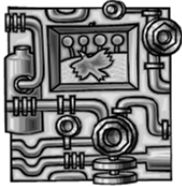


Types of Businesses

In general, businesses are divided into four broad categories, depending on their primary function and the kinds of products they sell.

Manufacturing Businesses



A manufacturing business (manufacturer) converts materials into goods suitable for use and then sells those goods to others. Manufactured products typically fall into two categories: industrial and consumer. Industrial goods are sold to other manufacturing businesses. Examples include metal and plastic parts, lumber, and heavy machinery. Consumer goods are products that are eventually bought by the public. Small manufacturing businesses that produce consumer goods sometimes sell directly to the public. For example, entrepreneurs making baked goods, silk-screened T-shirts, or jewelry most often sell their products directly to consumers. Large manufacturing businesses usually do not sell directly to consumers; they may sell to wholesalers.

Wholesaling Businesses

A wholesaling business (wholesaler) buys goods in large quantities, typically from manufacturers, and resells them in smaller batches to retailers. Wholesalers are also known as middlemen, go-betweens, distributors, or intermediaries because they provide a link between manufacturers and retailers, who sell goods to consumers. Wholesalers do not generally sell directly to the public.



Retailing Businesses



A retailing business (retailer) buys goods, often from wholesalers, and resells them directly to consumers, who are the end buyers. Retailing businesses are stores, shops, and boutiques. They sell groceries, clothing, shoes, household goods, computers, CDs, sporting goods, cosmetics, jewelry, and thousands of other consumer items directly to end buyers. Retailing businesses include traditional stores that people visit in person and online stores that sell from the Internet. Some retailers also sell through catalogs. In most states retailers must have a special permit (often called a reseller's permit) to purchase goods tax-free from wholesalers and collect sales tax from the end buyers.

A business that is either a wholesale or retail business is commonly referred to as a trade business.

Service Businesses

A service business provides services to customers for a fee. Service businesses provide a wide variety of professional, technical, and everyday services that people need and want. Examples include engineering, legal, medical, accounting, garbage pick-up, package delivery, dry cleaning, auto repair, babysitting, pet sitting, music lessons, tutoring, house cleaning, and landscaping. Most states and some local governments have licensing requirements for people who provide particular services. This applies to professionals (doctors, dentists, engineers, lawyers, and so on) as well as other types of service providers, such as hairstylists, dog walkers, automobile mechanics, athletic trainers, and daycare providers. In addition, some states require service businesses selling taxable services to have a permit to collect sales tax from their customers.



Special Types of Businesses

Farming is a special type of business. Sometimes it is more like manufacturing (if the agricultural products are used to create new products, as when grain is used to make bread). Farming is a combination of manufacturing and retailing when fruits or vegetables are sold directly to the consumer. Mining is another special type of business. Often referred to as an "extraction business," mining takes

resources from the environment and converts them into a form that can typically be sold to manufacturers. Examples of extraction businesses are copper mining, oil drilling, and converting sea salt to table salt.

Businesses of the Future

The North American Industry Classification System (NAICS) assigns a numerical code to every industry in North America based on its primary business function. NAICS codes are useful for classifying particular types of businesses. The U.S. Department of Labor makes predictions on which industries will likely experience the largest growth in number of employees in the following decade. The top ten companies have one thing in common: they provide some type of service. This demonstrates that service businesses are expected to dominate the U.S. economy through 2020.

Fastest-Growing Industries

Rank	Industry	NAICS #
1	Management, scientific, and technical consulting services	5416
2	Individual and family services	6241
3	Home health-care services	6216
4	Financial investments and related services	523
5	Facilities support services	5612
6	Residential care facilities and related services	6232, 6233, 6239
7	Independent artists, writers, and performers	7115
8	Computer-systems design and related services	5415
9	Museums, historical sites, and similar institutions	712
10	Child daycare services	6244

Questions for Discussion

1. Who are the primary customers of manufacturing businesses? Why?
2. What is the difference between wholesale and retail businesses?
3. What does a service business do? Give some examples of services that a service business might provide.
4. What is a franchise?
5. Using the four business types, how would you classify the following: (a) restaurants, (b) construction companies, (c) a company that produces music videos?