
Henry W. Bloch & Richard A. Bloch

H&R Block

By M. Karen Hubbard

LESSON DESCRIPTION

In this lesson, students will explore the concepts of niche market and business organizations as they explore the contributions of entrepreneurs Henry W. Bloch and his brother Richard A. Bloch in developing H&R Block Inc. Students will read a story of H&R Block, discuss what they read and fill-in a “What, How, and For Whom of H&R Block” Activity Sheet.

ECONOMIC CONCEPTS

- entrepreneur
- niche market
- sole proprietorship
- partnership
- taxes
- corporation
- public goods and services
- technological advancement
- scarcity of human resource

RELATED CONCEPTS

- reading comprehension
- map reading

MATERIALS

- One copy of “Henry W. and Richard Bloch” reading for each student
- One copy of Activity 1 - “The What, How and For Whom of H&R Block” for each student

TIME

- 45 minutes

PROCEDURE

1. Explain that an “entrepreneur” is someone who thinks of a good or service that someone would like to buy and produces it. An entrepreneur takes a risk that people will not like the good or service, and that all of the time, effort, and money he or she has spent to make the product will have been for nothing.

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2. Ask the students if they have ever heard their parents or someone on the news discuss how difficult it is to fill out their income tax return form. Tell them that at one time, the government prepared taxes for free but later stopped providing the service. Distribute the story of Richard and Henry Bloch and explain that the students are going to read about entrepreneurs who were brothers and developed a business to prepare taxes because the government stopped providing this service. Instruct the students to read the story and underline the new products or improvements the entrepreneurs, Richard and Henry Bloch, created while leading the company, H&R Block.
 3. When the reading is completed, help students define any words with which they are unfamiliar. Ask the following questions:
 - What is the birth date of Richard and Henry? (Richard – 2/15/1926 and Henry – 7/30/1922)
 - Who was Leon? (Their older brother.)
 - How did the ideas in a paper influence their future careers? (Professor Schlicter said that small businesses did not have as many resources as big businesses.)
 4. Explain to the students that a **niche market** is one where a want for a product/service is not being met/filled by regular markets or producers. Ask the students to explain the niche market that the Bloch brothers identified. (The brothers saw that the need for services such as accounting, temporary workers, collection management services, etc. for small companies was not being met.)
 5. Explain to the students that businesses can be organized in three ways:
 - **Sole Proprietorship** – individually owned and managed. Owner gets the money to start the business, buys all resources, makes all decisions and has to pay all costs, gets all profit if company makes a profit.
 - **Partnership** – two or more people own and manage the business. Sometimes easier to get the money to start the business and can buy more expensive equipment, share decision-making, share profit, share expenses.
 - **Corporation** – established within a rigid legal framework. Sell shares of stock (pieces of ownership) in order to pay to start the business and keep it going, decision-making made by the board of directors, shareholders will only lose money they have invested and no more.

6. Continue the discussion:

- Who started the first business and when? (Henry and Leon in 1946)
- Where did they get the money to start the business? (Their aunt loaned them \$5,000.)
- What was the name of their first business? (United Business Company)
- What kind of business organization would you call this? (partnership)
- What happened to Leon? (Leon left the company after a few months to return to law school.)
- Do you think Leon gave the business enough time to grow? (No) Why? (Takes time for word to spread about the company and how good of a job it does.)
- What did Henry do? (Henry kept trying and the company kept growing.)
- What did Henry want? (He wanted an employee to help.)
- Who did he hire? (His brother Richard.)
- What kind of a business organization was this? (Partnership) Why? (Two or more people own and manage the business.)
- What was the main focus at first? (Small business bookkeeping)
- What happened in 1955 to change the company's focus? (People had just gotten their W-2 forms and the IRS had just stopped preparing tax return forms free.)
- How do people pay taxes? (Teacher gives as much information as the students will understand. Typically, an employer withholds a portion of each pay check to cover the taxes owed to the government on the wages for that pay period. For example, a person may earn \$200 but their check is for less money—say \$188- - because taxes are taken out. When people prepare their taxes in April, they compare the amount their employer took out for taxes to what they really owe. If the amount is not enough, they send a check to the government for the remaining amount. If their employer withheld too much, they request a refund from the government for the difference between what they paid through withholding each month and what they really owe.)
- Why do people pay taxes? (Pay for goods and services the government provides. These are called 'public' goods and services.)
- Give examples of public goods and services? (Goods and services provided by the government which everyone can use whether they pay taxes or not, for example: libraries, police/fire protection, defense, roads/bridges, space program, help people in need, etc. Businesses could not supply these because they would not make a profit.)

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- What is a W-2 form? (A form U.S. employers are required to provide to employees which state the wages earned and the taxes withheld during the previous year.)
 - What is the IRS? (Internal Revenue Service, a U.S. government agency responsible for tax collection and tax law enforcement.)
 - What happened to their company in July 1955? (They began a new company called H&R Block Inc. which specialized in preparing income tax returns.)
 - What was the Bloch brothers' second niche market? (They were hired by people to prepare their income tax returns.)
 - What happened to their original company – United Business Company? (They closed it.)
 - What kind of market did they find in New York? (niche market) Why? (The IRS was going to stop preparing tax returns.)
 - Why do you think they wanted to put their offices as close as possible to IRS offices in New York? (So, when people found out that the IRS was not preparing taxes, they would be able to find the H&R Block office easily.)
 - What does “franchise” mean and why did the brothers franchise their company? (Franchise – brothers gave permission to other people to sell their service in particular places. The brothers franchised because neither of the Bloch brothers' families wanted to move from Kansas City.)

7. Tell the students to look on a United States map and notice the distance between Kansas City and New York City. Ask the students to describe what the brothers had to do when they took turns going back and forth between the cities and how did this make them feel. (pack and unpack, travel often, missed family/friends, did not see each other, etc.) Continue the discussion:

- How did H&R Block become a recognized brand? (For 20 years, Henry Bloch was on television commercials.)
- Henry and Richard had a problem finding qualified tax professionals because of the growth of their business – they had a scarcity of human resource/labor. What did they do to find qualified people to work for their company? (They started the H&R Block Income Tax School.) (Explain that this is a market because H&R Block is the producer and the people attending the school are the consumers so they are exchanging a service called education.)
- Why could it be called a niche market? (It is appealing to a specific group of consumers – people wanting to become tax preparers.)
- What did they test along with IRS and Sears in 1986? (Electronic filing)
- What is electronic filing? (It was a technological advancement by emailing the income tax return to the IRS.)

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- How did the test turn out? (It was successful because it reduced the amount of time taxpayers had to wait to get their refund and it reduced the number of errors in the tax returns.)
 - What kind of market did they find? (niche market)
 - Why did Richard Bloch sell his part of the company and give up the chairmanship? (He wanted to dedicate his life to help people fight cancer after he had defeated lung and colon cancer.)
 - What did Henry do in 2000? (He retired from being chairman of the company and gave a very large gift to the Nelson-Adkins of Art in Kansas City and to the School of Business and Public Administration at the University of Missouri-Kansas City.)
8. Remind students that many entrepreneurs use the profit they earn to give back to the community.
 9. Tell the students that businesses have to ask themselves 3 questions: What to produce, How to produce, and For whom to produce? Use the information from the discussion to do the activity sheet. Go over the activity sheet when students are finished.
 10. After the students are finished, ask them to think about what the brothers would have done if they had not advertised about tax preparation and started H&R Block. Write a paragraph on the back of their paper about their thoughts.

NAME: _____

ACTIVITY - "THE WHAT, HOW, and FOR WHOM OF H&R BLOCK"

What to produce? Niche Markets

1. First Business: _____
2. Second Business: _____
3. Third Business: _____

How to produce?

1. Where did they get the money to start their first business? _____
2. What business organization did they use? _____
3. Why did you say this was their type of organization? _____
4. Where do you think they got the money to start their second and third business?

5. What technology did they introduce to help with filing income tax? _____
6. How did this technology help with filing income tax returns? _____

For Whom?

1. Where did Richard and Henry get the idea for their first business and toward whom did they aim it? _____

2. Where did Henry and Richard get the idea for their second and third business and toward whom did they aim it? _____

On the back of this paper write what you think would have happened to the brothers if they had not taken the advice of their client.

**“THE WHAT, HOW, and FOR WHOM OF H&R BLOCK” Activity Sheet
(Suggested answers)**

WHAT TO PRODUCE? NICHE MARKETS

1. First business: United Business Company
2. Second business: H&R Block Company
3. Third business: H&R Block Income Tax School

HOW TO PRODUCE?

1. They got \$5,000 from their Aunt to start their first business.
2. They used the partnership organization.
3. Partnership involves two people who share expenses, profit, decisions, ideas, etc.
4. They probably used the money from their first business to start their second and third business.
5. They used electronic filing.
6. Electronic filing helped with reduce errors and tax payer got returns back faster.

FOR WHOM?

1. They got the idea for their first business from a talk by Professor Schlichter and their business was aimed at small businesses.
2. The idea for their second business (H&R Block Company) came from a client of the company and the business was aimed at people who needed tax preparation. The idea for the third business (H&R Block Tax School) came from the problem of scarcity of tax preparers and was aimed at training new tax preparers.

On the back of this paper write what you think would have happened to the brothers if they had not taken the advice of their client.

Henry W. Bloch & Richard A. Bloch H&R Block

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H & R Block was named after the founders – brothers Henry W. Bloch and Richard A. Bloch. (When they opened the business, they changed the spelling of the company name to Block.) Henry was born July 30, 1922, and Richard was born February 15, 1926, in Kansas City, Missouri. While Henry attended Harvard Business School, he read a paper by Professor Sumner Schlichter who said that big businesses had many resources assisting them while small businesses did not. The brothers saw a job that needed to be filled by providing accounting, temporary workers, collection management services, and more to small businesses. They also wanted to give something to society.

Henry and his older brother Leon started the United Business Company in 1946 with a \$5,000 loan from their aunt in Kansas City, Missouri. The business started so slowly that Leon left the company to return to law school but Henry kept working. The company finally grew enough that Henry hired his brother Richard as a partner. At first, the main focus of the United Business Company was bookkeeping and tax preparation. In 1955, the brothers decided to stop tax preparation services because it did not make much money. A client recommended that they advertise their tax preparation service in the newspaper. (Taxes are paid by people who work so the government can pay for public goods and services which are used by everyone even if a person does not pay taxes, for example: roads, highways, police/fire protection, national defense. Private businesses could not provide these goods and services because they could not make a profit.) At the time the ad was in the paper, many people had received their W-2 forms (W-2 form – United States employers are required to report their employees' wage and the tax withheld from their pay on this form) and the Internal Revenue Service (IRS) in Kansas City had just stopped preparing tax returns FREE for taxpayers. (IRS is a government agency responsible for tax collection and tax law enforcement.) Henry was out of the office when he received a message from Richard who said, "Hank, get back here as quick as you can. We've got an office full of people!"

By July 1955, a new company was begun by the brothers specializing in preparing income tax returns: H&R Block Inc. The brothers closed their United Business Company. Richard suggested that they take their business to New York City where the IRS was going to stop its free tax preparation services. The brothers tried to locate their offices as near as possible to IRS offices in New York City. They shared the responsibilities by rotating every two-week schedules between them. Neither family wanted to move to New York from Kansas City so they decided to franchise their New York operation for \$10,000 and royalties.

(Franchise means the brothers gave permission for someone else to sell their service in other places for a price.) By the 1970's, the H&R Block tax offices grew to more than 8,600. For twenty years, Henry Bloch helped increase their company's recognition by doing television commercials.

One out of every nine tax returns filed in the United States was prepared by H&R Block by 1978. With the growth of their business, the company had a problem finding qualified tax professionals. The company started H&R Block Income Tax Schools. More than 250,000 people took an income tax preparer course in 2003 through the company's schools.

H&R Block tested electronic filing (using technology), working with the IRS and Sears in 1986. They filed 22,000 returns electronically from Cincinnati and Phoenix. The test was a success reducing the amount of time it took for a taxpayer to get a refund and reducing the amount of errors. Millions of tax returns are filed electronically every year.

In 1978, Richard Bloch was told he had terminal lung cancer with three months to live. He was a fighter and participated in a two year intensive therapy and defeated the disease. In 1982, he defeated colon cancer and dedicated his life to helping others fight cancer. During this time he sold his part of the company and gave up his chairmanship position. In 1980, Richard began a free cancer hot line that helped cancer patients find treatment. He established the R.A. Bloch Cancer Foundation to manage the hot line and, to increase awareness of the disease, started the National Cancer Survivor Day which is held on the first Sunday of June. Richard died of heart failure on July 21, 2004 at the age of 78. He was married and had three daughters.

To fill his brother's position, Henry became chairman of the board in 1989. Henry retired as chairman in 2000, and now holds the title of chairman emeritus. He lives in Kansas City with his wife. They have four children, 12 grandchildren and 2 great grandchildren. Henry is known as a business man, civic leader and supporter of the arts and education working to improve the quality of life in his home town of Kansas City. He and his wife gave a very large gift to the Nelson-Atkins Museum of Art which helped to build the Bloch Building which houses the museum's contemporary and African art, etc. Henry also gave generously to create the Henry W. Bloch School of Business and Public Administration at the University of Missouri-Kansas City. In Henry's name, scholarships and faculty chairs are also given to the university.