

# What is a Business?

## Businesses - goods and services

We are surrounded by businesses. We interact and transact with them every day. But what, exactly, is a **business**?

A business can be defined as

**An organisation that provides goods and services to customers who want or need them**

What are **goods and services**?

**Goods** are **tangible** things that are produced, bought or sold, then finally consumed. Look around your home and you will see dozens of examples, from the microwave and the ready-meals in the freezer, to the flat-screen television and Nintendo Wii console.

**Services** are **activities** that other people or businesses do for you. When you book a holiday, visit the hairdresser or eat in a restaurant you are consuming one or more services. Services are sometimes referred to as **intangible**, in the sense that you can't touch or handle them.

Most businesses provide a service rather than make goods. That is particularly true of the small business sector. Take a flick through the Yellow Pages directory at home to see the many small service businesses operating nearby.

There are some important differences in the skills required to run a business making goods compared with providing services. Here is a brief summary:

Goods	Services
Requires a production location - factory	The location is where the service is provided – either physically (e.g. a builder) or virtually (e.g. telesales or via a website)
The output from production is stock – which can be transported and/or stored for future sale	Service is delivered at a point in time – it cannot be stored! A shop has to be open to sell. A hairdresser has to be there to cut hair
Production costs will include the costs of raw materials and other inputs into the production process	The main cost of a service business is the people involved
Requires close liaison with suppliers	Require high levels of customer satisfaction
Quality can be built-in to the product through good design and production processes designed to ensure the right quality is achieved	Quality is measured by the quality of customer service. Harder to manage
Quite costly to set up. The production process needs to be in place and working	Relatively easy to start a service business, particularly using franchises, where a

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before goods can be produced.

business format has already been established

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## The Production Process

Businesses provide goods and services. To be able to do this, they need to be able to turn **inputs into outputs**. This is known as the **production process**.

A good way to think about the production process is to imagine a **transformation** that happens to a series of **inputs**, turning them into **outputs**:



**Inputs** into the production process include:

- **Labour** – employees providing their time, effort and skills
- **Equipment** – machinery, buildings, computers
- **Raw materials** - Physical substances used as inputs (e.g. steel, energy, ingredients)
- **Finance** – cash needed to buy equipment, pay for employees, rent a location and pay for marketing
- **Enterprise** – an input that is often forgotten. Think of enterprise as the **creative energy and force** that gets a business started and drives it forward

Many of the inputs into the production process are provided by suppliers.

**Suppliers** provide the goods and services that a business needs in order for it operate.

For example, the suppliers to a Chinese restaurant would include:

- Food ingredients - likely to be from a food wholesaler
- Energy - electricity, gas, heat & light)
- Property – the landlord
- Marketing – advertising outlets such as newspapers

The **outputs** from the production process are the finished goods and services.

Outputs are bought by **customers** – the people who pay. Customers are often, but not always the same as consumers.

**Consumers** are the actual users of the goods or service. For example, a parent might buy a PlayStation 3 console game for a child. The parent is the customer; the child is the likely consumer.