Strictly Business

Business Activities

What type of career are you planning to pursue in the future? No matter where you wind up working, that business (and every other business) must accomplish certain things—such as hiring people, making/providing products, and keeping track of expenses. These primary activities keep businesses in operation. Without them, no one would have a job! Read on to learn more about the activities and functions that every business needs to survive—and thrive.

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Objectives

A Discuss types of business activities.

B Explain how business activities are interrelated.

Get It Done

If you're flipping burgers at a local fast-food restaurant, you might think you're doing an *unimportant* job. Not so! You're satisfying hungry customers and earning some extra cash. But, that's not all. You're helping the business achieve its **goals.**

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▲ Baristas are essential to the success of a coffee shop.

Business goals can be financial, or they can be tied to a particular **mission**. A **business** that operates ***for profit*** makes money to fulfill financial goals, while a ***nonprofit*** business makes money to fulfill a specific mission or undertaking. Both for-profit and nonprofit businesses are organized efforts to produce and/or distribute goods and services.

To achieve their goals, businesses must accomplish certain things. They must obtain necessary **resources**, produce/provide goods and services, market/sell those goods and services, store/retrieve information effectively, and plan for the future. To get everything done, businesses involve themselves in financial analysis, human resources management, information management, marketing, operations, and strategic management. These primary **business activities** (actions taken by businesses to generate **profits** or to reach financial goals) are the main things businesses *do* to keep **production** going.

Financial analysis

Financial analysis is *the process of planning, maintaining, monitoring, controlling, and reporting the use of financial resources.*

Businesses need money to make money. They need money for land, equipment, supplies, employees, **overhead** expenses—whatever it takes to run the business. And, it's the finance department that is responsible for obtaining and overseeing the use of these funds.

▲ Some startups seek angel investors to help finance their businesses and to provide expert advice.

Where do businesses get this **financing**? From venture capital, debt, and equity. Venture capital is the money that **angel investors** put into startup businesses to get them off the ground. These investors look for long-term growth in return for their risky investments.

On the popular TV show *Shark Tank*, entrepreneurs present their businesses to a group of wealthy angel investors in the hopes of receiving funding for their ventures. The investors, or the "sharks," look for companies with long-term promise to offset the cost of their initial investment. To learn more, watch this *Shark Tank* clip featuring a business that specializes in drone-flying classes: https://www.youtube.com/watch?v=Qro1ffZ6Y9I.

Using **debt** to finance a project involves issuing **bonds** or taking out **loans** that require principal and **interest** repayment over time. **Equity** (what the business owns or controls minus debt) is used when businesses sell shares of stock, company real estate, or other business **assets** to benefit a particular undertaking. Whatever method a business chooses, obtaining funds (financing) provides an important way to accomplish business goals.

But, financial analysis is not just about obtaining money. It's also about **accounting** (keeping accurate and useful **financial records**) and analyzing and interpreting the recorded information. By accounting for all **expenses**, and comparing expenses to **income**, businesses can make judgments and predictions about their own financial status. They can work toward being able to pay their bills and to make a healthy profit.

▲ Hiring and managing employees is an essential business activity.

Human resources management

Human resources management is *the process of planning, staffing, leading, and organizing employees.*

Every business needs people to accomplish the tasks intended to meet business objectives. Without employees, businesses would have difficulty operating. Can you imagine trying to run a delivery service without anyone to operate the delivery vehicles? And, how difficult do you think it would be to attract customers to a retail store without employing marketers?

Employees are essential for daily business operations. Specific robotic machines can "replace" employees in certain manufacturing situations. But, most businesses do not have machines that can perform job tasks as well as humans can. Most businesses must hire people to do the job.

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Interested in learning more about robotics in the workplace? This article from Tech.co argues that despite their many advantages, robots will never fully replace humans: https://tech.co/robots-replace-humans-work-2017-08.

So, which employees fall under **human resources**? All of them! Besides "regular" employees, businesses usually require **supervisors**, **managers**, and **executives**. Human resources management covers everything the business needs in this regard. It involves:

- Planning for organizational changes
- **Recruiting** appropriate employees
- Selecting the "right" people to do the job
- **Orienting** new employees to their jobs
- Training employees in policies and procedures
- Evaluating employee performance
- Facilitating employee compensation

In short, human resources management takes care of the responsibilities associated with having employees. It makes the business a fair and inviting place to work.

Information management

Information management is *the process of accessing, processing, maintaining, evaluating, and disseminating business knowledge, facts, or data.*

Each business should ensure that valuable information is available when and how it is needed. This will prevent the frustrating (and unprofitable) situation in which vital business information has been discarded or is unable to be retrieved.

Businesses should have a system for:

- Identifying necessary information
- Determining how that information should be presented, viewed, or accessed
- Providing appropriate access to the information

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▲ Every business must manage information related to its customers, products, and processes.

Identifying necessary information includes knowing which facts the business will need to use in the future. Information can be viewed in formats such as reports, graphs, or spreadsheets, depending on how it is going to be used. To access information, an employee can do something simple (such as walk to a file cabinet and pull out a client file) or something complex (such as run an advanced inquiry on a company **database**).

Situations in which having the right information at the right time can be critical to the success of a business include:

- When an airline needs to know who is flying on a particular airplane
- When a law enforcement officer needs to know if a specific person is a risk to the community
- When a board of directors needs to know the profits from last quarter
- When a sales representative needs to know if a product requested by a customer is available

You might be thinking, "These things can be handled with technology." And, you're right; they can! But how **technology** is *used* to manage information has changed—and will change—over time. Information management is not as much about pinning down the perfect technology for the task as it is about making sure that a reliable system is in place so the business can make the best use of its information.

Marketing

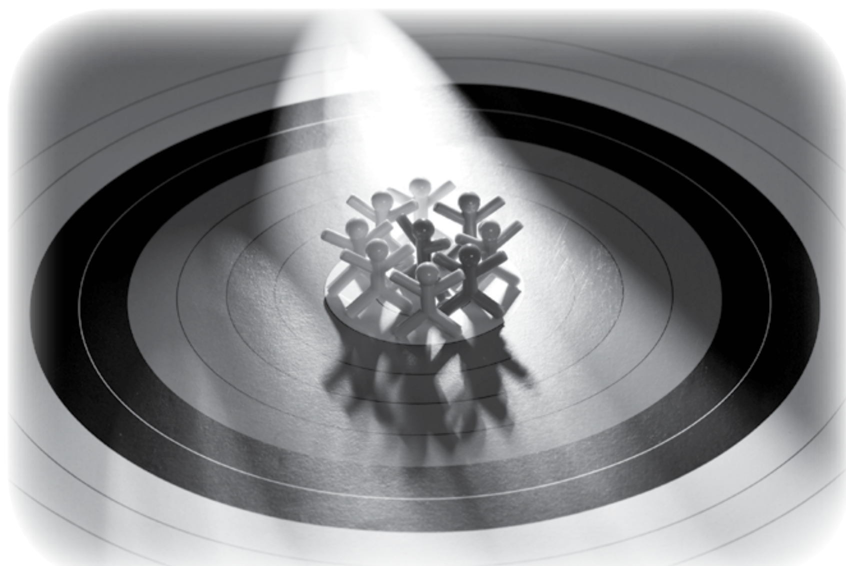
Marketing is *the process of creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.*

At first glance, marketing is simple: A good or service that is ready for sale is marketed to potential customers so they can buy it. But long before a product is ready for sale, marketing is involved in the process of preparation. Marketing is present when the product idea is conceived, and it is present during the product's design and creation. In fact, marketing is involved in everything related to fulfilling a customer's product needs.

So, how is marketing put into action? Look at these common marketing activities:

- Locating potential customers by determining who will benefit from the product
- Pricing the product appropriately by finding out what customers are willing to pay
- Promoting the product to potential customers by communicating product benefits
- Getting the product into customers' hands by making it available for sale

To accomplish these four things, an office-supply store would identify local offices and businesspeople who should know about the store and what it has to offer. It would conduct research, surveying the profit opportunity in its area. Next, it would investigate what its competitors are doing—and how customers are responding to their prices. The store would then price its products slightly higher or lower, depending on its findings. It would make a point of advertising the benefits of popular products it sells. And, it would let potential customers know why products at *this* store are better than products at other stores. Finally, the office-supply store would make the purchase process easy and seamless—by providing layaway, **credit**, or whatever customers might need to purchase the product immediately.



Marketing activities need to be planned to impact a company's target market. ▶

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The Gray Zone

Offshoring, producing goods in foreign countries, can save money. Foreign laborers often do not require the same compensation or benefits as U.S. workers. This practice helps a business meet its financial goals, but it does not help the labor force within its own nation. In fact, with offshoring, local jobs are often eliminated, putting families and entire communities in economic jeopardy.

What do you think? Should businesses use offshoring to produce their products? Are there any circumstances in which offshoring would be appropriate?

Operations

Operations are *the day-to-day activities required for continued business functioning.*

Every business needs to produce or provide its product, whether that product is a good or a service. Once a business has funding and employees, it can accomplish this end, allowing the business to seek sales and earn a profit—the reasons the company is in business in the first place.

To produce a good, a business obtains supplies for **manufacturing**, "makes" the good, and then distributes the good to a warehouse or other holding facility. To provide a service, a business obtains the means for providing the service, and then provides the service to its customers.

Operations include more than just producing/providing the good or service, however. It also includes quality control, purchasing, and inventory management. **Quality control** means ensuring that the product meets predetermined standards. Have you ever purchased a defective product, such as a mobile-phone app that wouldn't load properly, and had to ask for your money back? Quality control attempts to keep this type of situation from happening!

Quality control is one of the best ways for a company to ensure its products and services are up to standard—and that customers are consistently satisfied with their purchases. To learn more about the importance of quality control, check out this article from the *Houston Chronicle*: http://smallbusiness.chron.com/important-businesses-practice-quality-control-69340.html.

Purchasing refers to a business acquiring the goods and services it needs to keep production going and to accomplish its business goals. Businesses need to buy a lot of things, from raw materials to packaging supplies to office equipment to snacks for the break room! Employees in charge of purchasing make sure the business has everything it needs, and they also look for the best prices available.

Inventory management involves overseeing and controlling the number of finished products the business has available for sale. Let's say a certain company produces bicycles. The company wants to have enough bicycles ready to fulfill all of its orders promptly, but it doesn't want to have *too* many bicycles ready because storing them creates unnecessary costs. Keeping the right inventory balance is an important part of the operations activity.

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▲ Managing inventory levels helps a business fulfill customer orders and control cost.

Strategic management

Strategic management is *the process of planning, controlling, and organizing an organization or department.*

Just having the money, hiring the workers, making/providing the product, and marketing/selling the product are not enough. Businesses need to know where they are in the "big picture." Are they headed in the right direction? Are they likely to experience long-term success? These questions can be answered by analyzing the strategic position of the company—and managing that position effectively.

Strategic management helps a business determine how it can succeed and reach its goals over time. Goal setting is important, but businesses then need to *do* what they're capable of doing to accomplish those goals. In short, strategic management involves long-term planning and organizing for future success.

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▲ A company with clearly defined long-term goals is more likely to succeed.

Long-term planning involves creating the mission and **vision** of the business, determining its goals, and selecting **strategies** to support those goals. Say a relatively young roofing-and-siding business wants to increase its regional market share from 7% to 30% within the next five years. Long-term planning shows how the business intends to accomplish this.

Organizing for future success includes determining what will be required to reach the long-term goals of the business. Will the company need additional financing? More employees? Specialized research? New equipment? In other words, "organizing" spells out how the business should be *set up* to meet its objectives. If the business's plans change, then strategies and **tactics** will likely change, too.

Summary

A business is an organized effort to produce and/or distribute goods and services. Businesses can operate for profit, or they can be nonprofit entities. All businesses must accomplish certain things. Primary business activities include financial analysis, human resources management, information management, marketing, operations, and strategic management.

TOTAL RECALL

1. Explain what a business is.
2. Explain the difference between "for-profit" and "nonprofit" businesses.
3. Describe each of the following primary business activities:
   a. Financial analysis
   b. Human resources management
   c. Information management
   d. Marketing
   e. Operations
   f. Strategic management

A Company Tale

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▲ When changes occur within one department, it usually requires other departments to also reorganize tasks and responsibilities.

The primary business activities are interrelated, meaning they depend upon each other and work together—similar to a six-person cheerleading pyramid. When one of the cheerleaders on the bottom level moves slightly, those on the middle and top levels must move also. Even the other cheerleaders on the bottom level have to regain their balance in response.

The same thing happens with primary business activities. If a business (or a particular business project) changes in some way, the primary business activities must adjust in response. And, if one business activity has to change, the others have to change, too.

Company ABC

Consider this situation. Company ABC is a large business that makes and sells soft drinks to bottling companies. Since the company wants to gain the strategic position of being the most *unique* beverage manufacturer in the industry, it has devised a plan for offering a new flavor of soft drink—feijoa. A subtropical fruit, the feijoa grows primarily in South America, Australia, New Zealand, and California. Its aromatic flavor has been likened to that of the guava, but nothing can really describe the feijoa's unique taste. Company ABC feels that a feijoa-flavored soft drink will have an edge over "boring" lemon-lime soft drinks—and that the new product will bring in significant **revenues**.

But, before the revenues come flowing in, the company needs to obtain money to get the project started. As part of its financial analysis, Company ABC determines that the best way to bring in the necessary funds is through debt financing. The company feels certain that it can easily obtain a low-interest bank loan since it has an excellent **credit rating**. Furthermore, if the new product is a "winner," it will be able to repay the entire loan in a short period of time.

All the company needs to do is make sure that the borrowed amount will cover the project's expenses—including things such as:

- Salaries for employees in research and development
- Advertising for the new product
- Tools necessary for production

Through its human resources professionals, the company hires the most qualified research-and-development experts it can find. It offers these employees competitive pay for their expertise so that the company can rely on the end result of their work.

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◀ Large projects often require skilled professionals to design models, prototypes, or processes.

From the marketing side of things, the company plans and develops suitable advertising that will let people know about the new product and when it will be introduced to the public. It intends to launch a nationwide television advertising campaign as well as offer free samples at several high-traffic supermarkets and other public places.

The company examines its operations—including the tools and processes involved in producing the new soft drink. Although the company has purchased the best tools and has fine-tuned the production process over time, there remains one error that needs to be addressed: The company does not have an appropriate system for storing and retrieving the information involved in researching and developing the product. So, Company ABC makes it a priority to overhaul its information management system.

However, improving the information management system means the entire plan changes (if even slightly), and that puts a strain on the financing available for the project—causing every business activity to adjust. In human resources management, the company must scale back the number of employees it hires to perform the product's research and development. In marketing, the company must limit the number of advertisements it places to introduce the product. In strategic management, the company must align the change with its long-term goals. In operations, the company must make sure it has the correct tools and processes in place. And, in financial analysis, the company must determine if there is a way to avoid similar financing shortages in the future. As you can see, a company's primary business activities are inextricably related to one another.

Special situations

When a business changes—internally or externally—it must adjust its primary business activities to suit its new situation.

For example: If, during strategic management, a business decides that internal structural changes will help it be more effective in reaching its goals, human resources management and operations will be affected dramatically. New **job descriptions**, new tasks, and possibly new processes will be involved. And, new methods of managing information may be required. Financial analysis will help the business choose the appropriate financial means for making the change. And, through marketing, the business will let the public know that the company is improving for the benefit of its customers.

External business changes affect the primary business activities, too. Consider the effects of a **merger** between two large businesses. The goals of the two businesses change as the two companies become one. This means that the strategic management of the two businesses combines. The same thing happens with operations, marketing, information management, human resources management, and financial analysis. What each business did *before* changes into what the single, united business does *now*.

There are a few circumstances in which business activities are performed in an "out of the ordinary" manner—although with the technological progress of recent years, these situations are becoming much more common. They are outsourcing and offering virtual services.

▲ When companies merge, new strategies are implemented that affect all the business activities.

Companies outsource their business activities for many reasons: to gain expert assistance, achieve efficiency, and save on costs.

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Outsourcing involves using outside organizations or consultants to perform one or more of the primary business activities. When a business needs human resources management, for example, it can hire an outside firm to perform the activity instead of hiring in-house employees to do the job.

Outsourcing is a popular but controversial business practice. Everyone from politicians to business owners seems to have an opinion on whether or not companies should outsource activities—particularly to other countries. To hear three real-life perspectives on outsourcing in business, read this article from Facilities.net titled "Outsourcing: Managers Discuss the Often-Controversial Practice" at https://www.facilitiesnet.com/outsourcing/article/Outsourcing-Managers-Discuss-the-Often-Controversial-Practice-Facility-Management-Outsourcing-Feature--14280.

A virtual service is one that is offered through a medium of communication (such as the Internet), rather than in person. One example is streaming movies online. Instead of expecting customers to drive to a store and purchase a DVD or Blu-ray, certain businesses, such as iTunes or Amazon.com, offer them the ability to make and download their purchases through a website.

simpson33/iStock/Thinkstock

▲ Streaming entertainment options have significantly changed business strategy and activities for cable and television networks.

Offering a virtual service can affect business activities in a number of ways. Companies may increase cash flow when they don't have to pay the overhead costs of offering their products in a store. In addition, they may not need to hire as many employees or make as many shipments, reducing the load of human resources management and operations. The role of information management, however, may be heightened because of so many virtual transactions. Virtual services are certainly marketed differently than other types of products, and a business's marketing efforts will reflect that. In this technological age, the existence of virtual services is sure to play an important part in a company's strategic management as it plans for the future.

Virtual services have boomed in the past decade as consumers turn to technology to satisfy more and more of their needs. To learn more about the differences between tangible products and virtual ones, read this article by Yariv Sade titled "Physical vs. Virtual Products" at http://productdesignmanagement.com/physical-vs-virtual-products/.

Summary

All businesses must rely on the integration of the primary business activities to reach specific goals. Business changes, outsourcing, and virtual services do not diminish the need for primary business activities—they simply require the business to adjust the activities accordingly.

TOTAL RECALL

1. Give an example of how each of the following primary business activities relates to other business activities:
   a. Financial analysis
   b. Human resources management
   c. Information management
   d. Marketing
   e. Operations
   f. Strategic management
2. Describe how business change affects the primary business activities.

Make It Pay!

Your school is a nonprofit business. How does it engage in financial analysis, human resources management, information management, marketing, operations, and strategic management?

How do these activities affect your education?

