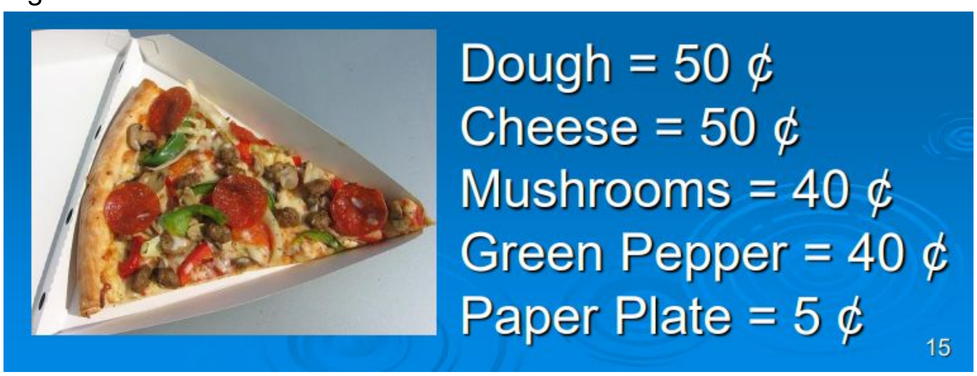
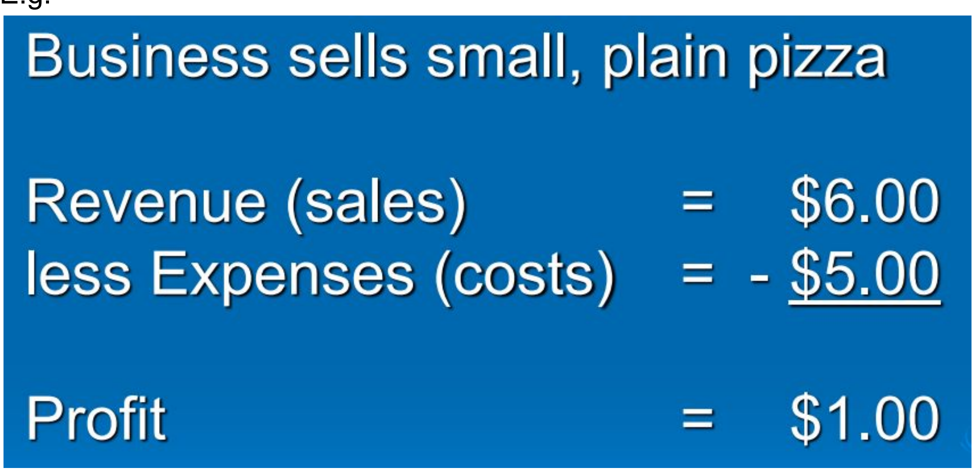
<u>Lecture Notes:</u>

- **Characteristics of a business:**
- A **business** is a kind of organised effort, which creates or provides things that people want, and will pay for, in order to make a profit.
- A business is an organization, meaning that one or more people put time, thought and effort into trying to accomplish a goal. However, not all organizations are businesses.
  E.g. A family is an organization of one or more adults that works together and provides material and emotional support to one another and to children in its care. A family is not a business.
  E.g. A church is an organization. Furthermore, churches satisfy peoples' needs and provide a service. Churches are not businesses.
- Businesses are formed because customers need and want things and they will pay for them.
- **Revenues and expenses:**
- The money that comes in is called **revenue**.
- A business tries to generate revenue by selling things that people want, called **sales**.
- The cost to the business of providing the product is called **expense**.
  E.g.



- Walmart is the world's largest business in terms of revenue.
- **Profit and loss:**
- **Profit** = Revenue - Expense (Specifically when revenue is more than expenses)
  E.g.



When a business makes a profit, business owners become wealthier.
People start businesses to become wealthier.

- A **loss** occurs when revenue is less than expenses.
  Loss is the opposite of profit.
  When a business makes a loss, business owners become poorer.
- **The Profit Motive:**
- Profit is the key reason for a business to exist.
- Not all organisations are businesses.
- Hospitals, universities and churches provide services which are not intended for profit.
- These are **not for profit organizations**.
- A business tries to make a profit, while churches and universities do not. **The difference is intent**.
  Note: A not for profit organization can still have a profit center or profit seeking center.
  I.e. Within a non for profit organization, there will be units/departments/sections which are trying to make as much profit as possible to subsidize the rest.
  E.g.
  UTSC has a bookstore.
  International education is for profit. I.e. International education is a business.
  UTSC renting out space for Starbucks, Tim Hortons, etc is meant for profit.
- **The Profit Motive:** People give up their time, energy and money if there is incentive to do so.
- The chance for owners to create wealth is the incentive for creating/running a business.
- **Smith vs. Marx:**
- Adam Smith liked the idea of the profit motive.
- Smith articulated the philosophy of **liberalism**. He believed that people will be most motivated to work hard and to succeed without undue government interference.
- Smith was a professor of Moral Philosophy Edinburgh University, Scotland and is the author of The Wealth of Nations (1776).
- Karl Marx did not like the idea of the profit motive.
- Marx articulated the philosophy of **Marxism**. He believed that profit is the result of one class of people (capitalists) exploiting the hard work of others (labour).
- Marx was a German writer and philosopher. Furthermore, he is the author of Das Kapital (1867).
- **Communism** is a way of organising society. **Marxism** is its most famous and influential strand.
- The competing arguments for and against liberalism (Smith's ideas) and Marxism (Marx's ideas) is the most important debate of the last 100+ years.
- Why liberalism supports the profit motive:
    - Profit is fair compensation for the risk.
    - Liberal thinkers believe:
        - Let people take a chance.
        - Let people keep the profit.
        - Without the chance of reward people won't take the risk of failure.
- **Risk:**
- In Canada during 2010-2014, ~135,000 businesses started each year (~370 businesses started each day) and ~120,000 businesses closed each year (~330 businesses closed each day).
- Running a business is difficult and complicated, because businesses must anticipate what people need and want and customers are unpredictable.
- A characteristic of business is **risk**.

Textbook Notes (Chapter 1):

- **What is a business:**
- A **business** is an organised effort to provide the things that people need and want and are willing to pay for. A business exists in order to satisfy those customer needs and also to make a profit with a definition.
- **5 characteristics common to all businesses:**
    1. **Businesses are organized efforts:** First, we describe a business as an organized effort. This means that one or more people has to have an idea and then has to put in time, thought, and effort into carrying out their idea. Businesses don't just happen. They are created as the result of time, effort, and energy of the people who start and run them.
    2. **A business provides things that people want and need:** Second, the definition states that a business exists to provide the things that people want and need. In order for a business to survive, they need to know exactly what their customers need to have or want to buy.
    3. **A business must try to satisfy customer needs:** Third, businesses would not and could not exist unless there are people who need or want, and are willing to pay for, the things that those businesses produce. We call these people **customers**. **Customers** are the people who need or want, and are willing to pay for, the things that a business provides. Some businesses refer to their customers as **clients**. A client is most commonly used to refer to people who use the services of a professional, such as a lawyer, an accountant, or an architect.
    4. **A business generates revenue from sales:** In order for a business to make a **profit**, they first need to receive **revenue** from its customers with whom they sell their product or service to. All businesses also have to account for **expenses** because without the cost to either make a product or provide a service, a business could not provide customers with what they want. A business can obtain its revenue in a variety of ways. Likewise, a business can incur expenses in a variety of ways.
       Revenue is the money that flows into a business every time it sells a product or a service to a customer.
       Expense is the money that a business spends to provide customers with products.
    5. **Businesses try to make a profit:** The main purpose and motivation for a business to exist is to make a **profit**. Profit is the positive benefit of running a business. Specifically, a business makes profit when the revenue it brings in is greater than the costs of running the business and making the product. Profit is an essential motivation for starting a business. When a business owner creates and runs a business, the desire to realize some benefit is known as **the profit motive**. As explained above, profit is the positive difference between a business's revenue and its expenses. Hence, in crude terms, the profit motive is the desire to make money. However, not all businesses are successful. Many fail in their attempt to make a profit. That is, the revenues a business generates are not sufficient to cover all of the expenses involved in running the business. This is known as a **loss**.

- **Business vs Not-For-Profit Organizations:**
- The profit motive is what distinguishes businesses from other organizations that are not businesses.
- Places of worship, sports teams, clubs, and voluntary organizations all require time, effort, and energy to establish and keep running, however the main distinguishing characteristic of a business is that part of its core motivation is to try and make a profit. For this reason, Canadian universities are not considered businesses because they are not established with the intention to make a profit.
- Places like schools, hospitals, universities, charities, and cultural or religious institutions are all considered **not-for-profit organizations** or **not for profits** because they do not intend to make a profit. Instead they rely on the government or donors to make up for the shortfall between revenue and expenses.
- Not-for-profit organizations can have years where revenues exceed expenses. This does not mean that these organizations are businesses nor have they realized a profit. The surplus funds attracted from one year may be used in the next or it may be donated. However, the profits of a business belong to its owner.
- **Satisfying customer needs: What do people need and want:**
- Understanding and being able to answer the question “What do people want and need?” is fundamental to the reason why businesses exist.
- All of the organizations, factories, shops, schools, hospitals, etc, that provide the things that we need or want are creating **products**. Products are the things that result from human or mechanical effort or as the result of natural processes.
- Many of the things that we want or need are hugely expensive and complex to organize. The provision of national security, the policing of our streets, the building and staffing of hospitals, schools and universities are undertakings that may be too costly for any single business to organize. In Canada, these things are often or mostly provided by the government.
- While governments are not businesses, they do not exist to make a profit, Canada’s federal, provincial, and municipal governments all exist to provide healthcare, education, safety, security, and welfare to its citizens.
- The government uses tax dollars in order to obtain the revenue necessary to fund these activities. For this reason, organizations owned or funded by the government-raised taxes are often referred to as **public sector organizations**. Public sector organizations are organizations that are owned by the government. Examples include Canada post, Canadian Broadcasting Corporation (CBC), and Canadian Heritage (Museums).
- **Goods and Services:**
- **Goods** are products which are tangible, that is they can be held and touched. Examples of goods include laptops, gum, tables, radioes, clocks, etc.
- **Services** are products which are intangible, we cannot see or touch a service, but we benefit from the experience of receiving the service. Examples of services include safe streets, a secure country, provision of medical care, etc.
- While the government offers services almost exclusively, some businesses provide both products and services, while others only provide one and not the other.
- Some businesses can only provide goods such as retail stores, while others can only provide services such as banks. However, many businesses can also provide a combination of goods and services. A good example of a business like that would be most restaurants.

- **The Profit Motive - A Vice or Virtue:**
- Is the profit motive a good thing? Or is the phrase “profit motive” merely a polite way of saying “greed”? Why does the profit motive exist? These are large and, in many respects, philosophical questions that many famous writers and philosophers have tried to answer.
- **Karl Marx (1813 - 1883):**
    - A famous writer who thought that the profit motive was a bad thing.
    - Marx’s interest was the relationship between the people who owned a business, capitalists, and the people who worked for the business, labourers.
    - In Marx’s view, profit was simply the capitalists exploiting the labourers. **Example:** A labourer works for a capitalist where they are paid $10 per hour to make $40 worth of products in the same time interval. Each hour, the capitalist makes $40 yet the labourer only makes $10. To Marx this was a simple example of how capitalists were exploiting labourers.
    - Marx argued that because the worker has no claim to the means of production, only the capitalist could enjoy the surplus value (profit). Marx concluded that profit was the result of owners being able to exploit the value of the labourers who worked for the business.
    - Marx’s ideas are called **Marxism**. **Marxism** is the economic and political theories developed by Karl Marx. Marx argued that the owners of the means of production are a class of people who grew wealthy by exploiting the labour of others.
    - Followers of Marx’s ideas (Soviet Union, China and Cuba) have argued that governments should own or control all business activity so that no citizen could become rich by exploiting the labour of another.
- **Adam Smith (1723 - 1790):**
    - While Marx saw profit as a manifestation of exploitation and greed, others, including Smith, argued that the profit motive is merely a natural extension of human beings’ innate desire to fend for their families, feed their children, and seek material comfort.
    - Smith was a professor of philosophy at Edinburgh University and in 1776, at Edinburgh, he wrote the book “The Wealth of Nations”.
    - Smith’s belief was that if humans are rational, then they will divert their time, energy and money into some enterprise only if there is some payback for their self-sacrifice and risk. If there was no profit available, then a rational person would conserve their resources for personal use and no investment would occur.
    - Smith believed that people should be left to pursue their own self-interest, without government interference. He believed that, left to their own devices, people will make the choice to cooperate with others, because it is in their own interest to do so. This belief is called **liberalism**. **Liberalism** is an economic and political theory that espouses that people should be left to pursue their own self-interest, without government interference. Liberalism assumes that people will make the choice to cooperate with others, because it is in their own interest to do so.
- **Risk and Reward: Why Running a Business is so Difficult:**
- Running a business can be very risky and difficult.
- Between 2000 - 2009, about 95, 000 Canadian businesses were created each year (about 260 businesses each day), yet an average of 88, 000 businesses closed down each year.

- Between 2008 - 2009, the world-wide recession led Canadian businesses to decline by 40, 000 enterprises.
- In the US, roughly 600, 000 - 800, 000 businesses are created each year and roughly the same amount close down each year.
- Consider General Motors (GM). It was founded in 1908, and in 1931, it surpassed the Ford Motor Company as the largest automobile maker in the world. It was able to maintain this position for the next 77 years, until Toyota surpassed it in 2008. In the 1980s, GM employed roughly 350, 000 workers and operated 150 assembly plants. Despite this, GM failed in 2009. Rick Wagoner, the CEO of GM from 2000 to 2009, went to Duke University, where he received a B.A. in economics, and then Harvard University, where he received an MBA. Wagoner worked in several divisions in GM prior to becoming CEO. However, under Wagoner's leadership, GM suffered more than $85 billion in losses. GM didn't fail because it's leader was stupid or inadequately educated or trained or lacked industry experience. It failed because running a business is a human endeavour. The owners and managers of a business must try and discover what people want and need.
- Willing to undertake risks is a key characteristic of a business.

Textbook Definitions:

- **Business:** An organized effort to provide the things that people need and want, and are willing to pay for. A business exists in order to satisfy those customer needs, and also to make a profit.
- **Customers:** The people who need or want, and are willing to pay for, the things that a business provides. Some businesses refer to their customers as **clients**. A client is most commonly used to refer to people who use the services of a professional such as a lawyer, an accountant, or an architect.
- **Expenses/Costs:** The money that a business spends to provide customers with products.
- **Goods:** Products which are tangible, that is they can be held and touched. Examples of goods include laptops, gum, tables, radioes, clocks, etc.
- **Liberalism:** An economic and political theory that espouses that people should be left to pursue their own self-interest, without government interference. Liberalism assumes that people will make the choice to cooperate with others, because it is in their own interest to do so
- **Loss:** When the revenues that a business generates are not sufficient to cover all of the costs and expenses involved in running the business.
- **Marxism:** The economic and political theories developed by Karl Marx. Marx argued that the owners of the means of production are a class of people who grow wealthy by exploiting the labour of others.
- **Not-For-Profit Organization:** An organization that may provide products or services, and may collect revenue, but it's not intended to make a profit.
- **Products:** Things that result from human or mechanical effort or as the result of natural processes.
- **Profit:** The positive benefit from running a business. Profit = revenue – expenses.
- **Public Sector Organization:** An organization that is owned by the government. Examples include Canada post, Canadian Broadcasting Corporation (CBC), and Canadian Heritage (Museums).
- **Revenue:** The money that flows into a business every time it sells a product or a service to a customer.

- **Services:** Products which are intangible, we cannot see or touch a service, but we benefit from the experience of receiving the service. Examples of services include safe streets, a secure country, provision of medical care, etc.
- **The Profit Motive:** The idea that people will give up their time, energy and money only if there is some incentive for them to do so. If there is no payback for their self-sacrifice and risk, rational people will save their time and money.