
Sole Proprietorship	Reported by owners	Form 1040
General Partnership	Reported by owners	Form 1065 and 1040
Limited Liability Corporation	Reported by owners	Form 1065 and 1040
C Corporation	Corporate tax paid + any possible dividend tax (double taxation)	Form 1120 and 1040 (dividend is 1040)
S Corporation	Reported by owner	Form 1120S and 1040

Types of economic systems

Traditional Economy - Family or community based economic system that relies on history and rituals to make economic decisions. Examples - Aborigines, Indian/Native American Tribes etc

Market Economy (free market capitalism) - Consumer based economic system where the economy relies on the choices of the consumer. Examples - Most developed countries (USA, Japan etc) have some form of market economy but really no one has a totally pure one (see mixed economy).

Command Economy (socialism, communism) - The economy is controlled by the government. Examples - Almost all communist or dictatorship country (Cuba, North Korea etc)

Mixed Economy - A market economy mixed with government regulations/involvement. Examples - Most developed economies (USA, Japan etc) are a mixed economy.

Miscellaneous

Diagrams/Charts:

- **PERT Diagram** (Program Evaluation and Review Technique) statistical tool for project management, analyze and represent tasks involved in completing a certain project, used to see dependencies and connections of things
- **SWOT** (Strengths, Weakness, Opportunities, Threats) Analysis evaluates dangers and benefits of projects and business ventures

Important Terms, Formulas, and Equations:

Economics: The study of how to employ scarce resources to produce goods and services and distribute them among competing groups and individuals.
Scarcity: The basic economic problem that arises because people have unlimited wants but resources are limited.
Demand: An economic principle that describes a consumer's desire and willingness to pay a price for a specific good or service.
Supply: A fundamental economic concept that describes the total amount of a specific good or service that is available to consumers.
Equilibrium point: The state in which market supply and demand balance each other and, as a result, prices become stable.
GDP: The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.
Simple Interest: Interest based on only the initial principal and the interest rate (excludes interest based on interest).
Simple Interest=(loan amount)x(interest rate)x(duration of the loan using number of periods)
Compound Interest: Interest calculated on the initial principal and also on the accumulated interest of previous periods of a deposit or loan. Compound interest can be thought of as “interest on interest,” and will make a deposit or loan grow at a faster rate than simple interest.
Compound Interest=(initial principal)(1+(interest rate)/(interest period))^(interest period)x(number of interest periods)
Breakeven Point: The point at which the income from sale of a product or service equals the invested costs, resulting in neither profit nor loss; the stage at which income equals expenditure.
Breakeven Point= fixed cost/ (selling price-variable cost)
The Rule of Indemnity: The rule that states the insured cannot profit from the sum paid to them by the insurer for an insured object’s destruction.
Consumer Products: A products whose end user is a consumer.

- Convenience Products- A product that is easily purchased with little knowledge and appeals to a large market, has some brand loyalty.
- Shopping Product- A consumer products that requires research and comparison. There are two types: heterogeneous, and homogenous.
- Specialty Product- A product with very high brand loyalty, customers will not accept a substitute.

Intellectual Property Basics:
Patents: valid 20 years from date of application, only effective within US,
Trademark: Company logo, etc. (as long as renewed)
Copyright: Lifetime of author and 70 years after