

Marketing Essentials



Chapter 5

the free enterprise system

Section 5.1 Traits of Private Enterprise

Section 5.2 Business Opportunities

Traits of Private Enterprise



Before You Read

CONNECT When do you need to be self-motivated?

Traits of Private Enterprise

OBJECTIVES

- **Explain** the characteristics of the free enterprise system.
- **Distinguish** between price and nonprice competition.
- **Explain** the theory of supply and demand.

THE MAIN IDEA

Countries in the global marketplace have market-oriented economic systems that feature the traits of the free enterprise system: competition, property ownership, risk, and the profit motive.

Traits of Private Enterprise

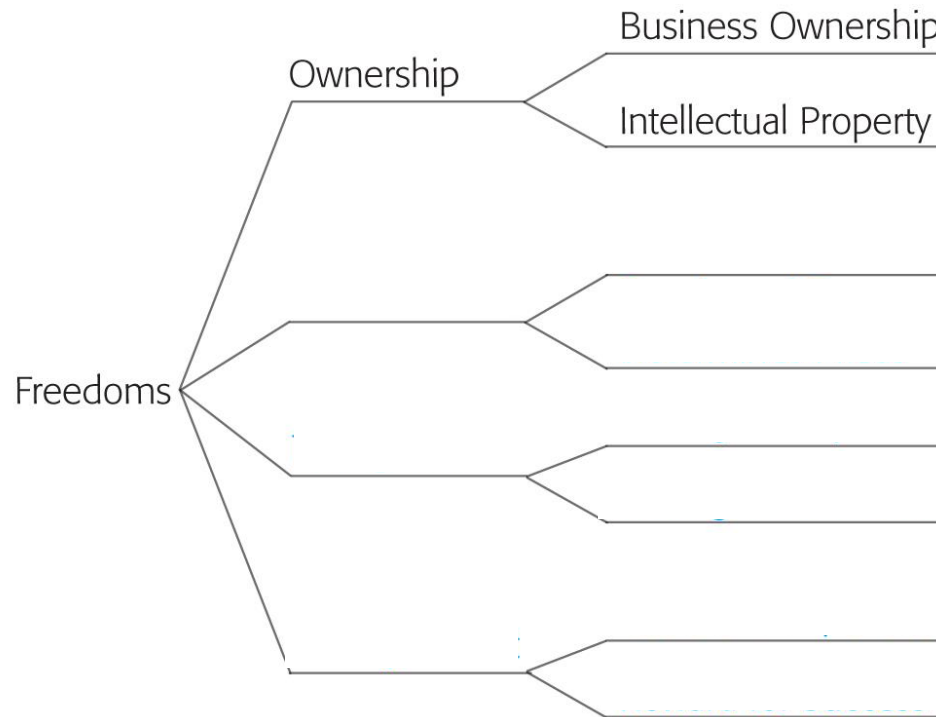
VOCABULARY

- private enterprise
- patent
- trademark
- copyright
- competition
- price competition
- nonprice competition
- monopoly
- business risk
- profit
- supply
- demand

Traits of Private Enterprise

Graphic Organizer

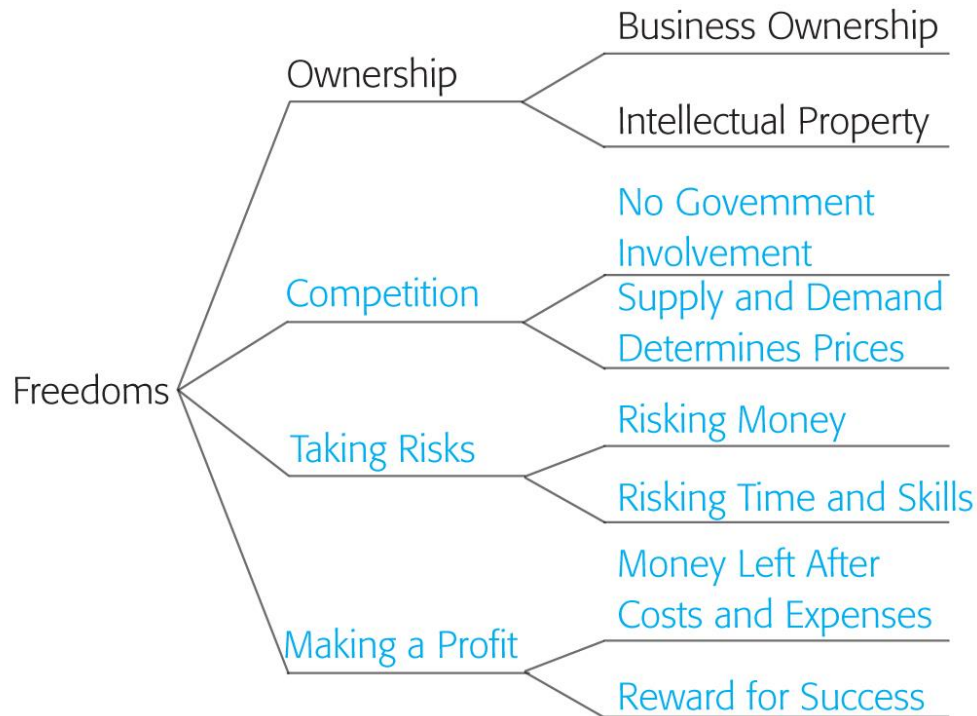
Traits of the Free Enterprise System



Traits of Private Enterprise

Graphic Organizer

Traits of the Free Enterprise System



Traits of Private Enterprise

Basic Principles

Basic Elements of Private Enterprise

Freedom to own property

Freedom to compete

Freedom to take risks

Freedom to make a profit



private enterprise

Business ownership by ordinary people, not the government.

Traits of Private Enterprise

Basic Principles

Elements of Intellectual Property Rights



patent

A document granting an inventor sole rights to an item or an idea.



trademark

A word, name, symbol, sound, brand name, brand mark, trade name, trade character, color, or a combination of these elements that identifies a good or service and cannot be used by anyone but the owner because it is registered with the federal government and has legal protection.



copyright

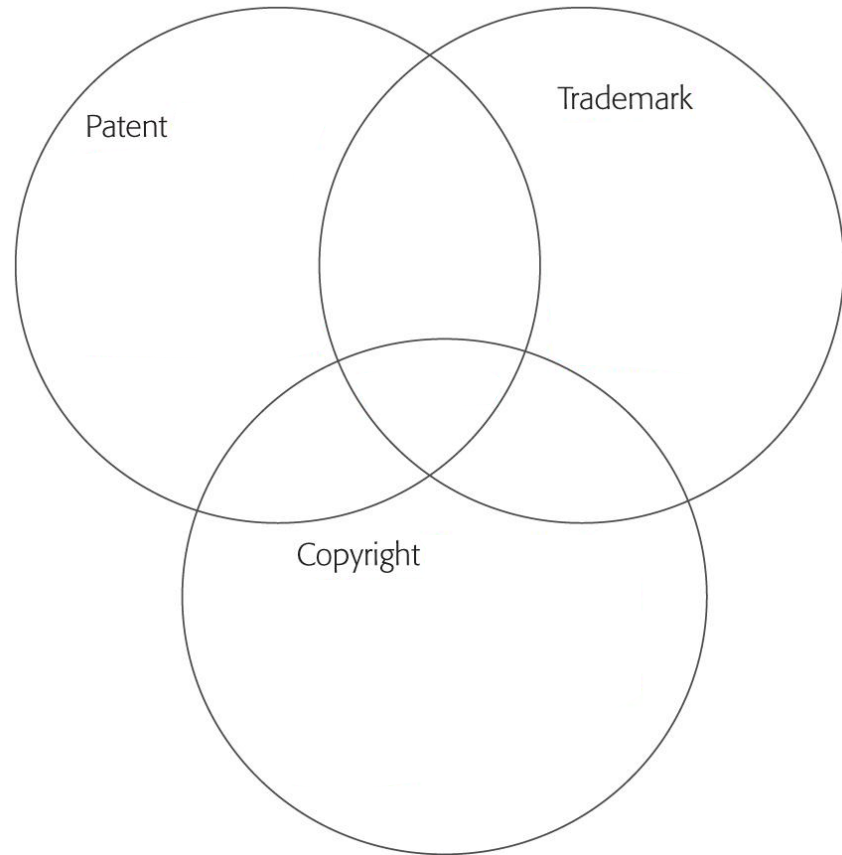
Anything that is authored by an individual, such as writings (books, magazine articles, etc.), music, and artwork.

Traits of Private Enterprise

Basic Principles

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Similarities and Differences

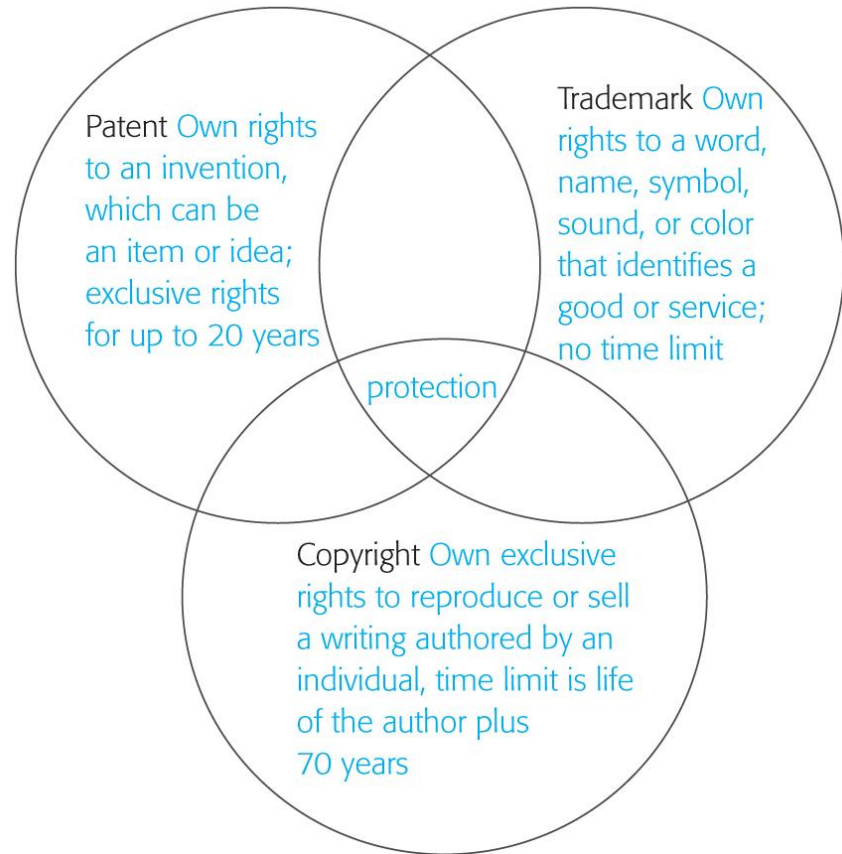


Traits of Private Enterprise

Basic Principles

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Similarities and Differences



Traits of Private Enterprise

Basic Principles

Price Competition

Nonprice Competition



price competition

A focus on the sale price of a product. The assumption is that, all other things being equal, consumers will buy the products that are lowest in price.



nonprice competition

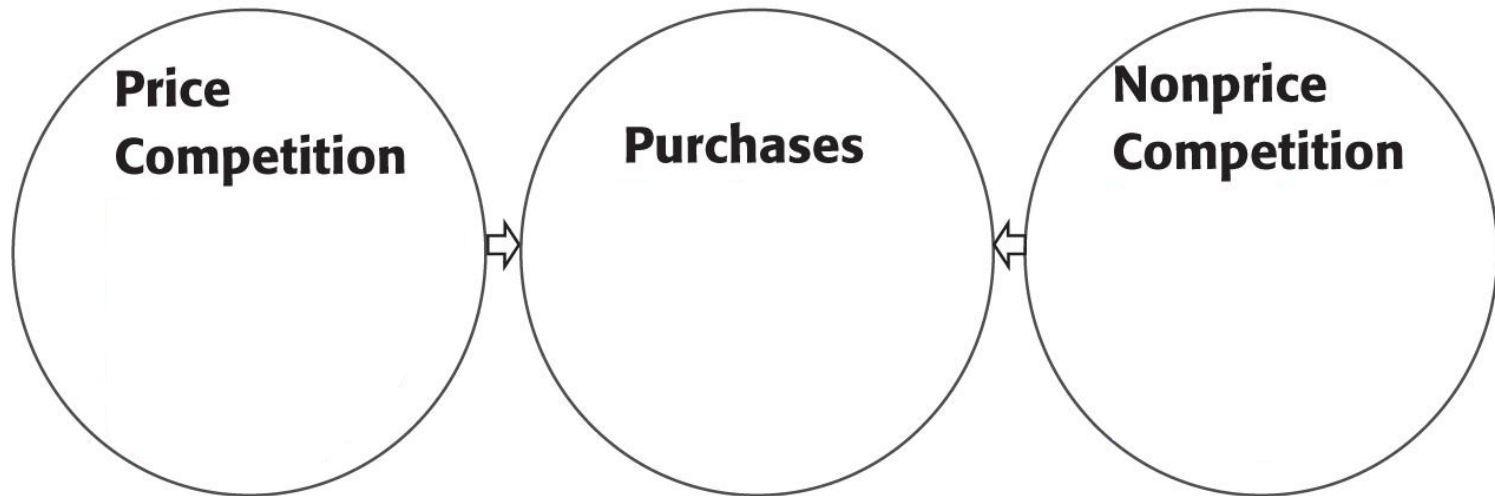
When businesses choose to compete on the basis of factors that are not related to price, including the quality of the products, service, financing, business location, and reputation.

Traits of Private Enterprise

Basic Principles

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How Price Competition and Nonprice Competition
Affect What You Buy

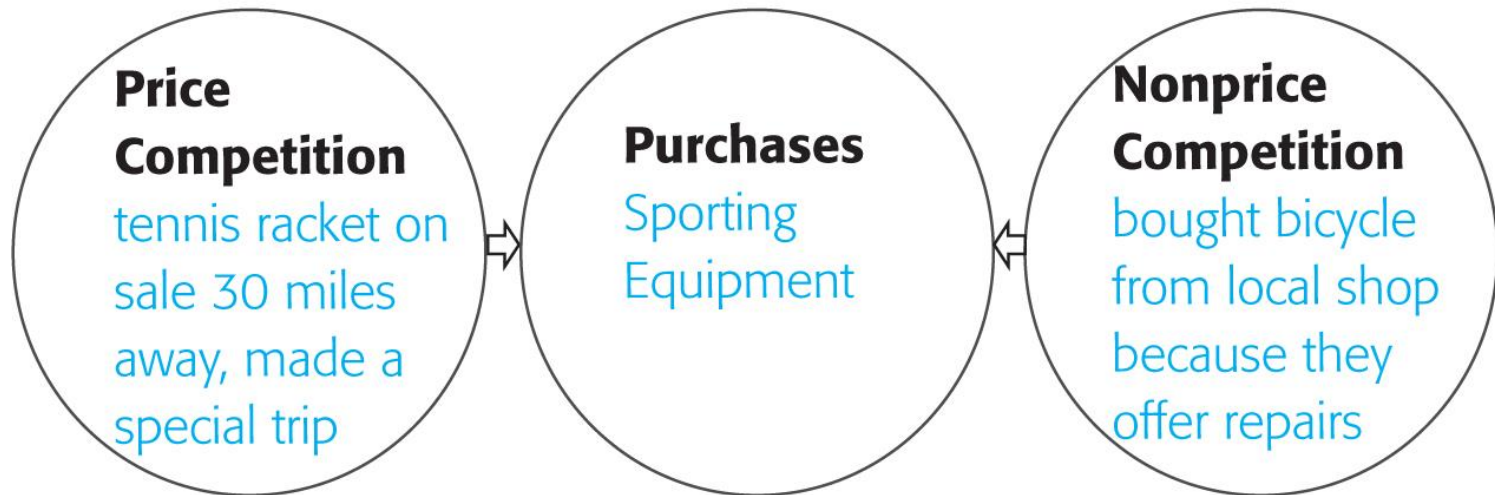


Traits of Private Enterprise

Basic Principles

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How Price Competition and Nonprice Competition Affect What You Buy



Traits of Private Enterprise

Basic Principles

Monopolies are not permitted in market-oriented economies.



monopoly

Exclusive control over a product or the means of producing it.

Traits of Private Enterprise

Basic Principles

Graphic Organizer

Monopoly

Possible Effects

Cause

A company is able to obtain complete control over the production and sale of a product, perhaps by lowering prices to drive the competition out of business.

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graph LR; Cause[A company is able to obtain complete control over the production and sale of a product, perhaps by lowering prices to drive the competition out of business.] --> Effect1[ ]; Effect1 --> Effect2[ ]; Effect2 --> Effect3[ ]; Effect3 --> Effect4[ ];
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Traits of Private Enterprise

Basic Principles

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Monopoly

Possible Effects

Cause

A company is able to obtain complete control over the production and sale of a product, perhaps by lowering prices to drive the competition out of business.

Higher prices

Reduced selection

Poorer quality

Control over who gets product

Traits of Private Enterprise

Basic Principles

Profit remains high when sales are high and costs are kept low.



profit

The money earned from conducting business after all costs and expenses have been paid.

Traits of Private Enterprise

Basic Principles



Supply

Demand



supply

The amount of goods producers are willing to make and sell.



demand

Consumer willingness and ability to buy products. The law of demand is the economic principle that price and demand move in opposite directions.

Traits of Private Enterprise

Basic Principles

Surplus

When supply exceeds demand

Shortage

When demand exceeds supply

Traits of Private Enterprise



After You Read

Section 5.1

1. **Explain** why intellectual property rights are important in a society that allows its citizens freedom of ownership.

Individuals have used their time, creativity, and skills to develop intellectual property, just as others have used their time and skills to make products or to provide services. Therefore, intellectual property deserves to be protected just like other things that people produce.

Traits of Private Enterprise



After You Read

Section 5.1

2. **Describe** how a company's failure affects the government and consumers.

A company's failure affects the government because it then receives fewer tax dollars. In addition, it may have to pay unemployment benefits to laid-off workers. It affects consumers because they then have fewer choices. If another company then has a monopoly, prices might go up.

Traits of Private Enterprise



After You Read

Section 5.1

3. **Explain** how a company with a monopoly can use the law of supply to increase its profits.

The company can decrease the supply to raise the demand and therefore the price can be increased resulting in profits going up.

Business Opportunities



Before You Read

CONNECT When have you taken advantage of an opportunity?

OBJECTIVES

- **Compare** for-profit and nonprofit organizations.
- **Distinguish** between public and private sectors.
- **List** the major types of businesses in the organizational market.
- **List** the major functions of business.

THE MAIN IDEA

The major functions of a business—production or procurement, marketing, management, and finance—are a basis for determining the strengths and weaknesses of a company as part of a SWOT analysis.

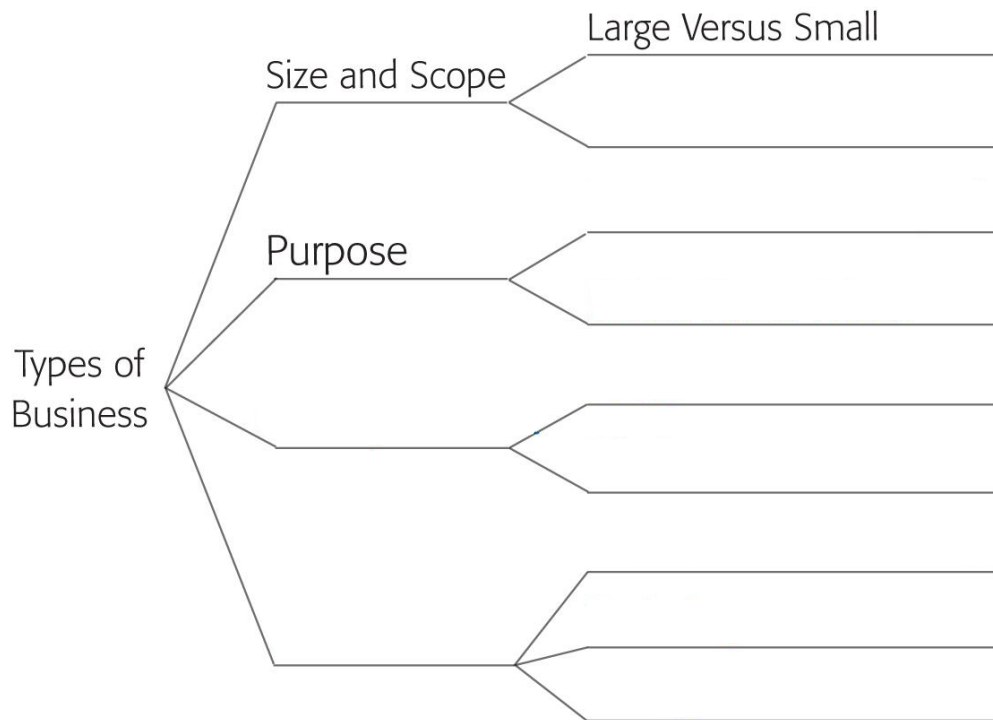
VOCABULARY

- domestic business
- global business
- for-profit business
- nonprofit business
- public sector
- private sector
- industry
- derived demand
- wholesalers
- retailers
- production
- management
- finance
- accounting

Business Opportunities

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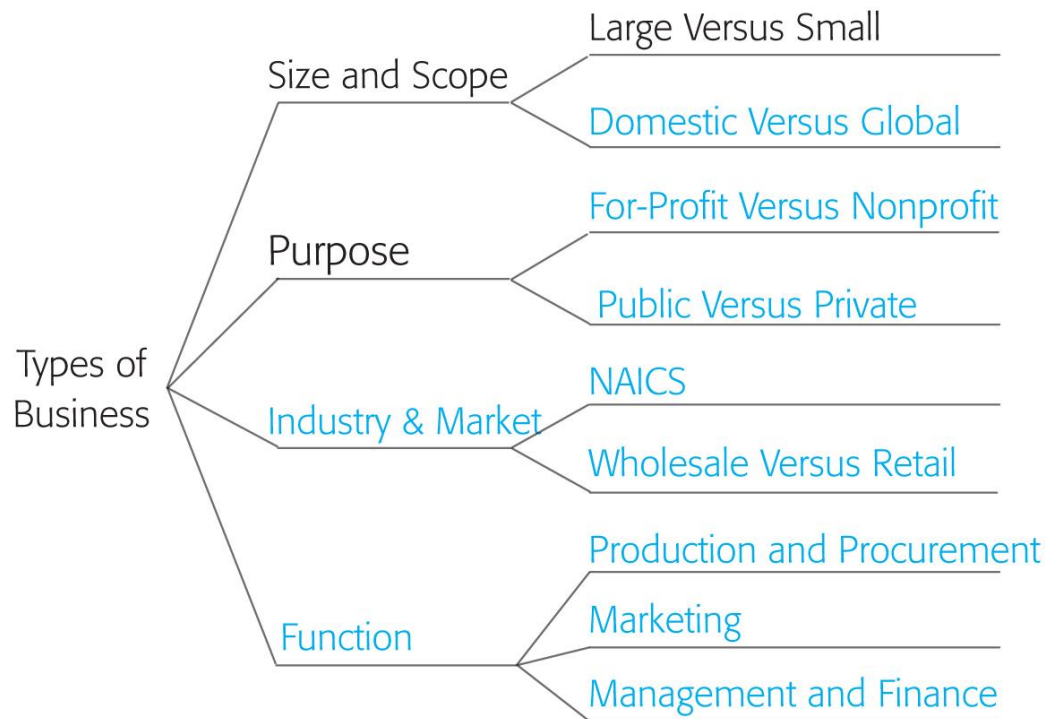
Business Functions



Business Opportunities

Graphic Organizer

Business Functions



Business Opportunities

Types of Business

How Can a Business Be Categorized?

**Size and
Scope**

Purpose

**Industry and
Markets**

Types of Business

Size and Scope

- Large Versus Small
- Domestic Business
- Global Business



domestic business

A business that sells its products only in its own country.

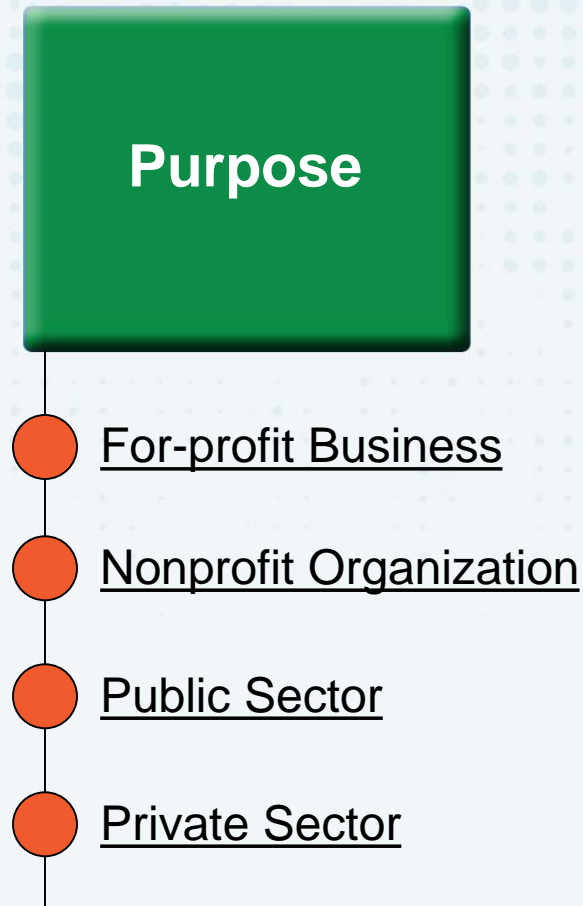


global business

A business that sells its products in more than one country.

Business Opportunities

Types of Business



for-profit business

A business that seeks to make a profit from its operations.



nonprofit organization

A group that functions like a business but uses the money it makes to fund the cause identified in its charter.



public sector

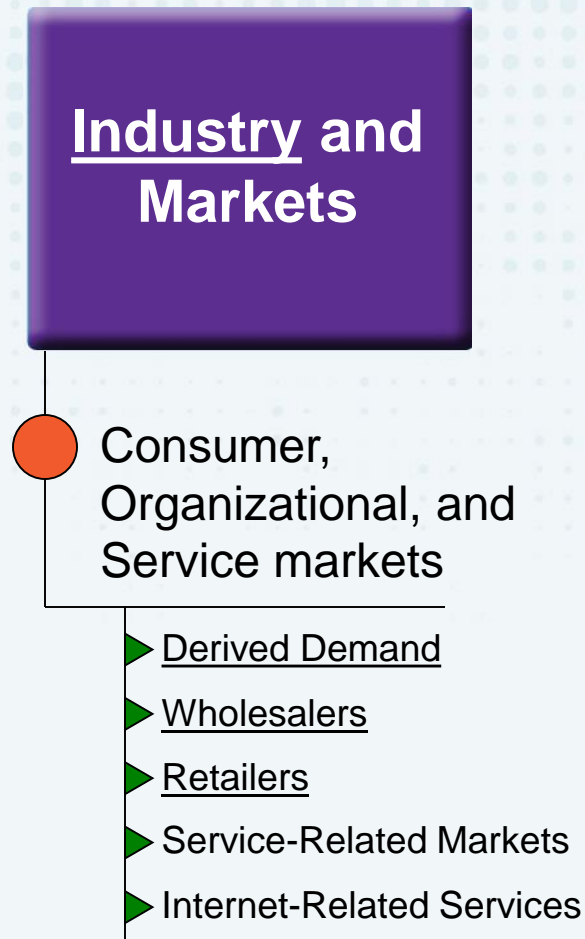
Government-financed agencies, such as the Environmental Protection Agency.



private sector

Businesses not associated with government agencies.

Types of Business



industry

A group of establishments primarily engaged in producing or handling the same product or group of products or in rendering the same services.



derived demand

Demand in the organizational market that is based on, or derived from, the demand for consumer goods and services.



wholesaler

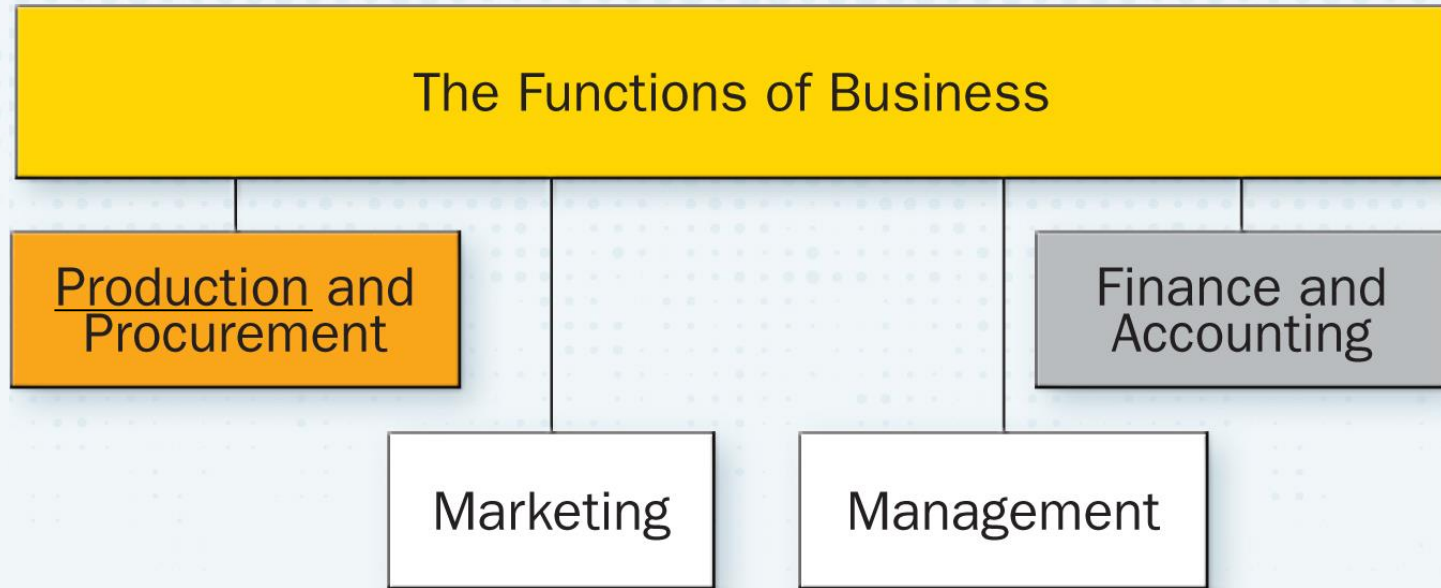
A business that obtains goods from manufacturers and resells them to organizational users, other wholesalers, and retailers, also called distributors.



retailer

A business that buys goods from wholesalers or directly from manufacturers and resells them to consumers.

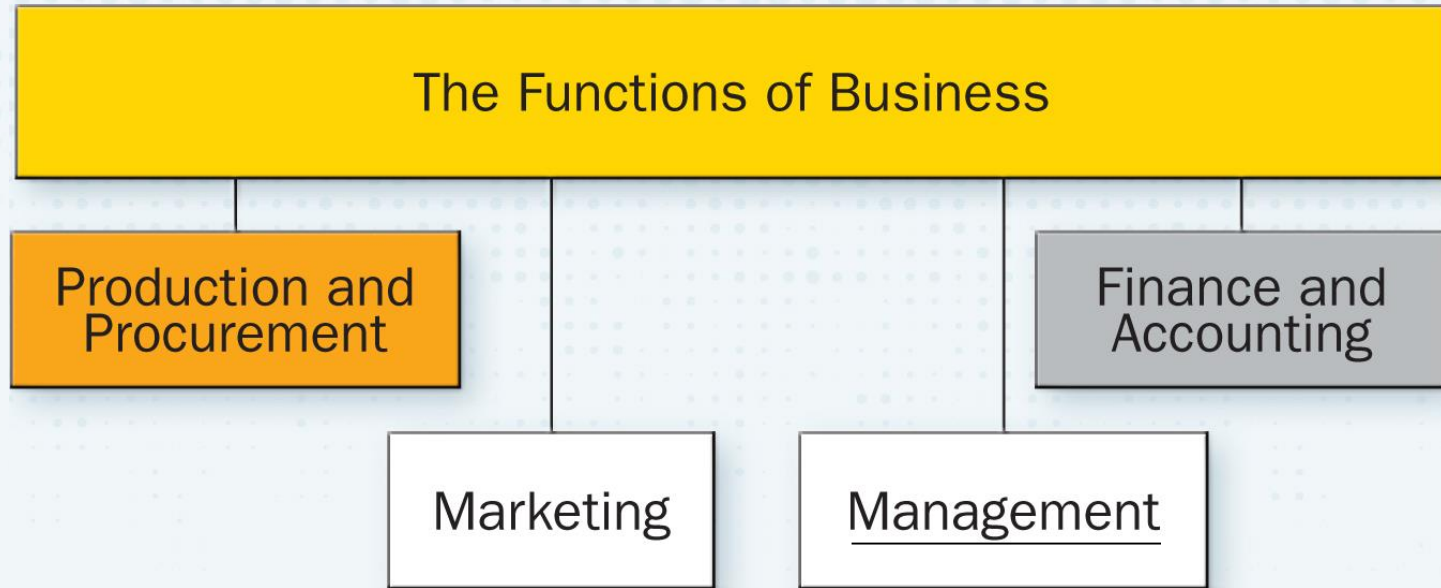
The Functions of Business



production

The process of creating, growing, manufacturing, or improving on goods and services.

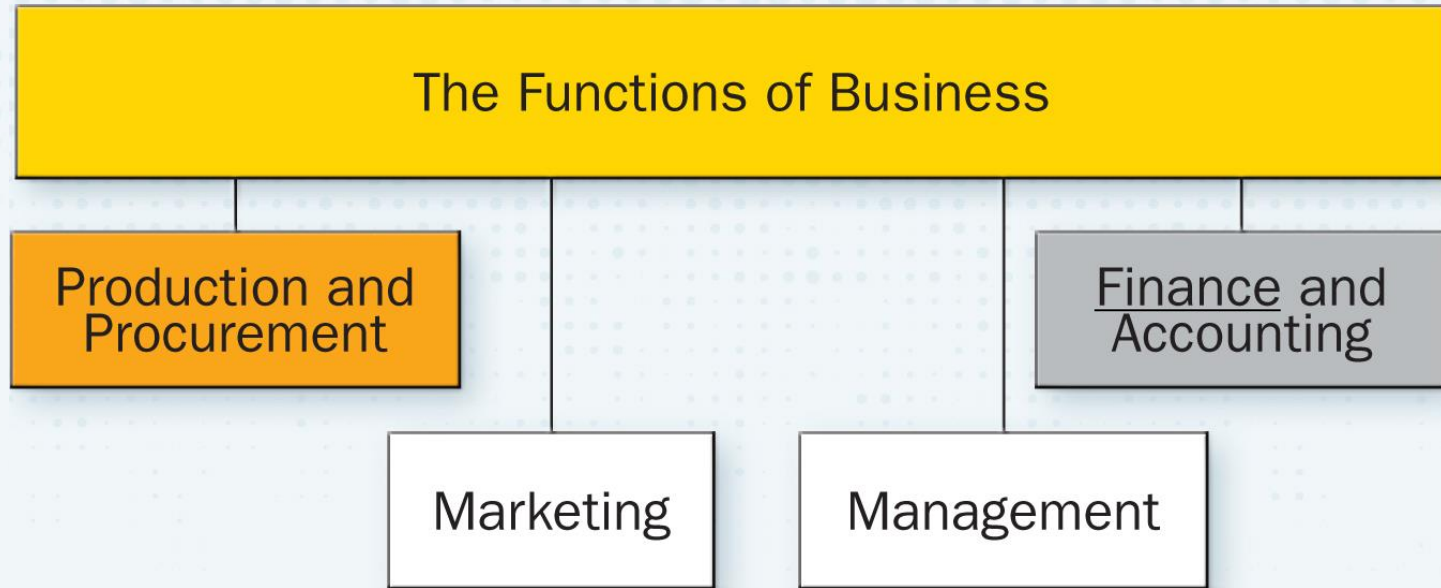
The Functions of Business



management

The process of achieving company goals by effective use of resources through planning, organizing, and controlling.

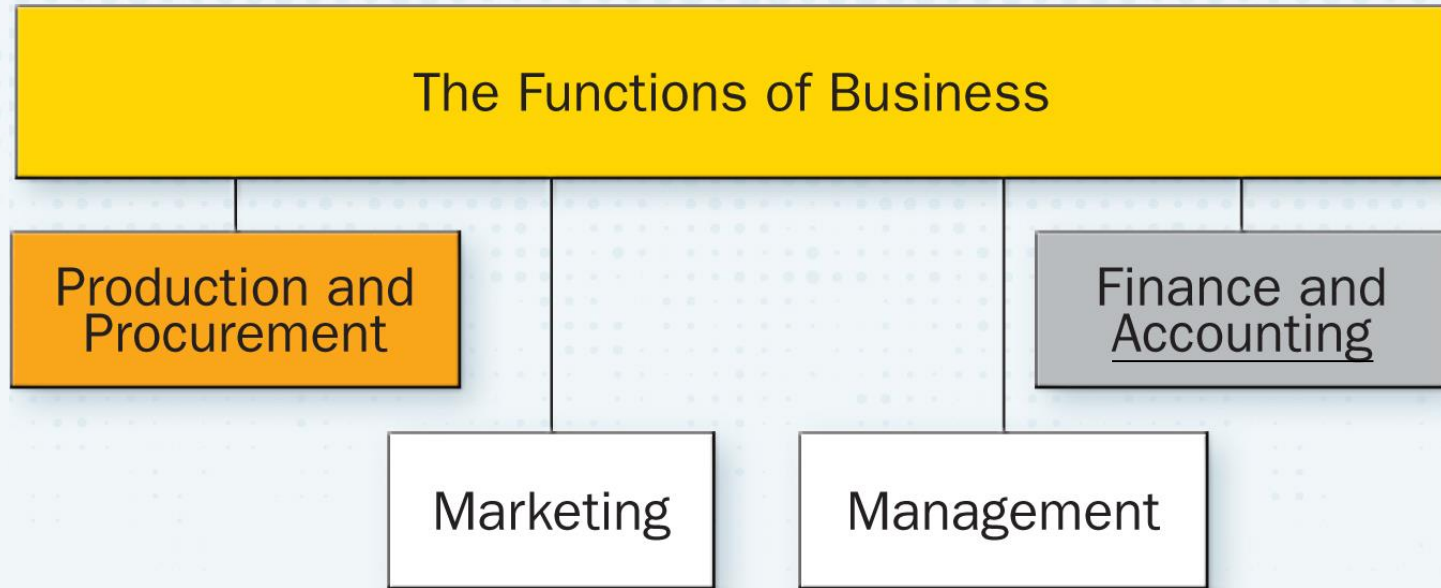
The Functions of Business



finance

The function of business that involves money management.

The Functions of Business



accounting

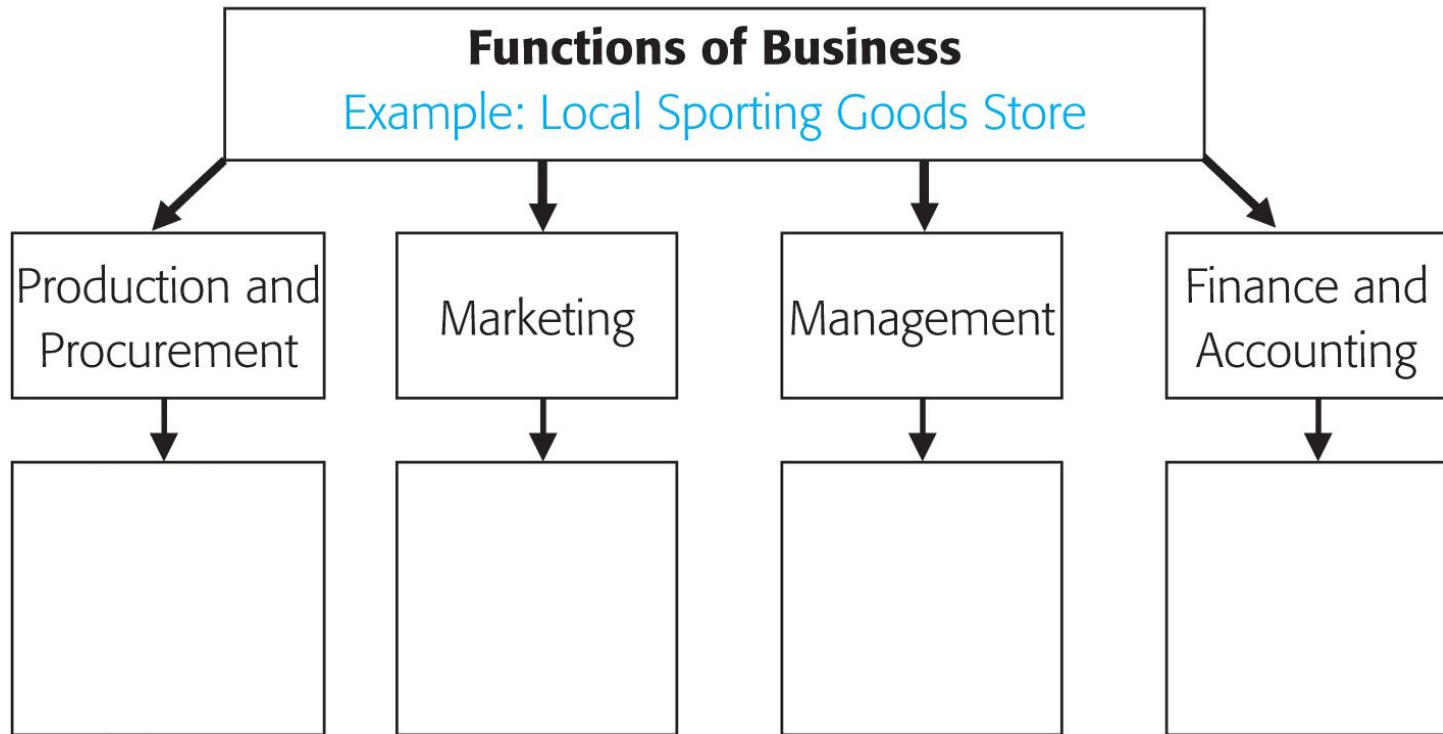
The discipline that keeps track of a company's financial situation.

Business Opportunities

The Functions of Business

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Examples of How Each of These Functions
Might Be Applied

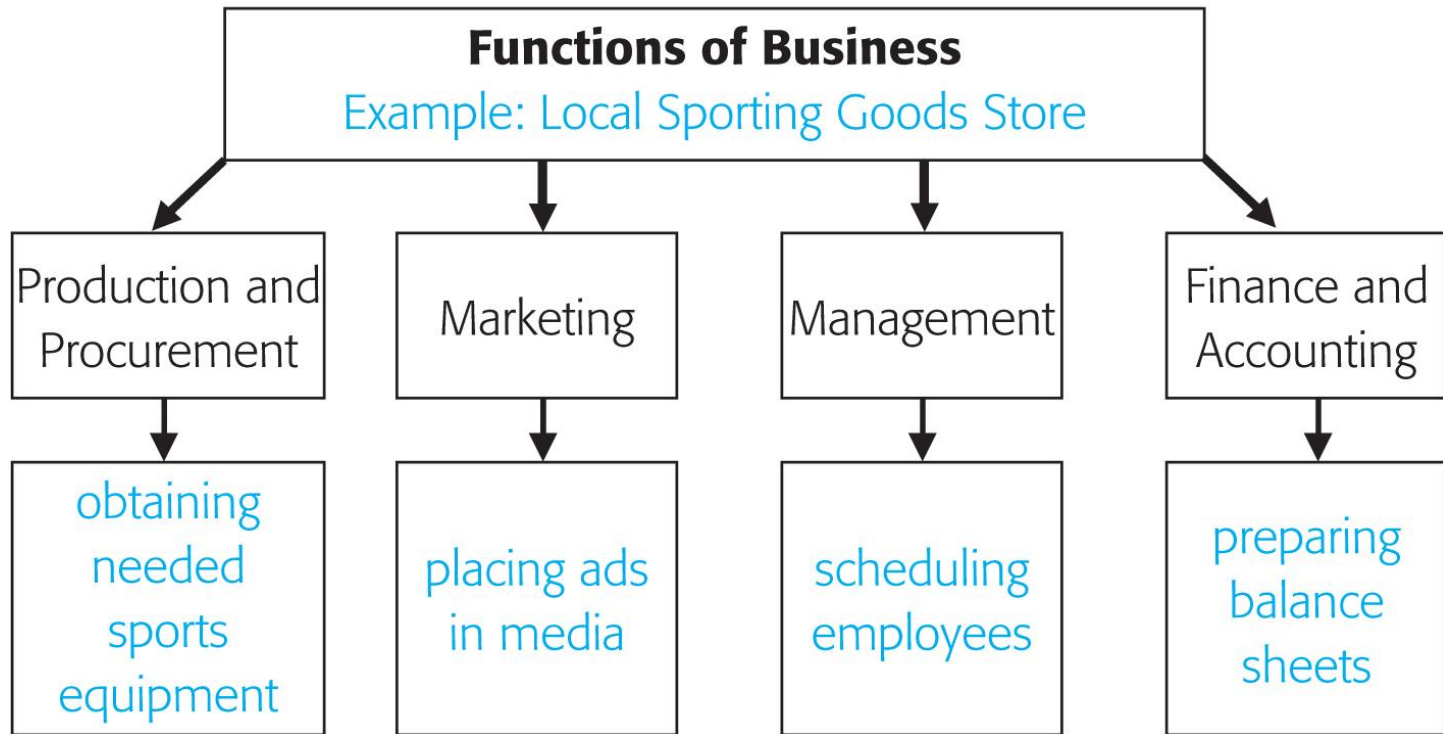


Business Opportunities

The Functions of Business

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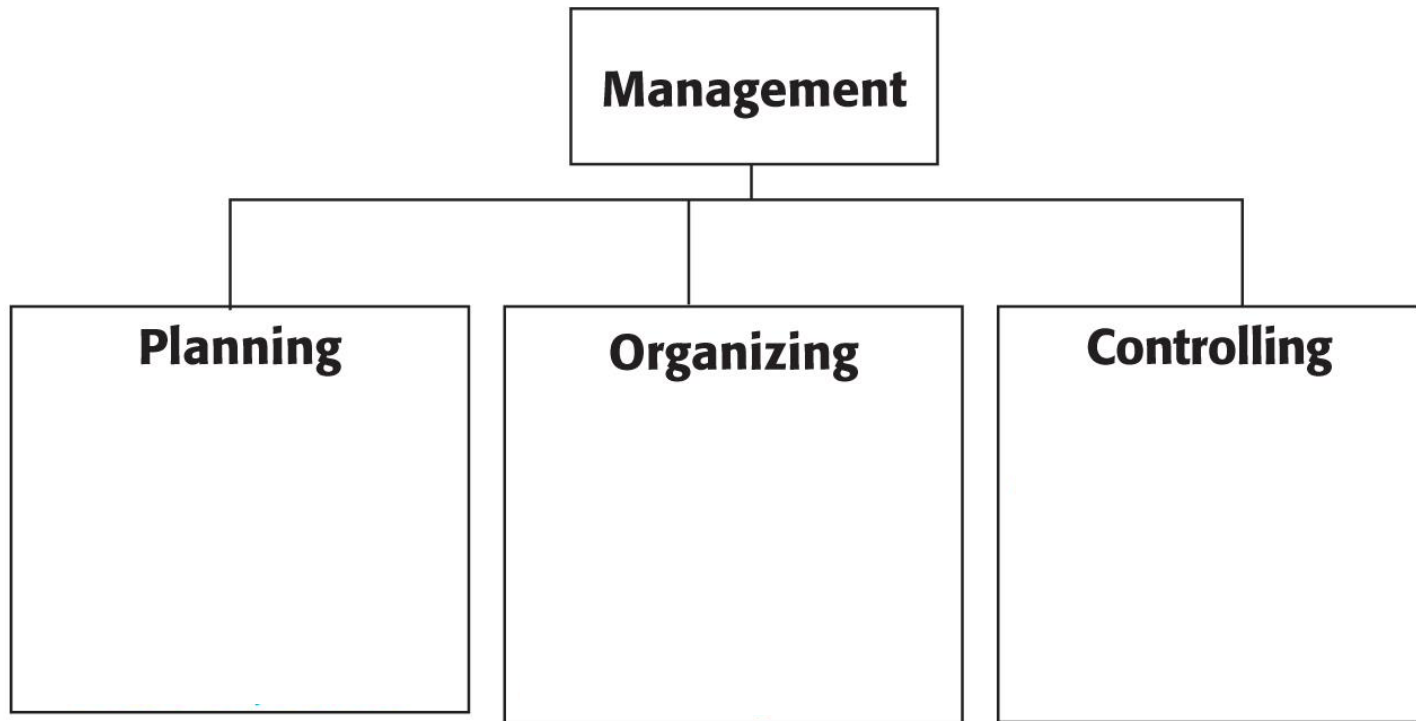
Examples of How Each of These Functions
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The Functions of Business

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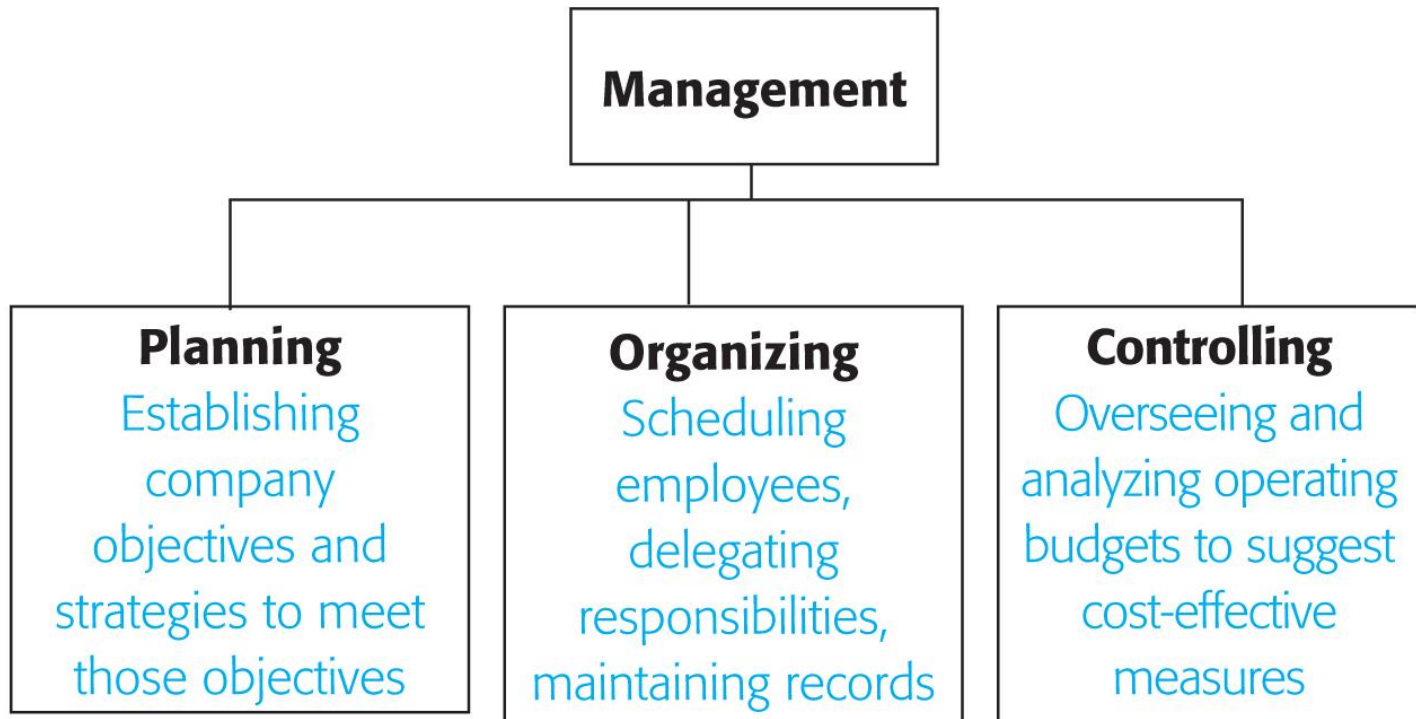
Management Tasks



The Functions of Business

Graphic
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Management Tasks



Business Opportunities



After You Read

Section 5.2

1. **Discuss** the significance of small businesses to the U.S. economy.

Over 95 percent of U.S. businesses are classified as small businesses and they employ over half of the private-sector workforce, which makes them significant to the U.S. economy.

Business Opportunities



After You Read

Section 5.2

2. **Explain** why DECA is classified as a nonprofit organization.

DECA is classified as a nonprofit organization because the revenue it generates from dues, the products it sells, and the donations it receives are used to support the function of the organization.

Business Opportunities



After You Read

Section 5.2

3. **List** what information is reported in a company's balance sheet. In its profit and loss statement.

Balance sheet: assets, liabilities, and owner's equity. Profit and loss statement: income, cost of goods sold, and expenses.

Marketing Essentials



End of
Chapter 5
the free enterprise
system

Section 5.1
Traits of Private
Enterprise

Section 5.2
Business Opportunities