

CHAPTER 3

Business Basics

Sections

3.1 **Business Defined**

3.2 **Laws and Regulations**



College
and Career
Readiness

Reading Prep

Before reading this chapter, go to the end of the chapter and read the summary. The chapter summary highlights important information that was presented in the chapter. Did this help you prepare to understand the content?

Check Your Marketing IQ

Before you begin the chapter, see what you already know about marketing by taking the chapter pretest. The pretest is available at www.g-wlearning.com/marketing/.

DECA Emerging Leaders

College and Career Connection

Career Cluster: Business Administration Core
Instructional Area: Financial Analysis

Performance Indicator

- Explain types of business ownership.

Purpose

Designed for DECA members, this activity enables student members to better understand opportunities available through DECA in marketing, finance, hospitality, and management.

DECA's Comprehensive Learning Program consists of all DECA activities by category and support programs of study in the four career clusters.

- **College, Business, and Educational Partnerships** provide scholarships, classroom presentations and career guidance, internships, work experience, and community service activities.
- **Competitive Events Program** provides authentic situations relating to current business practices.
- **DECA Direct Magazine** is a full-color international publication featuring articles on career development in leadership; community service; and professionalism.
- **Educational Conferences** provide targeted, highly focused learning experiences for members and advisors while connecting with corporate professionals.
- **Emerging Leader Series** strives to empower DECA members to provide effective leadership through goal setting, consensus building, and project implementation.
- **Global Entrepreneurship Week (GEW)** engages millions of young people around the world each November to embrace innovation, imagination, and creativity.
- **School-Based Enterprises** reinforce and enhance career preparation.
- **Social Media Correspondent Program** creates conversation among chapters and shares best practices and ideas.

- **Video Challenges** provide classroom activities that challenge members to apply highly engaging, relevant learning activities from their seats in the classroom.

Procedure

1. DECA members should become familiar with the organization and its diverse learning activities. Use the following activities to learn about DECA, identify membership benefits, and apply DECA's connection to college and career preparation.
2. The information will be presented to you through the navigation of the DECA website. Visit the DECA website at www.deca.org to become familiar with the activities and opportunities available to you as a student and DECA member. Select the tab that says *High School*. Then select *High School Programs* and click on *Competitive Events*.
3. Review the event descriptions, guidelines, and sample events for Business Operations Research Events and Entrepreneurship Events.

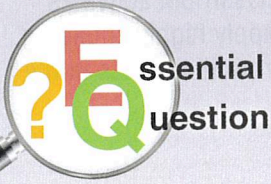
Critical Thinking

1. List the type of business ownership that relates to each event. Explain why the type of business ownership is appropriate for the event.
2. Which events allow team participants? Which events are for an individual participant? What do *team participants* and *individual participant* mean?
3. Which functions of business appear to be addressed in each event?
4. Which of the Business Operations Research Events and Entrepreneurship Events do you find interesting? How will the event support your career goals?
5. Share with your class how participating in a DECA competitive event enhances your college and career preparation.

Visit www.deca.org for more information.

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Section 3.1



What is the role of business in society?

Business Defined

Learning Objectives

- LO 3.1-1 Discuss the term *business*.
- LO 3.1-2 Explain the functions of money in society.
- LO 3.1-3 Define the functions of business.
- LO 3.1-4 Identify forms of business ownership.

Key Terms

business
money
medium of exchange
unit of value
store of value
time value of money
production
producer

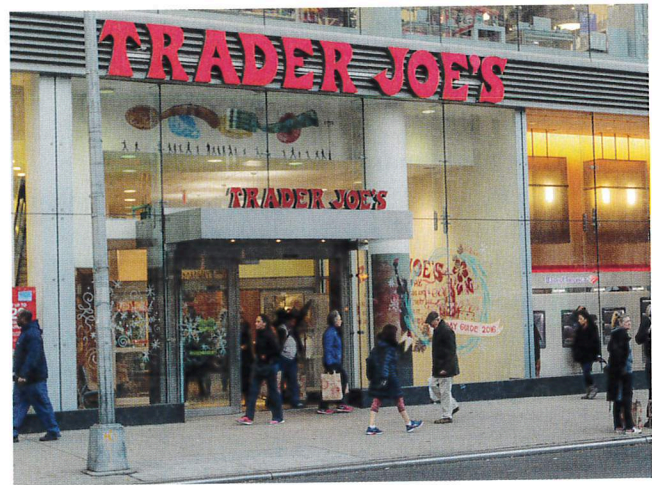
manufacturer
management
manager
sole proprietorship
partnership
corporation
nonprofit organization

LO
3.1-1

Business

In order to understanding marketing, you first need to understand the basic concepts of business. **Business** is the term for all of the activities involved in developing and exchanging goods and services. Business includes manufacturing, construction, mining, wholesaling, retailing, and farming. A business sells products, but it also manages people, makes financial decisions, and decides what and how much needs to be produced.

Profit is the difference between the income earned and expenses incurred by a business during a specific period of time. Businesses using the marketing concept understand that building a strong base of satisfied customers leads to healthy profits. Companies using the marketing concept treat all contact with customers as a chance to market the business. Customer satisfaction is the goal of all employees, and leads to business success in the long term. Different departments of the business, such as production, finance,



Roman Tiraspolsky/Shutterstock.com

Trader Joe's is a business that sells products, manages employees, makes financial decisions, and decides what needs to be produced. *What do you think of when you hear "business"?*

and management, share information with the marketing team to help the company succeed.

Business provides most of the goods and services that you use every day. It also employs

people in exchange for wages. A *wage* is money earned for working. People use the wages they earn to buy what they need.

L0
3.1-2

Money

Money is anything of value that is accepted in return for goods or services. Another word for money is *currency*. Coin or paper money represents different values of money. In ancient times, people exchanged goods for other goods. The exchange of one good or service for another good or service is called *bartering*. Bartering can be very difficult, time-consuming, and sometimes unsuccessful. To solve problems with bartering, money was created.

Money makes it easier to do business and exchange goods and services. In our economy, money serves three functions: medium of exchange, unit of value, and store of value, as shown in Figure 3-1.

- A **medium of exchange** is an item that is accepted in exchange for goods and services. Money is a convenient tool for trading. It is the basis of our economy.
- A **unit of value** is a common measure of what something is worth or what something costs. Each country has its own unit of value, or currency. In the United States, everyone knows what a dollar is and how much it is worth. Using money as a unit of value is an easy way to place a price on an item or service.
- A **store of value** is something that can be saved or stored and used at a later date. An item that holds its value over a period of time is said to have a good store of value. Currency is fairly stable. However, it can lose some of its purchasing power.

To be useful and meaningful in an economy, money must have the following properties.

- **Stability.** The value of money must be stable over time in order for it to be widely accepted. People in an economy are confident to use and accept money that has a consistent value.
- **Recognizability.** Money must be immediately recognizable. The US dollar is the most widely recognized currency around the world.
- **Divisibility.** There must be a way to divide money into smaller units. In US currency, paper and coin money allow dollars to be divided into smaller units.
- **Portability.** To make purchases, people must be able to carry money with them. Therefore, money must be easily portable.
- **Durability.** Physical money is handled many times by many people and machines. It needs to be strong and last a long time. US bills are made out of a special blend of cotton and linen rather than paper. US coins are made with a blend of metals.

Money is worth more today than the same amount would be in the future. The **time value of money** is the idea that money decreases in value over time. Money received or earned today can be invested or put in a savings account to earn interest.

L0
3.1-3

Functions of Business

Business plays a role in society by providing products, creating markets, and generating economic benefits. Businesses perform many activities or functions. The functions of business are production, finance, marketing, and

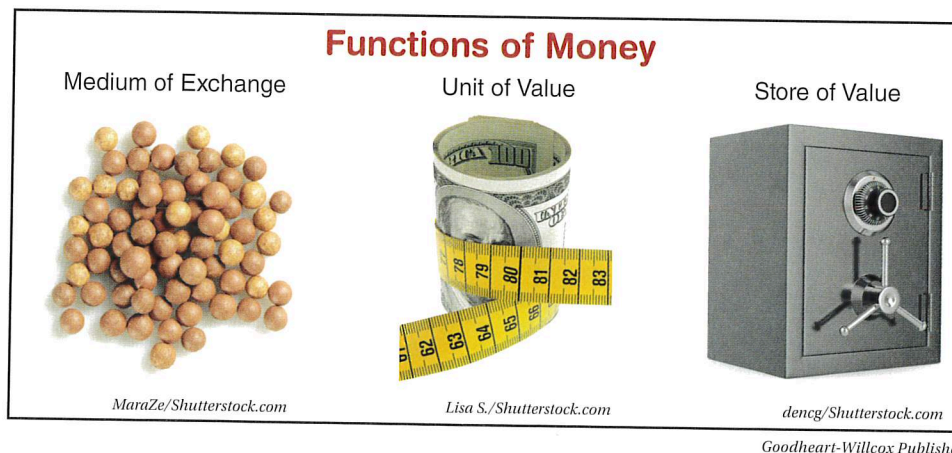


Figure 3-1 Money serves three functions in the economy.



Dragon Images/Shutterstock.com

Medium of exchange means that money is accepted in exchange for goods and services. *Which of the three functions of money do you think is the most important?*

management, as shown in Figure 3-2. Businesses using the marketing concept integrate the total company and its functions in the goal of customer satisfaction. Employees in production, finance,

marketing, and management must work together to achieve that goal.

Production

Production is any activity related to making a product, which can be a good, a service, or an idea. The *production* function is responsible for creating goods and services. A **producer** is a business that creates goods and services. Production includes farming, mining, and construction. A **manufacturer** is a type of producer that uses raw materials from other producers and converts them into finished goods.

Finance

The *finance* function of business includes all activities involving money. Businesses receive money in the form of customer payments. In turn, they pay for raw materials, services, employee wages, and taxes. Sometimes businesses borrow money from financial institutions, like banks.

Four Functions of Business

Production

Making goods, services, ideas



Alexzel/Shutterstock.com

Finance

Activities related to money



Natykach Nataliia/Shutterstock.com

Marketing

Activities focusing on the customer



My Portfolio/Shutterstock.com

Management

Planning, coordinating, and monitoring



Artisticco/Shutterstock.com

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Figure 3-2 The four functions of business must work together to create a successful, profitable company.



Case in Point

Cuisinart

Consumers have a right to safety and a right to be informed about the products they purchase. While most people generally assume the products they buy are safe, there are often times when the opposite is discovered to be true.

Businesses have a social and legal responsibility to inform consumers when a product has been found to no longer be safe and to inform them about how those products can be repaired or replaced. Cuisinart voluntarily recalled its food processors due to a faulty blade, even though the defect was discovered during the busy holiday cooking season. The blade was prone to cracking when in use, resulting in bits of broken metal in food being processed. The recall affected 22 models of food processors sold over almost two decades—an estimated eight million products. Luckily, Cuisinart received only 69 reports of consumers with defective products.

To protect consumers, recall information was posted on Cuisinart's social media pages. Cuisinart also created a dedicated web page with information on the recall and instructions on how to request a replacement blade. The food processors were placed on the recalled products list maintained by the US government. Cuisinart demonstrated compliance and accountability for providing safe products, honest marketing practices, and truthful documentation.

An important part of the finance function is planning. The people who work in finance are often responsible for developing budgets. A *budget* is a financial plan for a fixed period of time that reflects anticipated revenue and shows how it will be allocated in the operation of the business. A budget helps the business make sure it has enough money to cover expenses. It also helps the business understand whether it is handling its money wisely and making a profit. If a business decides to take a loan, the financing function plans for the repayment of the loan.

Accounting is one part of finance. Accounting keeps track of all money that enters or leaves the business. It pays bills and receives payments.

Marketing

Marketing is the dynamic activities that identify, anticipate, and satisfy customer demand while making a profit. Marketing is the function of business that focuses on the customer. Marketing professionals are responsible for helping the entire business focus on the needs and wants of customers. The marketing function includes learning about customers, developing products, and pricing them for sale. Marketing activities then promote and sell the products to those customers. Marketing activities also follow up to find out how satisfied customers are with their products.

Management

The **management** function of business controls and makes decisions about a business. It includes all of the activities required to plan, coordinate, and monitor a business. A **manager** is an employee who directs the work of others and is responsible for carrying out the goals of the department. A manager makes decisions, implements plans, and controls. Managers look at the big picture and lead workers to make changes to



Albert Karimov/Shutterstock.com

A manufacturer uses raw materials from other producers and converts them into finished goods, such as plastic bottles for water. *Why do you think manufacturers need marketing?*

Levels of Management	
Level	Function
Top-level	Control and oversee entire business
Middle-level	Execute business plans, act as intermediary between top-level and first-level managers
First-level	Focus on controlling everyday tasks

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Figure 3-3 There are three levels of management. A company may or may not have all three levels, as it depends on the size of the organization.

improve the business. They also hire, train, and supervise employees. There are three levels of management, as shown in Figure 3-3.

LO
3.1-4

Business Ownership

There are three main forms of business ownership. They are sole proprietorship, partnership,

and corporation. As a marketing professional, you may find yourself working for one of these business types.

- A **sole proprietorship** is a business owned by one person. That person makes all the decisions and receives all the profits from the business. It is the simplest form of business to start and own.
- A **partnership** is the relationship between two or more people who join to create a business. Each partner contributes to the business. They may contribute money, property, labor, or expertise to the business.
- A **corporation** is a business that is legally separate from its owners and has most of the legal rights of an actual person. The goal of a for-profit corporation is to make a profit for the owners. Most corporations are for-profit businesses.

A **nonprofit organization** is an entity that exists to serve some public purpose. Nonprofit corporations are also called *nonprofits* or *not-for-profit organizations*.

Section 3.1 Review

Check Your Understanding

1. What is profit?
2. How is the marketing concept related to business profit?
3. Name the properties of money.
4. What are the functions of business?
5. What is the difference between a sole proprietorship and a partnership?

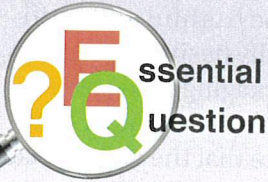
Build Your Vocabulary

As you progress through this text, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add them to your personal glossary.

business
corporation
management
manager
manufacturer
medium of exchange
money
nonprofit organization

partnership
producer
production
sole proprietorship
store of value
time value of money
unit of value

Section 3.2



Why are laws for business needed in our economy?

Laws and Regulations

Learning Objectives

- LO 3.2-1 Describe the role the FTC plays in advertising and marketing law.
- LO 3.2-2 Identify protections provided by employment and labor law.
- LO 3.2-3 Define the purpose of finance law.
- LO 3.2-4 Explain consumer protection laws.

Key Terms

Federal Trade Commission (FTC)
false advertising
endorsement
telemarketing

antitrust laws
monopoly
bankruptcy

LO
3.2-1

Advertising and Marketing Law

The *Federal Trade Commission Act* was passed in 1914 and created the Federal Trade Commission. The **Federal Trade Commission (FTC)** is a federal agency that was created to protect consumers and promote business competition. The FTC develops and enforces laws related to advertising and marketing that all businesses must follow.

Under these laws, claims in advertisements must be truthful, cannot be deceptive or unfair, and must be evidence-based. **False advertising** is overstating the features and benefits of products or services or making false claims about them. Misrepresenting information, intentionally or unintentionally, can lead to lawsuits, loss of customers, or loss of jobs.

For some specialized products or services, additional rules may apply. Examples of areas covered by advertising and marketing law include children's products, endorsements, environmental marketing, health claims, made in the USA claims, online advertising and marketing, and telemarketing.

Children's Products

Businesses that advertise directly to children or market child-related products to their parents

must comply with truth-in-advertising standards. The *Children's Online Privacy Protection Act (COPPA)* imposes requirements on websites and online services regarding the personal information collected about children who are under the age of 13. It also restricts how companies can use that information.

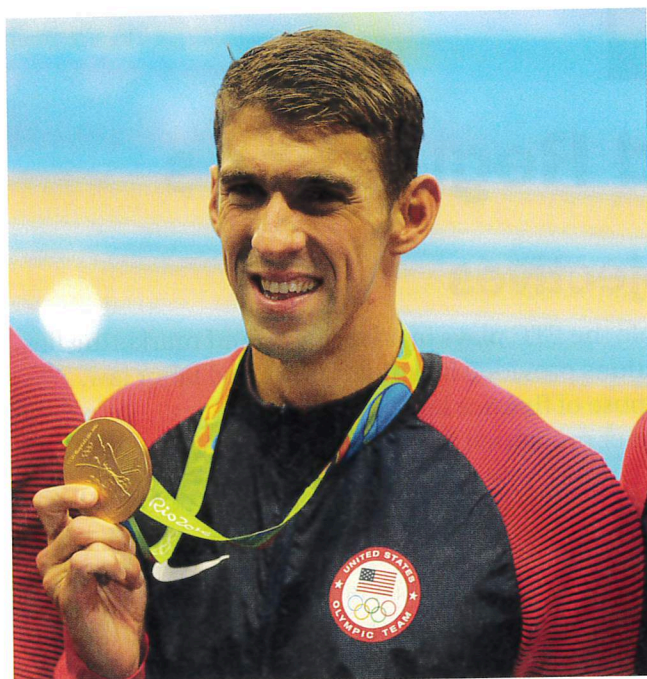
Endorsements

An **endorsement** is an advertising message that a person, business, or other organization is paid by another party to give. The purpose of an endorsement is for consumers to believe that the

Employability Skills

Professionalism

Professionalism is the act of exhibiting appropriate character, judgment, and behavior by a person who is trained to perform a job. It is a person's conduct while at work or representing an employer. Professionalism extends to every job, career, and industry. It means conducting oneself in a manner that exhibits responsibility, integrity, and excellence.



Leonard Zhukovsky/Shutterstock.com

Michael Phelps is a famous Olympic athlete who endorses the Under Armour brand. *What impact do you think celebrity endorsements have on product sales?*

advertising message reflects the opinions of the person who is paid to give it. A famous example of an endorsement is Jessica Simpson's endorsement of Proactiv skincare products. Businesses that use endorsements to market products must meet the standards of the FTC Act and the FTC's *Guides Concerning Use of Endorsements and Testimonials in Advertising*. Standards that define endorsements and how they can be used are updated regularly.

Environmental Marketing

A company's claim about environmental responsibility or product energy efficiency and any related "green" claims must be truthful and verifiable. This applies to ecofriendly business practices, product components and packaging, and statements of energy efficiency. The FTC-issued *Green Guides* help businesses ensure that the claims made in promotions are true and substantiated.

Health Claims

Companies must have solid proof to support health-related advertising claims. Under federal law, health claims made in product advertisements must be backed by scientific evidence. This is especially true for businesses that market food, over-the-counter drugs, dietary supplements, contact lenses, and other health-related products.

Made in USA Claims

Products marketed as "Made in the USA" must disclose which materials, ingredients, or components were made in the United States. Companies that choose to make claims about the amount of US content need to know the guidelines set in the FTC's *Enforcement Policy Statement on US Origin Claims*.

Online Advertising and Marketing

When advertising online, there are rules and guidelines that protect consumers. These also



You Do the Math

Number Sense

Number sense is an ability to use and understand numbers to make judgments and solve problems. For example, suppose you want to add three basketball scores: 35, 21, and 18.

First, add $30 + 20 + 10 = 60$.

Then, add $5 + 1 + 8 = 14$.

Finally, combine these two sums to find the answer: $60 + 14 = 74$.

Solve the following problems.

1. Micah wants to purchase several items of clothing. He is not sure he has enough money to

buy the items he wants. His budget is \$95 before tax. The prices of each of the three items are \$16, \$42, and \$35. How can he figure the total cost of the three items without using a calculator?

2. A business owner is looking at making several improvements to her facility. New office furniture is going to cost \$10,800. Installing new light fixtures is going to cost \$3,200. Resurfacing the parking lot will cost \$12,500. How can she figure the total cost of the business improvements without using a calculator?

help businesses by maintaining the credibility of the Internet as a marketing medium. In addition, truth-in-advertising standards apply when selling computers, software, apps, or other products or services related to the Internet.

Telemarketing

Telemarketing is personal selling done over the telephone. The FTC's *Telemarketing Sales Rule* helps protect consumers from fraudulent telemarketing calls. This rule also gives them certain protections under the *National Do Not Call Registry*, which allows consumers to opt out of telemarketing sales calls. Companies also need to be familiar with rules banning most forms of robocalling. *Robocalling* is using a computerized automatic dialing device to deliver a prerecorded sales message when someone answers.

LO
3.2-2

Employment and Labor Law

All businesses in the United States are required to protect employees and treat them fairly. Employment and labor laws cover many topics, such as preventing discrimination and harassment in the workplace, ensuring employee safety, enforcing wage and hour laws, and monitoring workers' compensation regulations. Examples of laws that protect employees in the United States are shown in Figure 3-4.

The *US Department of Labor (DOL)* enforces workplace laws and regulations. The DOL works with many other governmental agencies to protect employees. The *Equal Employment Opportunity Commission (EEOC)* protects the civil rights of employees in the workplace. These rights include nondiscrimination based on factors such as gender and race. The *Occupational Safety and Health Administration (OSHA)* sets and enforces workplace safety standards. OSHA performs inspections to ensure workplaces are safe and healthy for employees, handles safety complaints, and investigates workplace accidents.

LO
3.2-3

Finance Law

Finance laws exist to ensure fair competition and to protect the financial interests of companies and investors. Antitrust, bankruptcy, and securities laws protect the financial interests of businesses and

individual investors. Examples of business finance regulations are described in Figure 3-5.

The FTC's *Bureau of Competition* was established to promote fair competition and is responsible for enforcing the antitrust laws. **Antitrust laws** promote fair trade, open markets, and competition among businesses. Antitrust laws prevent companies from forming a monopoly. A **monopoly** occurs when one business has complete control of a market's entire supply of goods or services. The *Sherman Antitrust Act* and *Clayton Antitrust Act* have been used effectively to prevent monopolies and price-fixing. Businesses can refer to the FTC for information on how antitrust laws work.

Employment and Labor Laws

Fair Labor Standards Act (1938)	Establishes the minimum wage, overtime pay, record-keeping, and youth employment standards
Equal Pay Act (1963)	Employers cannot pay different wages to men and women if they perform equal work in the same workplace
Title VII of the Civil Rights Act (1964)	Employers cannot discriminate based on the race, color, religion, national origin, or gender of an individual
Age Discrimination in Employment Act (1967)	Employers cannot discriminate against people who are age 40 and older based on age
Title I of the Americans with Disabilities Act (1990)	Employers cannot discriminate against a qualified person with a disability and must make reasonable accommodations for known physical or mental limitations of an otherwise qualified individual
Family and Medical Leave Act (1993)	Requires that eligible employees be allowed to take unpaid, job-protected leave for specified family and medical reasons
The Genetic Information Nondiscrimination Act of 2008	Employers cannot discriminate against employees or applicants because of genetic information, such as information about any disease, disorder, or condition of an individual's family members

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Figure 3-4 All businesses in the United States are required to observe employment and labor laws.



Marketing Ethics

Code of Ethics

Most businesses establish a code of ethics that all employees must follow. A *code of ethics* dictates how business should be conducted. It outlines acceptable behavior when interacting with managers, coworkers, suppliers, and customers. Some companies post their code of ethics on their websites so customers and clients can be aware of how they conduct business.

Bankruptcy is a legal process that allows a company to reorganize or go out of business when it runs out of funding. While no company ever wants to file for bankruptcy, there are laws in place that will allow for it under certain conditions. *Bankruptcy laws* apply to the handling of business debts when a business is no longer profitable. The FTC distributes information for businesses about bankruptcy options, the process, and the tax consequences.

Securities include stocks and other financial investments. Businesses that sell publicly traded securities must comply with certain financial laws and reporting obligations. *Securities laws* regulate businesses that have publicly traded stocks and bonds. These laws are enforced by the *US Securities*

and *Exchange Commission (SEC)*, which regulates corporations that are publicly traded. These regulations include preparing documentation for the SEC to review and complying with the Sarbanes-Oxley Act. In 2002, a number of accounting frauds at major corporations led to the US Congress passing the *Sarbanes-Oxley Act*, which requires open and honest business accounting and reporting practices. The accounting scandals, which included Enron and WorldCom, cost investors billions of dollars. The act was passed to prevent companies from fraudulent accounting practices that would mislead investors as to the strength of a company. Businesses that do not accurately report the use of company funds commit an unethical and illegal act. The SEC website includes informational resources for businesses.

LO
3.2-4

Consumer Protection

Customers typically assume the products they buy are safe. They rely on the seller or the producer to ensure that products are safe to use as directed. However, companies that neglect product safety may put the well-being of customers at risk. For example, children's toys that have sharp edges, toxic paint, or small parts that can be easily swallowed have caused serious injuries. Companies that know their products are unsafe

Business Finance Regulations

Truth in Lending Act (1968)	Requires the disclosure of terms and costs on all consumer credit agreements and in advertisements for credit plans
Fair Credit Reporting Act (1970)	Regulates the collection of credit information and who can access consumer credit reports
Electronic Fund Transfer Act (1978)	Protects consumers who use electronic fund transfer (EFT) services, including ATMs, point-of-sale terminals, automated bill-payment arrangements, and remote banking programs
Electronic Signatures in Global and National Commerce Act (2000)	Allows electronic signatures to be used for interstate and international commerce transactions that require written signatures
Sarbanes-Oxley Act (2002)	Prevents companies from fraudulent accounting practices that would mislead investors as to the strength of a company
Securities laws	Body of laws that regulate businesses that have publicly traded stocks and bonds
Bankruptcy laws	Body of laws that apply to the handling of business debts when a business is no longer profitable

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Figure 3-5 These laws protect the financial interests of businesses and individual investors.



Exploring Marketing Careers

Sales Manager

A company's sales force is its point of contact with potential customers. A sales manager hires, trains, and directs salespeople to achieve the company's sales goals. Sales managers establish sales territories and quotas for sales representatives, monitor sales potential and inventory requirements, and analyze sales statistics. In larger companies, the sales manager may report to a regional or national sales manager. In smaller companies, the sales manager reports directly to the company executives. Other typical job titles for a sales manager include *director of sales*, *sales supervisor*, *sales executive*, and *store manager*.

Some examples of tasks that sales managers perform include:

- Hire and train local sales representatives
- Monitor customer preferences to help focus the efforts of sales representatives
- Prepare sales budgets
- Complete performance evaluations of local sales representatives
- Resolve customer complaints as needed

Sales managers must be able to manage and motivate employees effectively to maximize each individual's potential. They should understand the principles and methods of selling and marketing. In addition, they should be familiar with all of the products offered for sale by the company, as well as those offered by the competition. Many jobs in this field require a bachelor degree, as well as considerable experience or on-the-job training. For more information, access the *Occupational Outlook Handbook* online.

but choose to sell them anyway are acting unethically. Depending on the situation, they may be also breaking the law.

The federal government provides protections through *consumer protection laws*. These laws are designed to hold companies accountable for providing safe products, honest marketing practices, and truthful documentation.

In 1962, President John F. Kennedy addressed the Congress and outlined four basic consumer rights. Since 1962, four more rights have been added. The marketing concept directs businesses to focus on customer satisfaction. One way to do this is for businesses to respect the Consumer Bill of Rights and treat customers ethically. The eight rights of consumers are:

- the right to safety;
- the right to be informed;
- the right to choose;
- the right to be heard;
- the right to satisfaction of basic needs;
- the right to redress;
- the right to education; and
- the right to a healthful environment.

The FTC's *Bureau of Consumer Protection* works to stop unfair, deceptive, and fraudulent businesses practices. It collects and investigates consumer complaints, takes legal action against businesses

and individuals that violate the law, and provides educational resources for both consumers and businesses. The efforts of this bureau are distributed among eight divisions, shown in Figure 3-6, which monitor businesses to make sure that consumers are protected and laws are followed.

In addition, the *Consumer Product Safety Act* established the *Consumer Product Safety Commission (CPSC)* in 1972. The purpose of the CPSC is to protect the public against unreasonable risks associated with consumer products. CPSC works to reduce the risk of injuries and deaths from consumer products by:

- issuing and enforcing mandatory safety standards;
- developing voluntary safety standards for an industry;
- banning products if standards would not adequately protect people;
- recalling products and arranging for their repair, replacement, or refund;
- researching potential product hazards; and
- informing and educating consumers about product safety issues.

The *US Food and Drug Administration (FDA)* is the governmental agency responsible for protecting the health of consumers by ensuring the safety of food, medicine and medical devices, and cosmetics,

FTC's Bureau of Consumer Protection	
Division	Description
Advertising Practices	Protects consumers from unfair and deceptive advertising practices; also oversees the marketing of alcohol, tobacco, and violent entertainment
Consumer and Business Education	Provides information to businesses so they can follow the laws, and to consumers so they can make good decisions about purchases
Consumer Response and Operations	Collects, monitors, and analyzes data to assist law enforcement and provide education on consumer protection
Enforcement	Litigates civil actions, enforces court orders in federal cases, and works with law enforcement agencies to uphold consumer-protection laws
Financial Practices	Provides honest and fair transactions in debt collection, credit card practices, financial institution practices, loans, and leases
Litigation Technology and Analysis	Assists with legal work for the FTC by collaborating with attorneys and helping to manage investigations
Marketing Practices	Handles consumer fraud by businesses using illegal marketing practices
Privacy & Identity Protection	Oversees consumer privacy, credit reporting, identity theft, and information security

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Figure 3-6 The FTC's Bureau of Consumer Protection is divided into eight divisions that work together to stop unfair, deceptive, and fraudulent business practices.

among others. The FDA assures that these products are safe to consume and properly labeled. Companies who wish to manufacture products regulated by the FDA can look to the FDA's *Basics for Industry* guides.

Many state and federal laws have been enacted to increase consumer protection and honor consumer

rights. These laws are designed to protect consumers, employees, and businesses from poorly constructed or dangerous products, illegal pricing practices, and illegal hiring practices, to name a few.

Section 3.2 Review

Check Your Understanding

1. List two reasons for which the Federal Trade Commission (FTC) was created.
2. Name one type of specialized product for which additional advertising or marketing rules apply.
3. Cite two governmental organizations that enforce workplace laws and regulations.
4. What types of laws protect the financial interests of businesses and individual investors?
5. List examples of consumer rights.

Build Your Vocabulary

As you progress through this text, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add them to your personal glossary.

antitrust laws
bankruptcy
endorsement

false advertising
Federal Trade Commission (FTC)

monopoly
telemarketing

Chapter Summary

Section 3.1 Business Defined

LO 3.1-1 Discuss the term *business*.

Business is all of the activities involved in developing and exchanging goods and services. Businesses using the marketing concept understand that building a strong base of satisfied customers leads to healthy profits. Business also provides most of the goods and services that individuals use every day and employs people in exchange for wages.

LO 3.1-2 Explain the functions of money in society.

Money serves three functions: medium of exchange, unit of value, and store of value. To be useful and meaningful in an economy, money must have stability, recognizability, divisibility, portability, and durability.

LO 3.1-3 Define the functions of business.

The functions of business are production, finance, marketing, and management. Production is responsible for creating goods and services. Finance includes all activities involving money. Marketing that focuses on the customer controls and makes decisions about a business.

LO 3.1-4 Identify forms of business ownership.

Three main forms of business organization are sole proprietorship, partnership, and corporation. A sole proprietorship is owned by one person. A partnership is two or more people who join to create a business. A corporation is legally separate from its owners and has most of the legal rights of an actual person.

Section 3.2 Laws and Regulations

LO 3.2-1 Describe the role the FTC plays in advertising and marketing law.

The Federal Trade Commission (FTC) is a federal agency that was created to protect consumers and promote business competition. The FTC develops and enforces laws related to advertising and marketing that all businesses must follow.

LO 3.2-2 Identify protections provided by employment and labor law.

All businesses in the United States are required to protect employees and treat them fairly. Employment and labor laws cover many topics, such as preventing discrimination and harassment in the workplace, ensuring employee safety, enforcing wage and hour laws, and monitoring workers' compensation regulations.

LO 3.2-3 Define the purpose of finance law.

Finance laws exist to ensure fair competition and to protect the financial interests of companies and individual investors. Antitrust, bankruptcy, and securities laws protect the financial interests of businesses and individual investors.

LO 3.2-4 Explain consumer protection laws.

The federal government provides protections through consumer-protection laws. These laws are designed to hold companies accountable for providing safe products, honest marketing practices, and documentation that is not fraudulent.

Check Your Marketing IQ

Now that you have completed the chapter, see what you have learned about marketing by taking the chapter posttest. The posttest is available at www.g-wlearning.com/marketing/.

Review Your Knowledge

1. Discuss the term *business*.
2. Discuss profit and its relationship to the marketing concept.
3. Explain the functions of money in society.
4. Define the role of business in society.
5. Define the functions of business.
6. Identify and explain forms of business ownership.
7. Describe the role the FTC plays in advertising and marketing law.
8. Identify protections provided by employment and labor law.
9. Define the purpose of finance law.
10. Explain consumer-protection laws.
9. Create a three-column chart. In the first column, list four laws or regulations that apply to marketing. In the second column, describe what each law covers. In the third column, explain how you can ensure that your marketing activities abide by the law or regulation listed.
10. Review the eight items listed in the Consumer Bill of Rights. Describe how the business you selected will support these rights for its customers.

Apply Your Knowledge

1. At the end of this unit, you will begin writing a marketing plan. Consider a type of business that you might select for this project. What products does this business sell?
2. Which type of ownership does the company you selected in question 1 have?
3. Does the business you selected sell products in the business or consumer market?
4. Is the business you selected a producer, reseller, or service provider?
5. How does business fulfill the marketing concept of satisfying the customer? List three ways in which the business you selected might do this.
6. Recall a time a marketing claim caused you to doubt its truthfulness. Describe the claim and explain why you thought it might not be true.
7. Select one of the business finance regulations described in Figure 3-5 and explain how this regulation could impact the business for which you will write a marketing plan.
8. Select one of the laws or regulations described in this chapter. How would marketing be affected if this law were not in place?

Apply Your Math Skills

Math skills are important to successfully operating a business. Apply your math skills to solve the following problems.

1. Ahmet, Brandon, and Christy are three friends who have decided to open a business as a partnership. Their ownership percentages are based on their individual investment in the company. Ahmet invested the most, providing \$35,000. Brandon invested \$24,500. Christy invested \$7,500. Based on their investments in the business, what are the ownership percentages for each person?
2. Farm Supply Co. is a retail business covered by the Equal Pay Act, which states that employers cannot pay different wages to men and women who perform equal work. Dominique and Elliot are cashiers at this company who make the same hourly wage. Dominique works 40 hours per week and makes \$19,864 per year (for 52 weeks). Elliot works 30 hours per week. How much does Elliot make per year?

Communication Skills



**College
and Career
Readiness**

Reading The ability to read and interpret information is an important workplace skill. As a consumer, it is important that you understand your consumer rights. Read the Consumer Bill of Rights section in this chapter. Interpret how each of these rights influences consumer behavior.

Writing Writing style is the way in which a writer uses language to convey an idea. Select a page or pages of notes you have taken during class. Evaluate your writing style and the relevance, quality, and depth of the information.

Speaking Developing effective communication skills requires that individuals be able to participate in and contribute to discussions. As your instructor lectures on this chapter, contribute thoughtful, relevant comments when participation is invited. Ask questions when necessary to help determine or clarify the meaning of the topics discussed during the lesson.

Internet Research

Basic Business Concepts Conduct an Internet search for *basic business concepts*. Make notes on the concepts that you believe are important to marketing.

Made in the USA Products marketed as “Made in the USA” must disclose which materials, ingredients, or components were made in the United States. Companies that choose to make claims about the amount of US-made content need to understand the guidelines set by the FTC. Visit the website of the FTC and search for *Made in the USA* using the website’s search function. Read the information about the guidelines that must be followed to use this claim. Create a brief outline of the information.

Lemon Laws Lemon laws are consumer protection laws specific to the automobile industry. Using the Internet, research *lemon laws*. What events led to their creation? How have they changed the ways companies can conduct business? Describe how this change

in the law impacted customers. Document the sources of your research.

Teamwork

Working with your team, make a list of three current legal issues related to business that have been in the news. Indicate if the legal issues involve the owner, employees, or other individuals. Discuss the business laws that may have been violated in each of the three situations.

Portfolio Development



College and Career Readiness

Objective Before you begin collecting information for your portfolio, write an objective for the finished product. An *objective* is a complete sentence or two that states what you want to accomplish.

The language in your objective should be clear and specific. Include enough details so you can easily judge when it is accomplished. Consider this objective: “I will try to get into college.” Such an objective is too general. A better, more detailed objective might read: “I will get accepted into the communications program at one of my top three colleges of choice.” Creating a clear objective is a good starting point for beginning to work on your portfolio.

1. Decide the purpose of the portfolio you are creating, such as short-term employment, career, community service, or college application.
2. Set a timeline to finish the final product.
3. Write an objective for your portfolio.