BUSINESS SUPERHERO

A powerfully clear and concise guide to the basics of business and entrepreneurship

Mathew Georghiou

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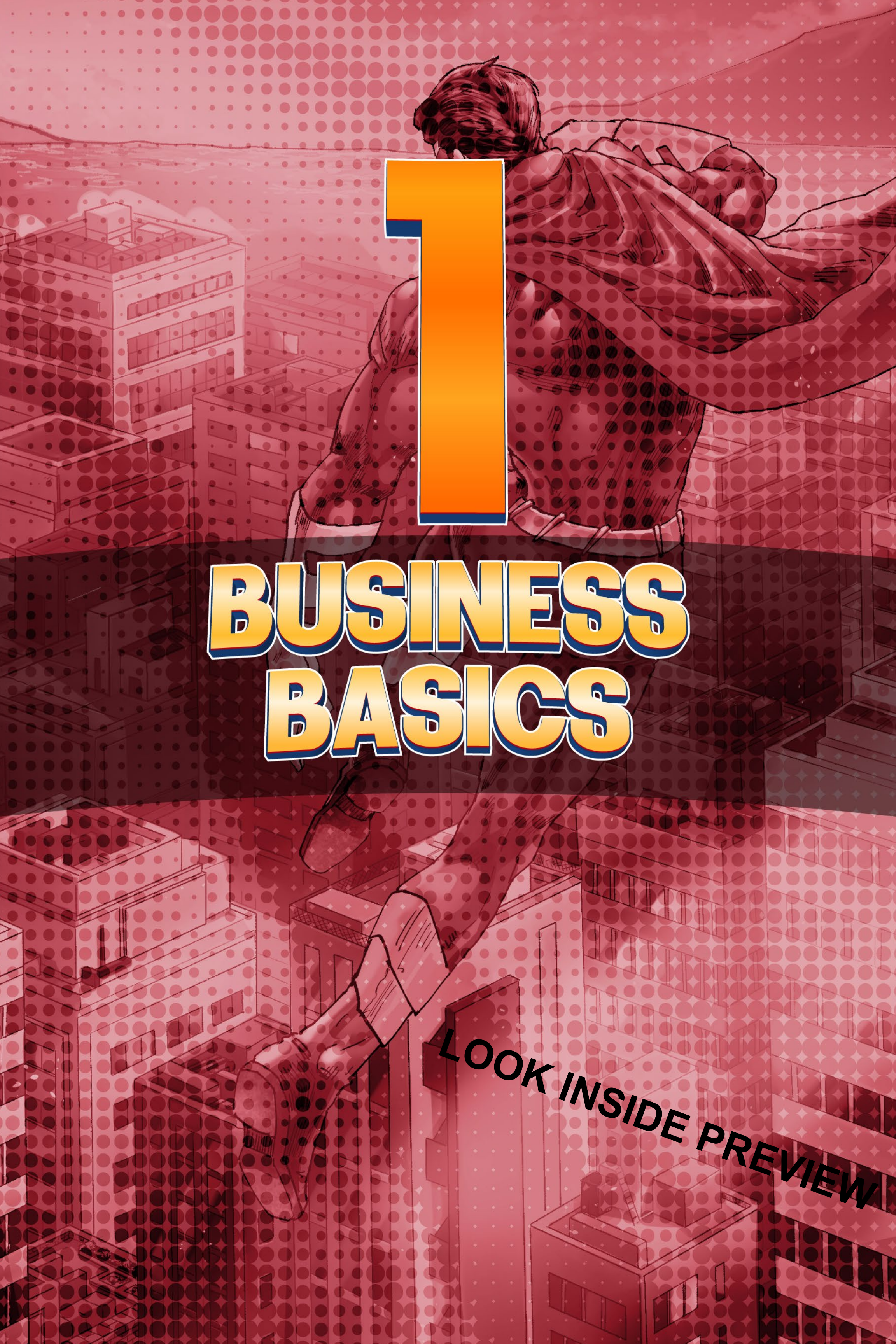
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BUSINESS BASICS
LOOK INSIDE PREVIEW

Businesses and Products

A **business** is an organization that sells goods or services.

Good
A tangible item that can be used once or multiple times. Ownership of the good is normally transferred to the person who purchases it. Examples are cars, shoes, pens, and computers.

Service
An action that someone does for you. A service is intangible. Examples are car repair, haircut, teaching, legal and medical services.

The term **product** is often used to mean goods or both goods and services. In this document, it will be used to mean both goods and services.

Complete the table below.

PRODUCTS	TANGIBLE OR INTANGIBLE
GOODS	________________
SERVICES	________________

Some businesses make the products that they sell. Some businesses make the parts used to make other products. And, some businesses sell the finished product.

Example:

- Ford designs and makes automobiles.

- The parts that make up an automobile are made by hundreds of other businesses. These businesses are called **suppliers**, because they supply the parts. Ford assembles automobiles using these parts.
- Ford then ships the automobiles to **dealers**. The dealers sell the automobiles to people. The people who buy and use a product are called **consumers**.
- Ford dealers sell consumers both goods (the automobiles) and services (automotive repair).

Complete the table below by entering *consumers*, *suppliers*, or *dealers* in the correct cell.

SUPPLY PARTS, INGREDIENTS, RAW MATERIALS	SELL AUTOMOBILES	PURCHASE AND USE AUTOMOBILES
____________	____________	____________

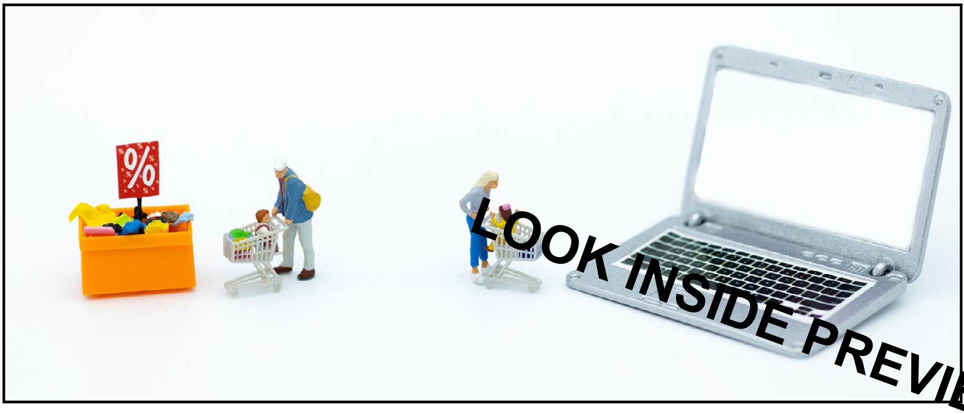
Stores and Resellers

Dealers may also be called **resellers**, because they re-sell a product that was made by another business or person. Products that are commonly sold by resellers include furniture, clothing, smartphones, televisions, and groceries. Amazon and Walmart are resellers.

Not every business sells products through resellers. Some businesses sell their products directly to the consumer. This is called **direct sales**. Examples are computers, restaurants, artisans, banks, law firms, and accountants.

Some businesses use both direct sales and resellers. For example, Apple sells its products on its own website, in its own stores, and through other retail and electronics stores and telecommunication companies.

A **store** is a place where consumers can view and purchase products. The term usually refers to a physical location that you can visit, but sometimes it may refer to an online store, website, or software app.



A business can also do direct sales by selling in a print catalog, through postal mail, or with its own salespeople who call, email, or visit people.

Complete the table below by entering *reseller*, *direct sales*, or *store* in the correct cell.

PLACE WHERE CONSUMERS CAN VIEW AND PURCHASE PRODUCTS	SELLING DIRECTLY TO CONSUMERS	BUSINESS THAT SELLS PRODUCTS MADE BY OTHERS
____________________	____________________	____________________

Customers and Consumers

Consumers are individuals or organizations that purchase and use a product. Consumers are also called **customers**, but there is a difference between the two terms.

A **customer** is an individual or an organization that purchases a product. The difference between a consumer and customer is that a consumer is the person or organization that uses the product. This is also sometimes called the **end-consumer**.

A customer may or may not be the person or organization that uses a product. A consumer may be both the customer and the end-consumer, but a customer may or may not be an end-consumer.

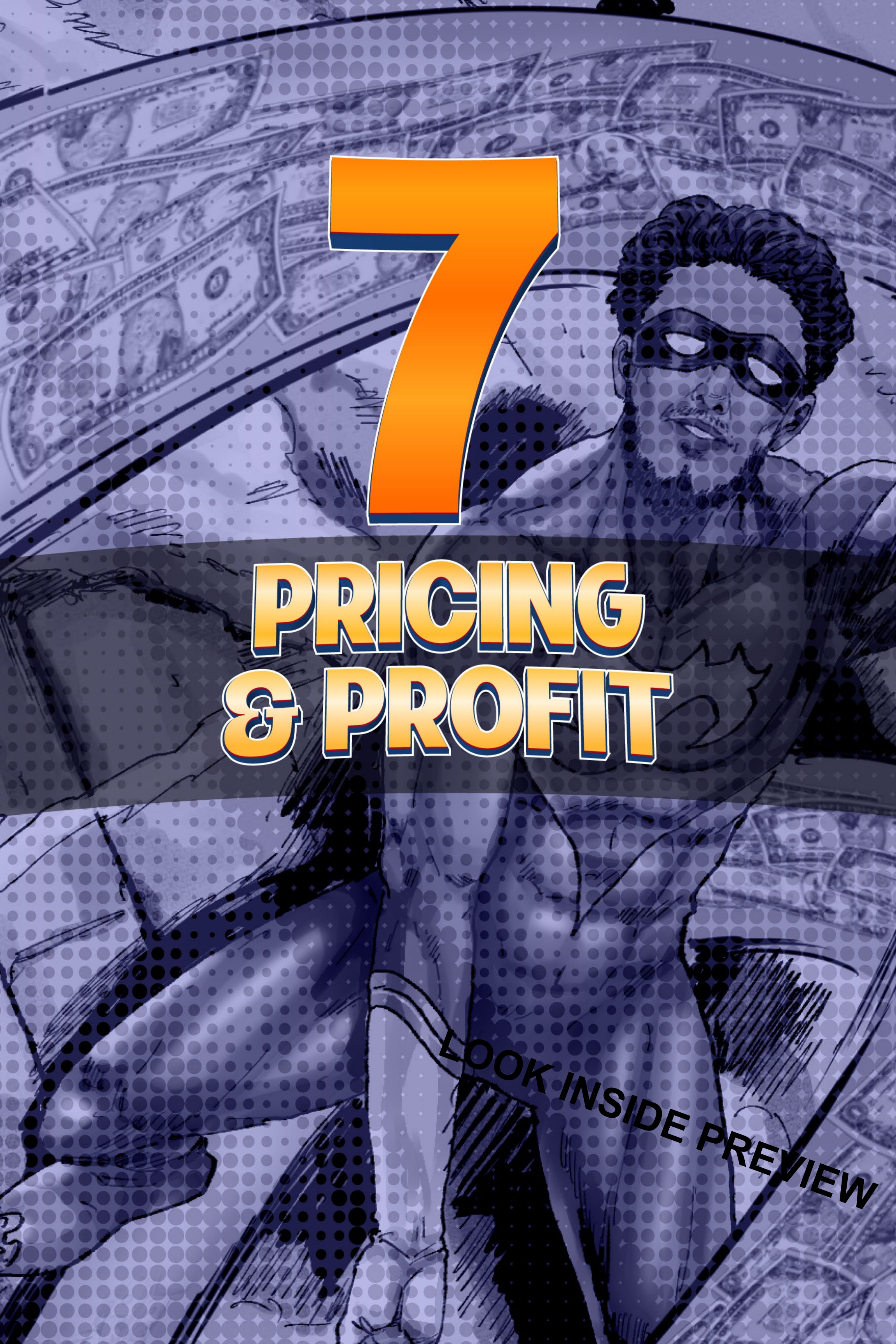
In the Ford example, all of the many suppliers that provide parts to make the automobiles consider Ford their customer. Ford purchases their products (the automotive parts) and therefore is their customer. But, Ford does not use the parts – instead, Ford assembles automobiles and then ships them to dealers who then sell them to the end consumers. To the parts suppliers, Ford is the customer but not the consumer. The consumer is the person or organization that drives the automobile.

When Ford purchases furniture to use in the company offices, Ford is both the customer and the consumer to the furniture company.

Customers and consumers can be individual people or organizations. Organizations include companies, governments, schools, hospitals, and other groups. These are often called business or **organizational customers**, and they have different reasons for buying than individual users, and may buy in larger quantities.

Complete the table below by entering *customer*, *consumer*, or *organizational customer* in the correct cell.

USES A PRODUCT	NOT AN INDIVIDUAL CUSTOMER	BUYS A PRODUCT BUT MAY OR MAY NOT USE THE PRODUCT
______	______	______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PRICING
& PROFIT
LOOK INSIDE PREVIEW

Pricing and Profit

Price is the money a customer gives to a business to buy its product. Setting the price of a product is an important and difficult decision.

How much should a sandwich cost? How about a car or a sofa? How should a business that sells such products price them?

Your answer to the above may be influenced by your own life experience. If you have purchased a particular product in the real world, you may have a price in mind. This is sometimes called **price anchoring**.

Be careful with price anchoring, because your own experience may or may not represent a comprehensive assessment of the marketplace. For example, location (country or region) may have certain products priced much higher or lower than in other regions or countries.

Variations in products can also greatly affect their cost. This is why certain restaurants can charge much higher prices for their food, while other restaurants compete on low price. Should a hamburger cost $5 or $20? It depends. Will consumers pay $20? It depends.

What does it depend on? It depends on the **consumer profiles**. These are the demographics and psychographics that define the needs and desires of a consumer.

And, it depends on the profitability needs of the business. The higher the price of a product, the more money that can be made on each product sold. But, as price increases, fewer products may be sold, which may reduce the total amount of money made on all products sold.

Discovering the perfect balance between price, units sold, cost, and profit can be complicated. These concepts are explored below.

Price

Price is the amount of money (revenue) you receive when your product is sold.

Cost of goods sold (COGS) is the cost to buy or make the products that you have sold.

PRICE	$10	$20,000	$500
COGS	$3	$8,000	$600
PROFIT	$7	$12,000	–$100

As shown in the table above, the price should be higher than the COGS in order to achieve a profit on each product sold. Otherwise, you will lose money on every product sold.

Complete the table below with additional examples.

PRICE	$50	$15,000	$700
COGS	$20	$8,000	$825
PROFIT	$ ________	$ ________	$ ________

Gross and Net Profit

If the price is higher than the COGS, then you are making a **gross profit** on each product sold, but this does not fully account for all costs and actual profit. The tables above show gross profit.

Gross Profit = Price – COGS

Net Profit = Price – COGS – All Other Expenses

All Other Expenses includes costs for sales, marketing, operations, and more.

When setting the price for your product, you must account for COGS and all expenses required to operate your business, otherwise you may lose money.

PRICE	$10	$20,000	$500
COGS	$3	$8,000	$600
GROSS PROFIT	**$7**	**$12,000**	**–$100**
ALL OTHER EXPENSES	$8	$4,000	$250
NET PROFIT	**–$1**	**$8,000**	**–$350**

As shown in the table above, when all other expenses are included, only one of the products has positive net profit.

Complete the table below with additional examples.

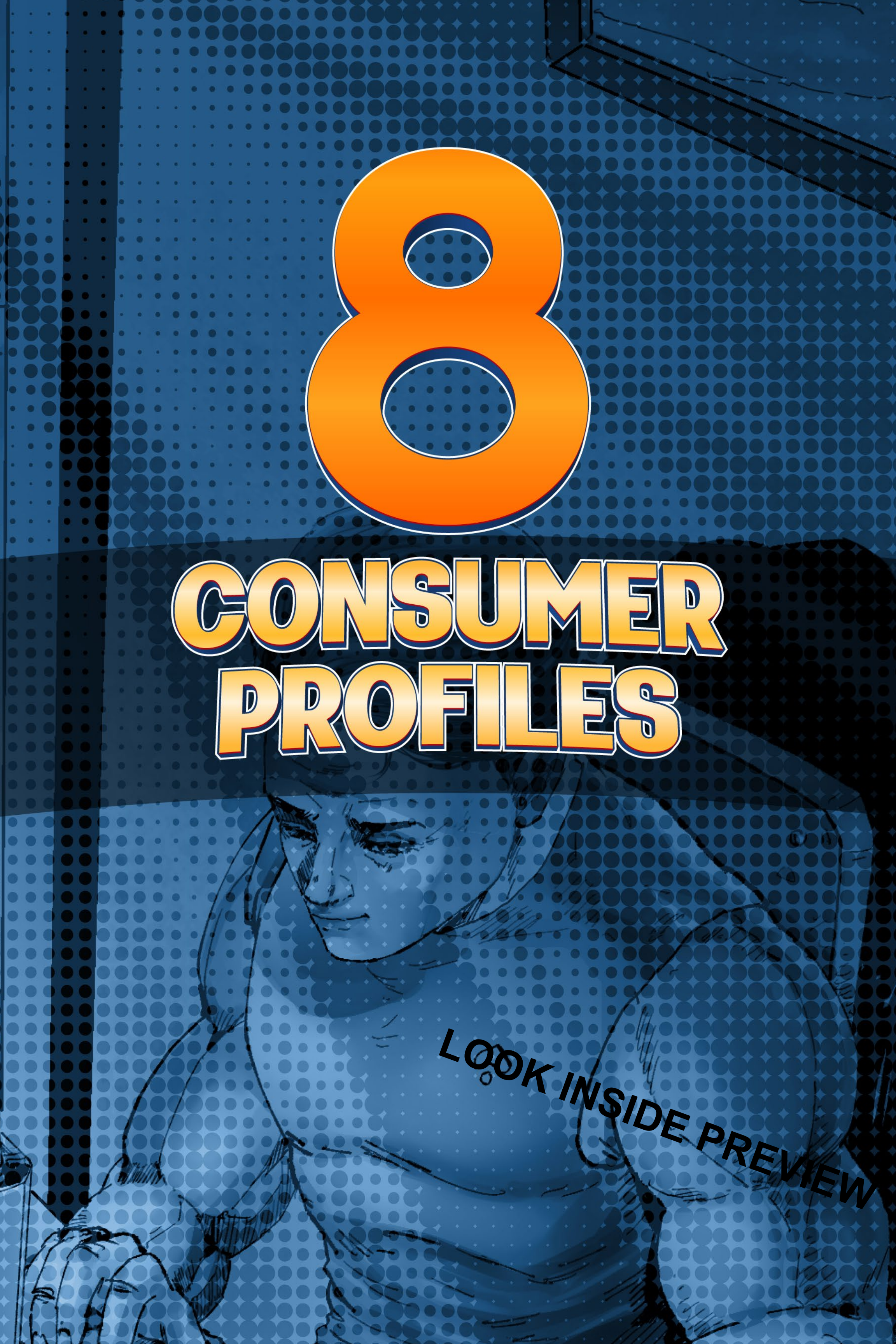
PRICE	$50	$15,000	$700
COGS	$20	$8,000	$825
ALL OTHER EXPENSES	$12	$8,000	$200
NET PROFIT	$ ________	$ ________	$ ________

Calculating Costs

To determine profitability, you must calculate all costs to make and sell your product.

NUMBER OF PRODUCTS MADE	100
COST OF GOODS	$6,000
SALES & MARKETING	$5,000
OPERATIONS	$2,000
ALL COSTS Add the three costs above	$13,000
COST PER PRODUCT ALL COSTS divided by NUMBER OF PRODUCTS MADE	$130 $13,000 ÷ 100
PRICE	Should be higher than $130

8 CONSUMER PROFILES



Consumer Needs

Consumers are the people or organizations who purchase and use your product.

Needs are the desired preferences of consumers. Consumers seek out and purchase products that match their needs.

When there are multiple products available, consumers will, generally, purchase the product that most closely matches their needs.

See the examples below.

CONSUMER NEED	Low-priced product	
	PRODUCT A	PRODUCT B
PRICE	$2	$5
CLOSEST MATCH TO CONSUMER NEEDS	✓	

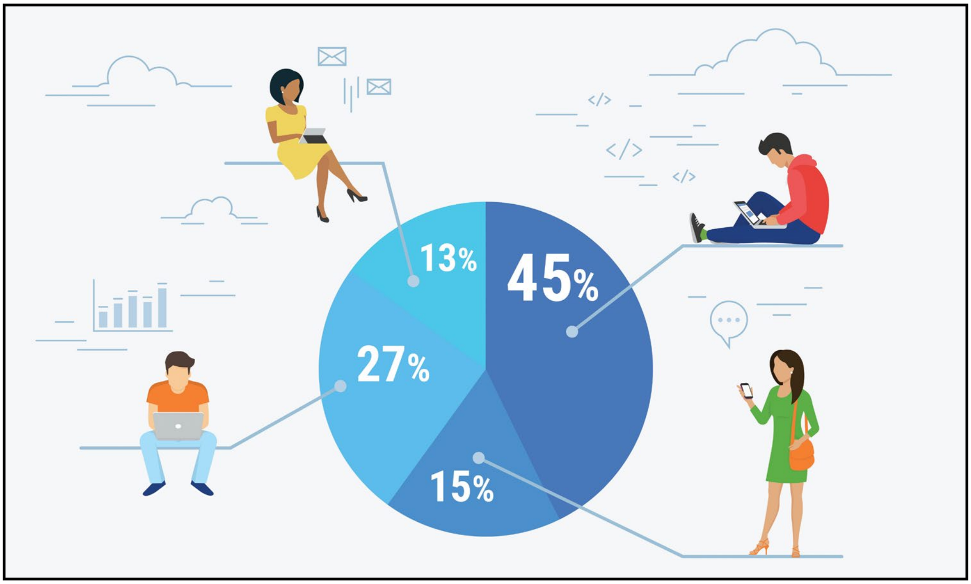
CONSUMER NEED	High-quality product	
	PRODUCT A	**PRODUCT B**
QUALITY	Moderate Quality	High Quality
CLOSEST MATCH TO CONSUMER NEEDS		✓

CONSUMER NEED	Moderate-quality product at a low price	
	PRODUCT A	**PRODUCT B**
PRICE	\$2	\$4
QUALITY	Moderate Quality	High Quality
CLOSEST MATCH TO CONSUMER NEEDS	✓	

CONSUMER NEED	Moderate-quality product	
	PRODUCT A	**PRODUCT B**
PRICE	\$2	\$3
QUALITY	Moderate Quality	Moderate Quality
CLOSEST MATCH TO CONSUMER NEEDS	✓	✓

In the final example above, both products match the consumers' needs. But, Product A may sell more than Product B because of the lower price.

Demographics and Psychographics



You can determine consumer needs by investigating consumer **demographics** and **psychographics**.

> **Demographics** include gender, age, income, location, and other statistical data.

> **Psychographics** are how a consumer thinks, including attitudes, aspirations, and other psychological criteria.

For example, if you sell an expensive luxury product, you may want to focus on consumers who have high income (demographics) and who desire luxury products (psychographics).

If you sell a sports fitness product, you may want to focus on consumers who play sports (demographics) and have a desire to stay fit (psychographics).

4 Ps of Marketing

Marketing is often summarized using what are called the 4 Ps:

Product	The features of the product.
Price	The price that consumers pay for the product.
Promotion	The effectiveness of the sales and marketing invested in the product, and the brand.
Place	The availability of the product where consumers are most likely to find and buy it.

8. Consumer Profiles

The table below shows an example of some of the factors that consumers will consider when purchasing a soft drink.

Price	A price-conscious consumer is more likely to purchase a lower-priced product.
Taste	A taste-conscious consumer is more likely to purchase a better-tasting product.
Health	A health-conscious consumer is more likely to purchase a product that offers the most health benefits.
Brand	A brand-conscious consumer is more likely to purchase a product with greater brand equity. Brand equity represents the brand awareness and brand loyalty you have created for your business. Brand awareness is how well-known your brand is versus the competition. It can be improved with advertising and sales promotion. Brand loyalty is the likelihood that a customer who has already experienced your product will purchase it again. It can be improved by getting repeat or new customers to purchase your product, with the hope that they will have a positive experience with the product.

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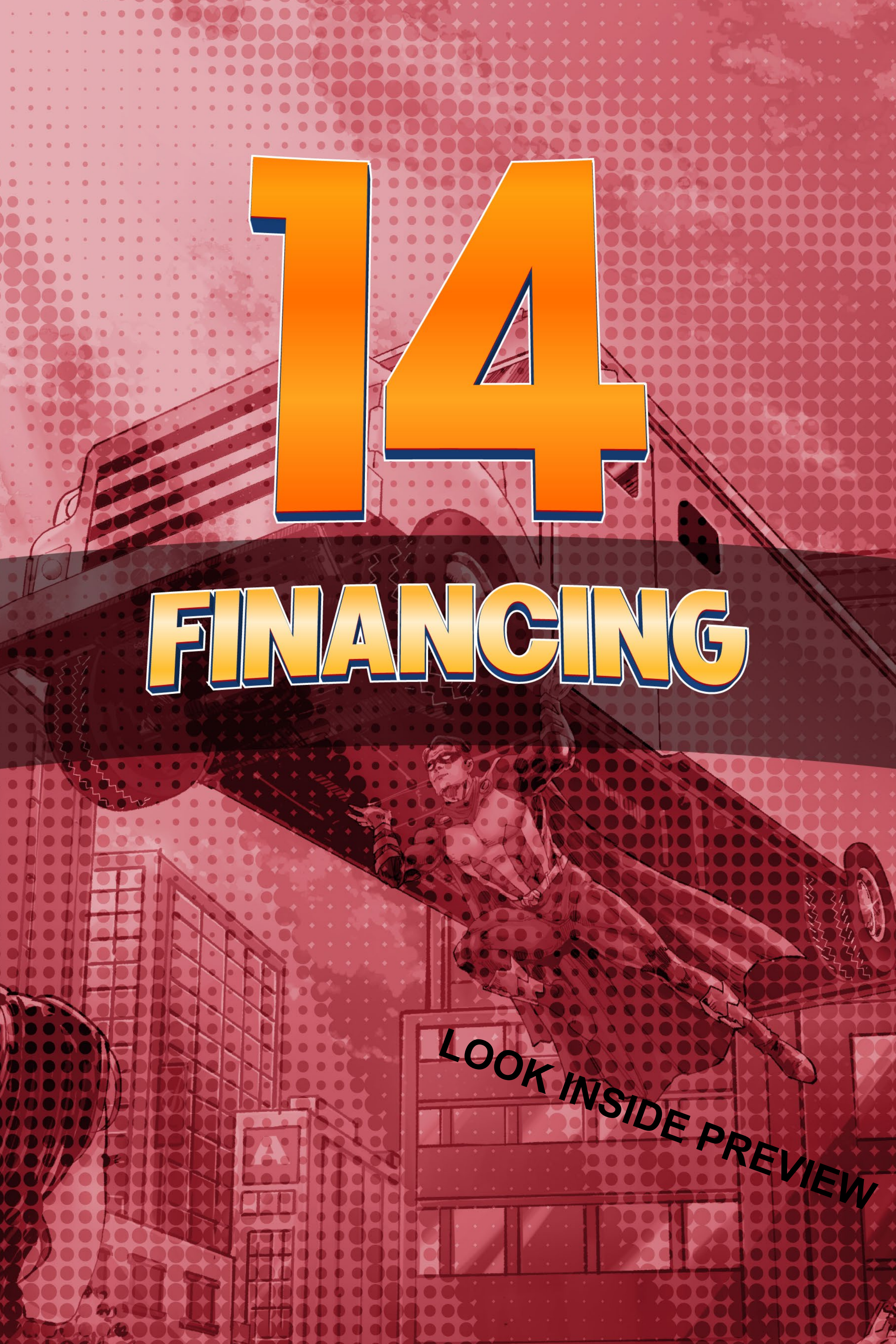
FINANCING



Business Financing

Financing means money. Businesses often need money to start a business, grow a business, buy new equipment, conduct research and development, expand operations, or achieve other objectives.

Businesses commonly raise money using one or both of these methods:

Debt Financing
Taking out a loan is debt financing. Debt means borrowing money that must be repaid, often with interest.

Equity Financing
Issuing stock is equity financing. This means selling a share of the business (equity) in return for money. This money is not repaid like a loan. In the real world, a shareholder may be entitled to a share of profits and other benefits. Distribution of profits to shareholders is called issuing **dividends**.

A third method is **grant** financing, but this is less common – more on grant financing below. Entrepreneurs may use their own personal savings to finance a business – this money is usually invested into the company in the form of debt or equity financing.

Debt Financing

Banks and other lenders provide money to businesses in the form of loans. Lenders make their money by charging **interest** on the loan. This means you have to pay back more than you borrow. Normally, a loan is repaid by making monthly payments over a specified period of time (**the term**).

Qualifying for a loan to finance a new business is not easy. Loaning money to new businesses is considered risky because if the business fails, the loan may not be repaid. To reduce the risk, lenders may request that a business loan be personally guaranteed by the owner or be secured with collateral.

A **personal guarantee** is a promise made by the business owner (or an affiliated person) to repay the loan personally, if the business is unable to do so. If the business owner does not have money to repay the loan, the lender could force the sale of personal assets.

Collateral is when a loan is tied to a particular item of value (**asset**). For example, a loan to purchase a home (called a **mortgage**) uses the house as collateral. If the owner cannot pay the mortgage, the lender will take ownership of the house. This is also common with an automobile loan, where the automobile is the collateral.

A loan made to a business may use the business assets as collateral, which may include equipment, inventory, vehicles, trademarks, patents, and other tangible and intellectual property. If the business assets are not of significant value, personal guarantees may be required.

Applying for a Loan

When a business receives a loan, it raises new money that increases cash. Loan terminology:

Loan Principal
The amount of money to be borrowed.

Interest
The extra amount of money to be paid back in addition to the loan principal.

Interest Rate
The interest to be paid, stated as a percentage of the loan principal.

Compounding Period
How often Interest is calculated on the loan.

Payment Period
The frequency in which loan payments will be made.

Amortization Period
The length of time it will take to repay the loan with interest.

Amortization Schedule
The amounts and dates due for each loan payment.

Loan Example

You apply for a loan…

PRINCIPAL	$10,000
INTEREST RATE PER YEAR	10% COMPOUNDED YEARLY
PAYMENT PERIOD	MONTH
AMORTIZATION PERIOD	4 YEARS (48 MONTHS)

When you receive the loan principal, your cash will increase by $10,000. Your loan payments will be withdrawn from cash each month. Each payment includes a portion of principal and interest.

Review the example in the table below that shows how much loan interest is repaid, then complete the other examples.

PRINCIPAL	$10,000	$25,000	$20,000
INTEREST RATE PER YEAR	10% COMPOUNDED YEARLY	10% COMPOUNDED YEARLY	20% COMPOUNDED YEARLY
PAYMENT PERIOD	1 YEAR	1 YEAR	1 YEAR
AMORTIZATION PERIOD	$1,000 $10,000 x 10 ÷ 100%	$ ________	$ ________

Equity Financing

An equity investment is when a person or organization gives money in return for a percentage or share of ownership in a business. The investment does not have to be repaid like a loan, but does have other considerations.

Having investors in a company can be beneficial because it is in their best interest to help the company succeed. But, sometimes investors may try to influence the operations and direction of the company more than the original founders or owners would like.

See ***§ Ownership*** for more details about selling shares or stock in a business.

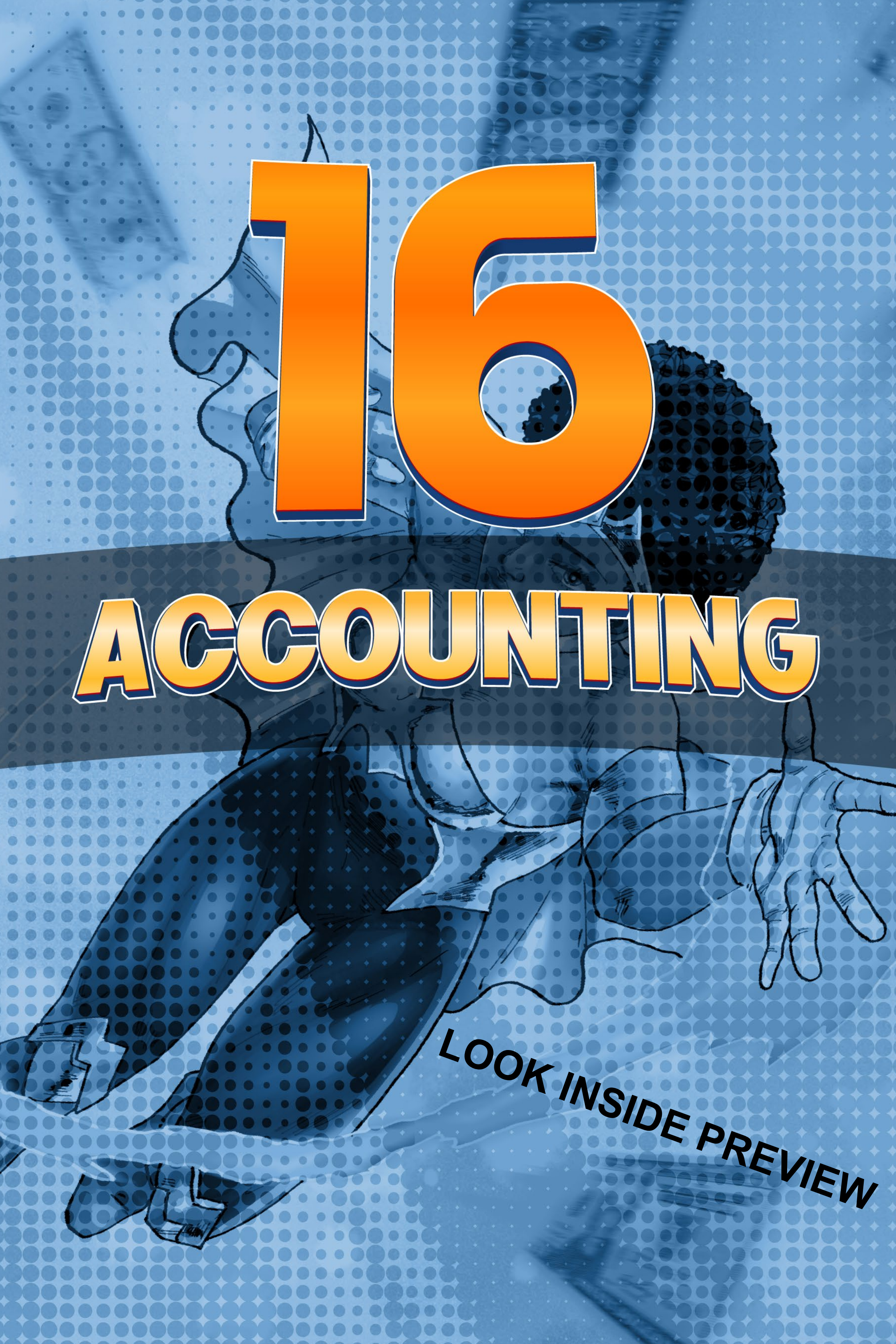
Equity Example

When raising money by selling shares, a business must determine a share price for the shares. The share price will determine how many shares will be issued to the investors providing the financing or other benefit to the company.

The following formula applies with examples in the table below:

Money Raised = Share Price x Number of Shares

SHARE PRICE	$1	$2	$5
NEW SHARES ISSUED (SOLD)	1,000	1,000	2,000
MONEY RAISED	$1,000 = $1 x 1,000	$2,000 = $2 x 1,000	$10,000 = $5 x 2,000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ACCOUNTING
LOOK INSIDE PREVIEW

Business Accounting

Accounting is the process of tracking financial transactions and reporting the results of the transactions.

A financial transaction occurs every time that money or something of value moves in or out of a business. Examples of financial transactions include:

- Making a sale
- Delivering a product to a customer
- Converting raw materials into a finished product
- Buying advertising
- Paying employees
- Receiving loan money
- Making a payment on a loan
- Paying rent
- Buying office supplies
- Collecting taxes
- and more.

Tracking financial transactions is called **bookkeeping**.

Once financial transactions are recorded, financial reports can be generated to display the results of those transactions.

Double-Entry Bookkeeping

Businesses use a system called double-entry bookkeeping to record their financial transactions. This system is believed to have been developed over 600 years ago.

A personal checkbook is an example of a single-entry bookkeeping system. Each time you record a payment or deposit, you write it down once and add or subtract the amount from your bank balance. Each entry will either increase cash or decrease cash.

DESCRIPTION	AMOUNT	CASH BALANCE
		700
Rent	-500	200
Utilities	-125	75
Paycheck	+1,000	1,075

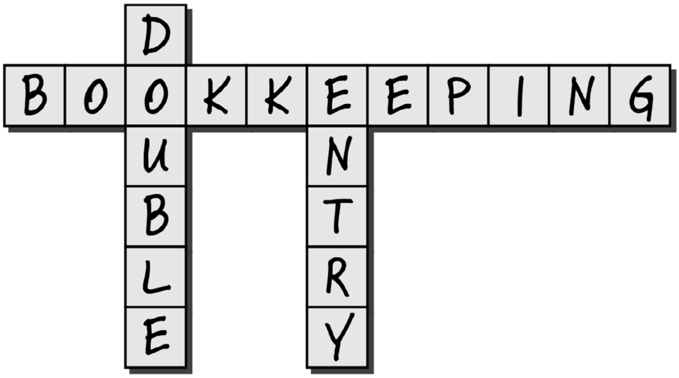
Easy to make a math mistake

It is easy to make a mistake using single-entry bookkeeping. This could result in the balance of money available to be incorrect.

A business needs a system which will not have this potential for error. And, a business has to categorize all its transactions very carefully. Double-entry bookkeeping solves these challenges.

Double-entry means each item gets entered twice – once to record the impact on cash and once to record the category of the transaction.

By recording the amounts twice (in different subtotals), the system tracks finances more carefully and crosschecks the totals to make sure they are the same. This is similar to how a crossword puzzle requires letters to fit both down and across the puzzle.

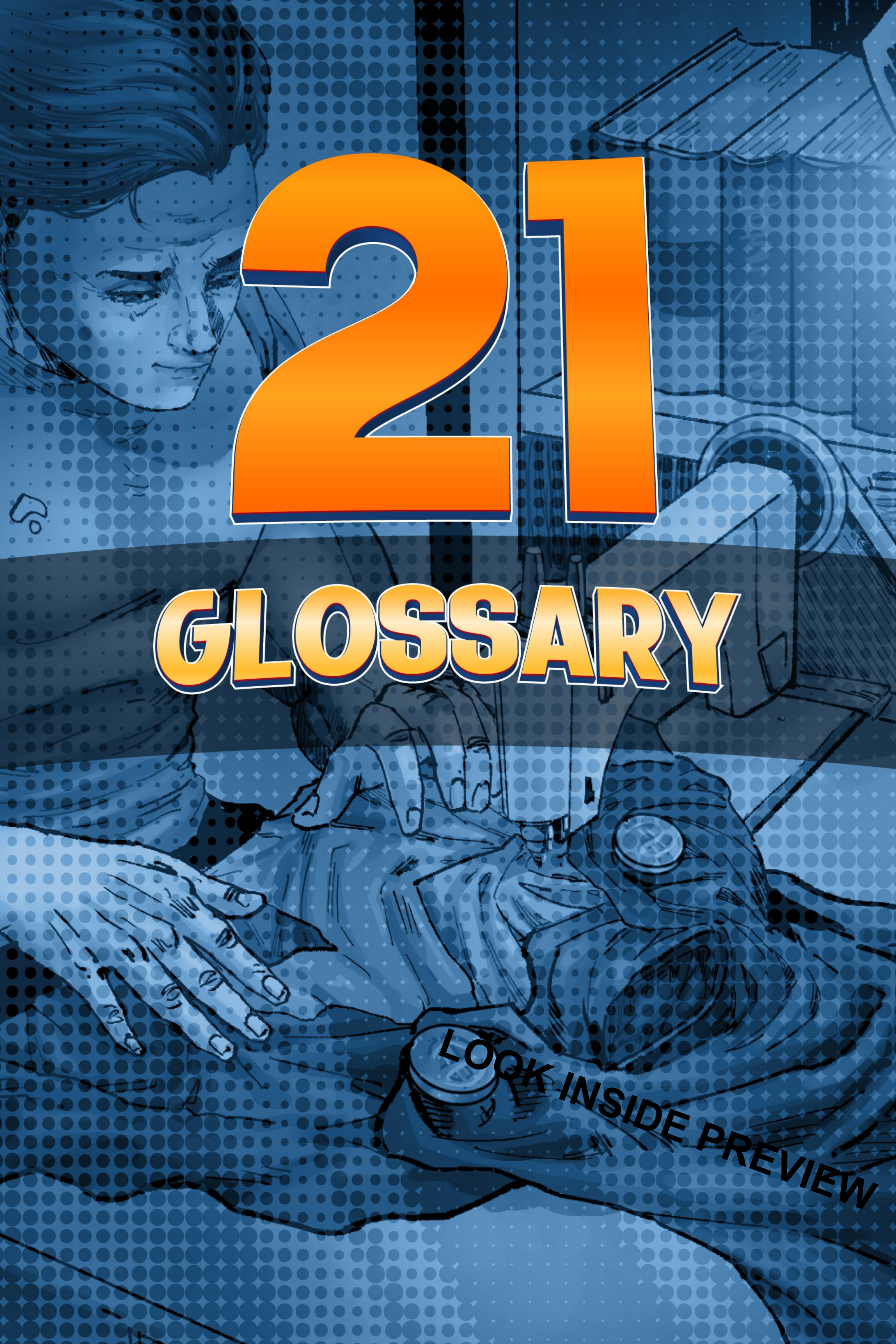


Below are three transactions recorded using double-entry bookkeeping. Notice how each transaction has two entries – one to show the effect on Cash and the other to show the effect on a related account.

For example, when a business buys an office chair for $50, Cash is reduced by the $50 used to pay for the chair, and Assets are increased by $50 because the business now owns a chair valued at $50. The business did not lose $50. It converted $50 of value from Cash to an Asset.

DESCRIPTION	CASH ACCOUNT	OTHER ACCOUNT
Buy office chair	-50	+50 Assets
Sell product	+100	+100 Revenue
Buy Product to resell	-75	+75 Assets

Double-entry bookkeeping reduces the possibility of error because if an amount is entered incorrectly, it might cause the accounting to unbalance, which can immediately be seen and corrected.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GLOSSARY
LOOK INSIDE PREVIEW

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Accounting

The process of tracking financial transactions and reporting the results of the transactions. A financial transaction occurs every time that money or something of value moves in or out of a business.

Accounts Payable

An accounting account used to record purchases of goods and services made by a business for which the business has not yet paid, but expects to pay within one year.

Accounts Receivable

An accounting account used to record sales made of goods or services by a business for which the business has not yet received payment, but expects to within one year.

Accrual Basis Accounting

An accounting method where revenue and expenses are recorded when the transaction occurs rather than when payment is received or made.

Amortization Period

The length of time over which a loan is scheduled to be fully repaid.

Amortization Schedule

A list of the dates and payment amounts due to be made on a loan.

Angel Investor

A wealthy individual who invests in a private business by providing debt or equity financing.

Assets

Something of value that a business owns.
This could be cash, furniture, property, buildings, computer software, and more.

Balance Sheet

A financial report that shows the value of a business by adding up everything the business owns and subtracting everything that the business owes. The Balance Sheet

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LOOK INSIDE PREVIEW

YOUR BUSINESS SUPERHERO ORIGIN STORY BEGINS NOW!

This book is a powerfully clear and concise guide to the basics of business and entrepreneurship. There are no stories, opinions, or other extraneous information. Just the fundamentals — presented in a style that is quick to read and easy to understand.

About the Author

Mathew Georghiou is an engineer, inventor, and entrepreneur who has founded and operated several businesses in education, entertainment, and technology. An expert in experiential learning, he has designed educational games and simulations that have transformed business education and entrepreneurship training for millions of learners around the world, through thousands of schools, universities, nonprofits, and businesses. Find out more at Georghiou.com

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