

Building A Business

Dave's Omelet Shop

I am not a very good cook, as my wife will tell you. She is an excellent cook, but when she isn't home my go-to meal is an omelet. Therefore, for my business, I am going to create Dave's Omelet Shop.

Building a business means combining the three **factors of production**: land, labor and capital. Entrepreneurship is the fourth factor, and that is my own skills as an omelet shop owner.

Theory of production

According to the **theory of production** a business person must decide how to combine land, labor, and capital efficiently.

My **land** would include rent for a building and also the raw materials used in making of omelets including: eggs, cheese, onions, mushroom, meat, salt, and pepper.

I'd need to hire some **labor**, probably three very reliable Logan graduates in need of a job to pay for college. They would greet the customers, wait on tables and wash the dishes. I'd also hire a fourth person, an excellent omelet chef with lots of cooking experience.

To outfit my restaurant I'd need **capital goods** including: big refrigerators, an industrial stove, and all the omelet making cooking utensils.

Of course none of these things are free. The monthly rent and my capital goods would be part of my **fixed costs or overhead**. These are the costs that would be the same every month.

The more omelets I sell, the more eggs I'd need. And if business is really good, I might have to hire more workers, too. These are my **variable costs** because they change as omelet production increases or decreases. Together, my fixed and variable costs equal my **total costs**.

Making a Profit

I couldn't expect to make a profit the first week or month of opening my shop. That is because I have to pay my total costs before I even make and sell my first omelet. However, if I sell more and more omelets my **revenue** will rise, the total amount of money from sales. Eventually, when my revenue equals my costs, I will be at the **break even point**. Once my omelet shop gets to be popular, I may sell enough omelettes so that the **revenue from my sales is larger than my costs**. That is when I start to make a **profit**.

Your Turn to Build A Business

Ok, your turn. Work with a partner to build a business. It can be designed to provide a product or a service. Plan the business below.

Name of your business _____

Theory of production

Describe the land, labor, and capital you need for your business.

land _____

labor _____

capital _____

Describe your fixed costs and variable costs

fixed costs _____

variable costs _____

What do you think will be the hardest part of making your business?

How long do you think it will take to reach your **break even point**, so that you can eventually make a **profit** for you business?