

The Changing Face of Business

LEARNING OBJECTIVES

1. Define *business*.
2. Identify and describe the economic factors of production.
3. Describe the private enterprise system.
4. Identify the seven eras in the history of business.
5. Explain current trends related to business.
6. Identify the skills and attributes needed for today's manager.
7. Outline the characteristics that make for a successful and admirable company.

Changemaker



Sundar Pichai, Chief Executive Officer

Company: Google

Industry: Technology/Internet Information Providers

Website(s): www.google.com and <https://abc.xyz>

Who is Sundar Pichai, and how did he rise through the Google ranks so quickly? Before arriving at Google in 2004, Pichai, who has a formal education in engineering and business, worked in semiconductor manufacturing and management consulting. At Google, he was charged with creating and managing software products, including Gmail, Google Chrome, the Chrome operating system, and cloud file storage service Google Drive. Pichai oversees tens of thousands of employees and billions in revenue. Over the course of a decade and before being appointed CEO, as Senior Vice President of Products,

Pichai oversaw Google's increasingly competitive business offerings and software products such as search, advertising, Android, and YouTube.

Sundar Pichai was named Chief Executive Officer of Google when co-founders Larry Page and Sergey Brin made the decision to dedicate more time to what is referred to inside Google as "moon-shot projects," which range from robots that can work alongside humans, smarter homes, self-driving cars, health care and disease prevention research, cyber-attack prevention, and solutions to address global issues. Alphabet, Inc., Google's parent company, is led by Larry Page, former Google co-founder and CEO. Alphabet is a collection of companies that separates Google's core businesses of search, maps, and advertising from its other projects. However, Google still generates the majority of Alphabet's revenues and profits.

Pichai, who grew up in Chennai, India, is described as humble, smart, and very low key. With his unassuming management style, he is known for his ability to build strong relationships, which has earned him tremendous respect as a leader. Pichai, in his late 40s, is uniquely positioned to take the lead in furthering product development. Amid strong competition, he has a challenging role to keep up the company's rate of growth. With a vote of confidence from Google's co-founders, Pichai continues to master multi-tasking skills by proving himself well beyond qualified to manage a global technology giant that not only dominates search, but also has been forced to manage regulators, tech critics, political issues, and debates over gender inequality.¹

Overview

Google's CEO, Sundar Pichai leads a company that has gone from clever start-up to global technology powerhouse. The globalization of business operations and rapid growth of technology throughout the world mark two of the greatest forces that are influencing business development. Innovative companies like Google, and now Alphabet, contribute greatly to the nation's, and indeed the global, economy. A growing economy, one with increased production of goods and services over time, also yields income for its business owners and their employees. Businesses are at the heart of the way we create and distribute new wealth in the form of products, services, incomes to employees and taxes remitted to various levels of government. A country depends on the wealth its businesses generate, from large enterprises such as the Walt Disney Company to tiny online start-ups, and from respected companies such as jeans maker Levi Strauss & Company to powerhouses such as Google. What all these companies and many others share is a creative approach to meeting society's needs and wants.

Large and small businesses solve our transportation problems by creating innovative ride-sharing options, automobiles, tires, gasoline, and airline tickets. They bring food to our tables by growing, harvesting, processing, packaging, and shipping everything from spring water to cake mix and frozen shrimp. Restaurants buy, prepare, and serve food, and provide delivery through mobile ordering or an online app. Construction companies build our schools, homes, and hospitals, while real estate companies bring property buyers and sellers together. Clothing manufacturers design, create, import, and deliver our jeans, sports shoes, work uniforms, and party wear. Entertainment for our leisure hours comes from thousands of companies that create, produce, and distribute films, television shows, video games, books, and music downloads.

To succeed, companies must first determine what their customers want so that they can supply it quickly and efficiently. That means they often adapt to changes in consumer tastes, such as the growing preference for organic and locally grown produce. But firms can also *lead* in advancing technology and other changes. They have the resources, the know-how, and the financial incentive to bring about new innovations as well as the competition that inevitably follows.

You'll see throughout this book that businesses require physical inputs such as auto parts, chemicals, sugar, thread, and electricity, as well as the accumulated knowledge and experience of their managers and employees. Yet they also rely heavily on their own ability to adapt to global changes in today's business environment. Flexibility and innovation are key to long-term success—and to growth.

In short, business is at the forefront of our economy—and *Contemporary Business* is right there with it. This book explores the strategies that allow companies to grow and compete in today's interactive and hyper-competitive marketplace, along with the skills that you will need to turn ideas into action for your own success in business. This chapter sets the stage for the entire textbook by first presenting a conceptual map of the major interrelated areas of business study, as illustrated in **Figure 1.1**.

The Environmental Forces Influencing Business Activity

Businesses operate within an ever-changing multi-faceted environment. To say that businesspeople need to be aware of what is happening in many different fields in order to succeed is a simplification of the task they face. The outer layer of the conceptual map highlights the key environmental forces influencing business activities.



FIGURE 1.1 A conceptual map of the major interrelated areas of business study

In Chapter 2 we will look at economic theory, the role of governments, and legal issues that are fundamental to understanding business decision making. Chapter 3 will examine the rapid growth of international business activity and the forces of globalization. Chapter 4 will examine some of the major social and cultural concerns facing businesspeople, including business ethics and social responsibility. Throughout the textbook, we will focus on the extraordinary impact that changing technology is having on business. From the introduction of new products like smartphones and communications software services like Zoom, businesses continuously look for technologically superior offerings for themselves and their customers. Along the way, new firms emerge and those that cannot compete fall out of favor and can ultimately fail. We will explore entrepreneurship and the genesis of new small businesses, their growth toward becoming bigger operations and their economic contribution to society in Chapters 5 and 6.

The Functional Areas of Business Activity

The middle ring of the conceptual map highlights the three primary functional areas of business activity: management, marketing, and finance. When you ask what businesspeople do exactly, the answers lie inside this layer.

Management is concerned with the planning and organization of resources to achieve organizational goals such as sales and profit targets. Chapters 7–10 present managerial topics that include strategic planning, decision making, leadership, corporate culture, organizational structures, human resource management, motivation theory, team management, communication, and product and operations management.

Marketing activities deal with customers and all efforts at building and maintaining long-term relationships. At the heart of marketing is defining and understanding customers and their buying behavior. Chapter 11 examines technologies that deal with analysis and management of information, especially marketing and financial information. Chapters 12–14 examine the four key strategic areas of product, place, promotion, and price along with the forces that affect marketing. Then, Chapter 15 focuses on the fast-changing online world of e-commerce and related marketing strategies.

Financial activities include the accounting process that keeps financial records and prepares documents for analysis and use in the organization. Knowing product sales behavior is critical information for marketers who may be experimenting with various price setting decisions. Financial ratios and performance indicators provide vital information to managers and is presented in Chapter 16. The financial system that includes banking, bond, and the stock markets is examined in Chapter 17. Finally, Chapter 18 focuses on financial management and planning for the organization that is central to its current and long-term well-being.

The Goals of Business Activity

The goals set by the organization are at focus of all activity and displayed at the center of the model. Although most people would recognize profit as an obvious goal for most businesses, there are many other goals, such as promoting a positive social behavior like safe driving or healthy lifestyles. We will examine the operations of all sorts of organizations that make use of business strategic thinking to advance their goals, including organizations that are not guided by profits at all. But first, let us take a closer look at the meaning and use of the term business.

1 What Is Business?

Many think of the word *business* as making money or the activity of buying and selling goods and services. Do you think of big corporations like ExxonMobil or The Coca-Cola Company? Or does the local deli or dry cleaner pop into your mind? Maybe you recall your first summer job. *Business* is a broad, all-inclusive term that can be applied to many kinds of enterprises. Businesses provide employment opportunities, as well as the products and services that people enjoy.



Courtesy of Samuel Berston

FIGURE 1.2 A business survives through the exchange between a buyer and a seller.

business all profit-seeking activities and enterprises that provide goods and services necessary to an economic system.

profits rewards earned by businesspeople who take the risks involved in blending people, technology, and information to create and market want-satisfying goods and services.

not-for-profit organizations businesslike establishments that have primary objectives other than returning profits to their owners.

Profits represent rewards earned by businesspeople who take the risks involved in blending people, technology, and information to create and market want-satisfying goods and services. In contrast, accountants think of profits as a positive gain remaining for a business after all costs and expenses have been deducted from total sales. More generally, however, profits serve as incentives for people to start companies, grow them, and provide consistently high-quality competitive goods and services.

The quest for profits is a central focus of business because without profits, a company would not be able to provide sufficient incentive for owners and employees to do the work required. Payment is what motivates most people as we shall see in the study of management in Chapter 7. Though many people may seek as much financial reward as they can achieve, such as employees of professional sports teams and star-actors, most people are satisfied with more modest levels of financial reward for their effort. That said, there are not-for-profit organizations that are not motivated by profit growth, and instead look to other measurements of growth and success, such as services provided to a community.

Not-for-Profit Organizations

What do Purdue University's athletic department, the U.S. Postal Service, the American Heart Association, and your local library have in common? They all are classified as **not-for-profit organizations**, businesslike establishments that have primary objectives other than returning profits to their owners. A tax law provision granted to not-for-profits by the Internal Revenue Service is called section 501(c)(3). These organizations play important roles in society by placing humanitarian and environmental needs, for example, above profits, although it is important to understand that these organizations need to raise money so that they can operate and achieve their social goals. Not-for-profit organizations, also called nonprofits, operate in both the private and public sectors. Private-sector not-for-profits include museums, libraries, trade associations, and charitable and religious organizations. Government agencies, political parties, and labor unions, all of which are part of the public sector, are also classified as not-for-profit organizations.

Not-for-profit organizations are a substantial part of the U.S. economy, contributing more than \$1 trillion or about 5% in a recent year. Currently, more than 1.5 million nonprofit organizations are registered with the Internal Revenue Service in the United States, in categories ranging from arts and culture to science and technology.² These organizations use labor and capital in much the same way that for-profit companies do, and employ over 14 million people—more people than the federal government and all 50 state governments combined.³ In addition,

Business consists of all profit-seeking activities and enterprises that provide goods and services necessary to an economic system. Some businesses produce tangible goods, such as automobiles, breakfast cereals, and smart phones; others provide services such as insurance, hair styling, and entertainment ranging from Disney theme parks and NFL games to concerts.

Business drives the economic pulse of a nation. It provides the means through which its citizens' standard of living improves. At the heart of every business endeavor is an exchange between a buyer and a seller. An example of this exchange is shown in the accompanying photo (see **Figure 1.2**). A buyer recognizes a need for a good or service and trades money with a seller to obtain that product. The seller participates in the process in hopes of gaining profits. To make a profit, every business requires not only enough customers to whom its products and services can be sold on a consistent basis, but also some form of investment. Businesses can be privately owned, not-for-profit, or state-owned.

millions of volunteers work for them in unpaid positions. Not-for-profits secure funding from private sources, including individual (tax deductible) donations, and from government sources. They are commonly exempt from federal, state, and local taxes.

Although they focus on goals other than generating profits, managers of not-for-profit organizations face many of the same challenges as executives of profit-seeking businesses. Without funding, they cannot conduct research, hire top talent, market, and promote their cause, or provide services. St. Jude Children's Research Hospital's pediatric treatment and research facility in Memphis treats nearly 7,500 children a year for catastrophic diseases, mainly cancer, immune system problems, and infectious and genetic disorders. Patients come from all 50 states and all over the world and are accepted without regard to the family's ability to pay. To provide top-quality care and to support its research in gene therapy, chemotherapy, bone marrow transplantation, and the psychological effects of illness, among many other critical areas, St. Jude relies on contributions, with some assistance from federal grants.⁴

The American Society for the Prevention of Cruelty to Animals (ASPCA) was the first humane society in North America. It is a nonprofit national animal welfare organization with the belief that animals are entitled to kind and respectful treatment at the hands of humans and must be protected under the law (see [Figure 1.3](#)).⁵

To subsidize donations and grants, many not-for-profits, such as art museums and national parks, sell merchandise. For example, the Metropolitan Museum of Art in New York sells jewelry, books, calendars, note cards, and posters through both an online store and an on-site bricks-and-mortar gift shop. Founded in 1912, The Girl Scouts of the USA are known for their mouth-watering cookies. The organization has created a cookie empire valued at close to \$800 million through sales by local scout troops.⁶ Handling merchandising programs like these, as well as launching other fund-raising campaigns, requires managers of not-for-profit organizations to possess effective business skills and experience. Consequently, many of the concepts discussed in this book (such as management, marketing, and finance) apply to not-for-profit organizations as well as to profit-oriented firms.

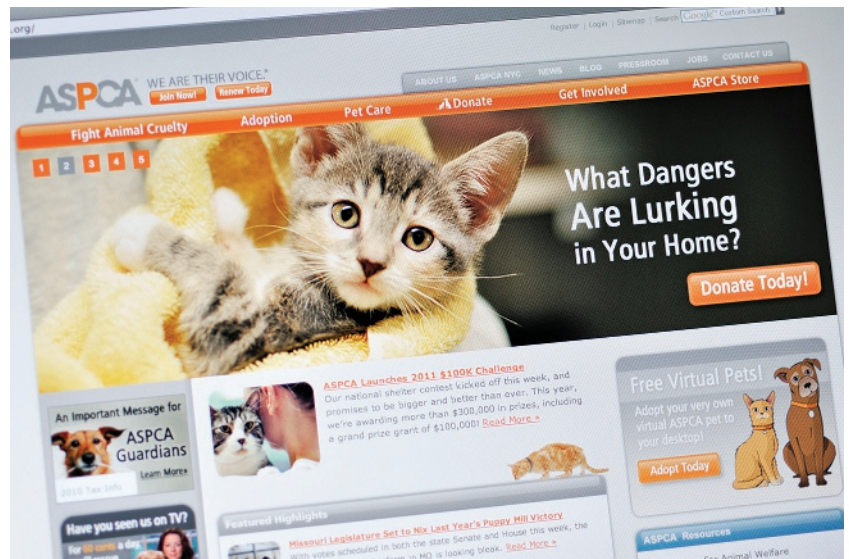


FIGURE 1.3 The ASPCA, headquartered in New York City, was the first humane society in North America and 150 years later it is one of the largest privately funded 501(c)(3) not-for-profit corporations in the world.

Assessment Check

1. What activity lies at the center of every business endeavor?
2. What is the primary objective of a not-for-profit organization?

2 Economic Factors of Production

An economic system requires certain inputs used in the production of goods and services to make a profit. Economists use the term **factors of production** to refer to the four basic inputs: land, labor, capital, and entrepreneurship. [Table 1.1](#) identifies each of these inputs and the type of payment or income received by companies and individuals who supply the factor of production.

Land, used in the production of a good, includes all production inputs or natural resources that come from the land and are useful in their natural states such as oil, gas, minerals, and timber.

factors of production four basic inputs: land, labor, capital, and entrepreneurship.

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TABLE 1.1 Factors of Production and Their Factor Payments

Factor of Production	Corresponding Factor Payment
Land	Rent
Labor	Wages
Capital	Interest
Entrepreneurship	Profit

labor includes anyone who works, including both the physical labor and the intellectual inputs contributed by workers.

capital includes technology, tools, information, and physical facilities.

entrepreneurship willingness to take risks to create and operate a business.

The demand for timber has increased as a result of an improved economy and increased homebuilding, along with hurricane, tornado, fire, flood, and other recent damages in the United States.⁷

Labor represents another critical input in every economic system. Labor includes anyone who works, from the chief executive officer (CEO) of a huge corporation to a self-employed writer or editor. This category encompasses both the physical labor and the intellectual inputs contributed by workers. Companies rely on their employees as a valued source of ideas and innovation, as well as physical effort. Some companies solicit employee ideas through online employee feedback or in staff meetings. Others encourage creative thinking during company-sponsored off-site meetings like hiking or rafting trips—or during social gatherings. Effective, well-trained labor provides a significant competitive edge, and companies must look at planning for their workforce in much the same way they do financial or information technology investments.

Hiring and keeping the right people matters, as we will see later in the case at the end of this chapter. Employees at food and candy maker Mars, Inc. feel they have a great place to work, partly because of the opportunities for advancement and generous pay the company provides.⁸

Capital, another key resource, includes technology, tools, information, and physical facilities. *Technology* is a broad term that refers to such machinery and equipment as computers and software, telecommunications, and inventions designed to improve production. Information, frequently improved by technological innovations, is another critical factor because both managers and operating employees require accurate, timely information for effective performance of their assigned tasks. Technology plays an important role in the success of many businesses. Bill Gates is quoted as saying, “Information technology and business are becoming inextricably interwoven. I don’t think anyone can talk meaningfully about one without talking about the other.” Technology has led to a transformation when it comes to cars and driving. Waymo, Google’s fully self-driving car project, which represents a new way forward in mobility, has recently started driving on public roads without anyone in the driver’s seat.⁹

Technology often helps a company improve its own products. Netflix, once famous for its subscription-based DVD-by-mail service, offers on-demand Internet streaming media and original content streaming. Netflix has exclusive rights to streaming movies and original TV series, like *Stranger Things*.¹⁰

Retail giant Walmart was recently granted a patent for a system in which drones would shuttle products between different departments inside its stores. The idea is to free customers not only from waiting for a Walmart associate to return with an item from a far-away storeroom, but also from having to walk across its super-sized stores to find what they want.¹¹

To remain competitive, a company needs to continually acquire, maintain, and upgrade its capital, which requires funding. A company’s funds may come from owner-investments, profits reinvested back into the business, or loans extended by others. Money then goes to work building factories; purchasing raw materials and component parts; and hiring, training, and compensating employees. People and companies that supply capital receive factor payments in the form of interest.

Entrepreneurship is the willingness to take risks to create and operate a business. An entrepreneur is someone with an idea who sees a potentially profitable opportunity and then devises a plan to achieve success in the marketplace. Whitney Wolfe hopes to empower women by changing the antiquated rules of online dating. Her location-based social and dating app, Bumble, referred to by some as “The Feminist Tinder,” requires that women make the first move to initiate a conversation.¹²

The factors of production comprise a recipe of ingredients for successful business and economic activity. If any inputs are lacking, then business will be difficult or even impossible. However, businesses may have alternatives, which often means paying more to substitute for the input that is lacking. For example, farming without fertile land for growing crops does not eliminate farming as an industry, but it certainly means that alternative methods will likely cost more. Growing plants indoors under controlled conditions such as artificial lighting and irrigation will cost more than conventional farming outdoors on fertile land. As a result, indoor farming can only exist where buyers are willing and able to pay for the more expensive plants, as demonstrated by Bowery Farming. Started by Irving Fain in 2015, the farms use warehouse locations close to major cities to produce higher quality and better tasting vegetables without the use of pesticides and controlled growing conditions. Restaurants serving a clientele seeking better quality food and able to pay higher prices make the venture possible.¹³

As we will see throughout the textbook, much business activity is about securing these four key inputs or developing substitutes. Consider the changes to the factors of production that have taken place in the farming industry. Labor provided by people alone was first replaced by animals. Oxen and horses pulled a plow and increased output far more efficiently than people pulling a plow alone. Later, technology entered the farming industry as farmer-driven tractors replaced the use of animals. Today, fully robotic farm equipment has replaced the need for many human controlled work. As a result of the capital-intensive cost of farm equipment, many small farms are no longer able to compete with large-scale operations using expensive labor saving technology. The once large in number, entrepreneurial small farm operators have been replaced by far fewer large-scale capital-intensive industrialized farms (see **Figure 1.4**).

U.S. businesses operate within an economic system called the *private enterprise system*. The next section looks at the private enterprise system, including competition, private property, and the entrepreneurship alternative.



Art_may/Shutterstock.com



CTK/Alamy Stock Photo

FIGURE 1.4 Like other industries, today's agricultural industry requires large-scale capital investments in machinery and specialized equipment that allows for efficient production.

Assessment Check

1. Identify the four basic inputs to an economic system.
2. List four types of capital.

3 The Private Enterprise System

No business operates in a vacuum. All operate within a larger economic system whereby production, resource allocation, and distribution of goods and services are determined. Economic systems must determine what to produce, how to produce and in what quantities, and who receives the output of production. Some economic systems, such as communism, feature strict controls on business ownership, profits, and resources to accomplish government goals.

In the United States, businesses function within the **private enterprise system**, a for-profit system established, owned, and operated by private citizens or individuals. Decisions can be made freely and independent of the government or its agencies, and companies are rewarded for their ability to identify and serve the demands and needs of consumers. Businesses that are adept at satisfying customers gain access to necessary factors of production and earn profits.

Another name for the private enterprise system is **capitalism**. Adam Smith, often identified as the father of capitalism, first described the concept in his book, *The Wealth of Nations*, published in 1776. Smith believed that an economy is best regulated by the “invisible hand” of

private enterprise system

economic system that rewards companies for their ability to identify and serve the needs and demands of customers.

capitalism

economic system that rewards companies for their ability to perceive and serve the needs and demands of consumers; also called the private enterprise system.

Business & Technology

Nordstrom Invests in Technology to Create “Unified Commerce”

Seattle, WA-based Nordstrom, the family-owned high-end fashion retailer, continues to be on a roll as recent annual sales reached a record \$14.5 billion. That figure includes sales of \$3 billion—growing more than 30% a year over the last decade—for the company’s e-commerce site, Nordstrom.com.

Nordstrom has implemented digital selling tools designed to support new ways of serving customers across all brands and channels, which include its physical Nordstrom store, Nordstrom Online, Nordstrom Rack, NordstromRack.com, Hautelook, and Trunk Club (the company’s men’s-oriented personal shopper brand).

With e-commerce representing 25% of Nordstrom’s business, technology spending has accelerated with plans to continue innovating its tech platform, designed to deliver both digital and mobile enhancements. For example, Nordstrom has implemented “unified commerce,” whereby, in addition to curbside delivery in all U.S. full-line stores, a customer can buy online, pick up in store (BOPIS). In an effort to bridge its physical and digital businesses, a mobile feature now allows a customer to reserve items online to try on in stores. Perhaps Nordstrom’s best-known competitive

advantage is its commitment to outstanding customer service, which the company believes must be managed largely in part with technology.

Questions for Critical Thinking

1. Would you want to receive a text message from a sales associate while shopping at your favorite retailer? Why or why not? Research more about how Nordstrom differentiates itself from other clothing retailers by its use of technology.
2. Realizing the changing nature and expectations of customers who prefer to shop in a variety of ways, what are some additional ways Nordstrom can use technology to cultivate customer relationships and compete against online giant, Amazon?

Sources: Company website, “About Us,” <http://shop.nordstrom.com>, accessed February 6, 2018; Micah Solomon, “Modernize Your Customer Experience the New Nordstrom Way,” *Forbes*, <https://www.forbes.com>, accessed February 6, 2018; Lora Kolodny, “Two Ways Nordstrom is Adapting to the Amazon Era,” *CNBC*, <https://www.cnbc.com>, accessed February 6, 2018; Jamie Grill-Goodman, “Nordstrom’s Tech Investment Plans for 2017,” *RIS (Retail Info Systems)*, <https://risnews.com>, accessed February 6, 2018.

competition battle among businesses for consumer acceptance.

competitive differentiation unique combination of organizational abilities, products, and approaches that sets a company apart from competitors in the minds of customers.

competition, a natural force that guides free market capitalism. Smith thought that competition among companies would lead to consumers’ receiving the best possible products and prices because less efficient producers would gradually be driven from the marketplace.

A basic premise of the private enterprise system, the invisible hand concept, also refers to the fact that individuals’ efforts to pursue their own interest may benefit society as well. In the United States, competition regulates much of economic life. To compete successfully, each company must find a basis for **competitive differentiation**, the unique combination of organizational abilities, products, and approaches that sets a company apart from competitors in the minds of customers. Under Armour, with the tagline of “I Will,” has resonated with football players who have experienced sweat soaked t-shirts that were heavy and uncomfortable. The company has differentiated itself with its signature moisture-wicking t-shirt that stays perpetually dry and fresh. Its tagline speaks to its origin, as the company began in the back of the founder’s truck.¹⁴ Companies that fail to adjust to shifts in consumer preferences or ignore the actions of competitors leave themselves open to failure. See the “Business & Technology Intersection” feature to learn more about how Nordstrom sets itself apart from the competition.

Throughout this book, our discussion focuses on the tools and methods that today’s businesses apply to compete and differentiate their goods and services. We also discuss many of the ways in which market changes will affect business and the private enterprise system in the future.

Basic Rights in the Private Enterprise System

For capitalism to operate effectively, people living in a private enterprise system must have certain rights. As shown in **Figure 1.5**, these include the rights to private property, profits, freedom of choice, and competition.

The right to **private property** is the most basic freedom under the private enterprise system. Every participant has the right to own, use, buy, sell, and bequeath most forms of property, including land, buildings, machinery, equipment, patents on inventions, individual possessions, and intangible properties.

The private enterprise system also guarantees business owners the right to all profits—after taxes—they earn through their activities. Although a business is not assured of earning a profit, its owner is legally and ethically entitled to any income it generates in excess of costs.

private property most basic freedom under the private enterprise system; the right to own, use, buy, sell, and bequeath land, buildings, machinery, equipment, patents, individual possessions, and various intangible kinds of property.

Freedom of choice means that a private enterprise system relies on the potential for citizens to choose their own employment, purchases, and investments. They can change jobs, negotiate wages, join labor unions, and choose among many different brands of goods and services. A private enterprise system maximizes individual prosperity by providing alternatives. Other economic systems sometimes limit freedom of choice to accomplish government goals, such as increasing industrial production of certain products.

The private enterprise system also permits fair competition by allowing the public to set rules for competitive activity. For this reason, the U.S. government has passed fair competition laws to maintain market competition and fairness for consumers by prohibiting anti-competitive practices, which include attempted monopolization, competitor bashing, predatory pricing or price gauging, and deceptive advertising, packaging, and labeling.¹⁵

The Entrepreneurship Alternative

The entrepreneurial spirit is a mind-set embodied by individuals who are passionate and fascinated with how things can be improved. An **entrepreneur** is a risk taker in the private enterprise system. You hear about entrepreneurs all the time—two college students creating a mobile app or a new parent who has an innovative idea for a better baby product. Once in a while, the risk leads to rewards that are significant and profitable. However, oftentimes, it takes an entrepreneur repeated attempts, failures, and numerous ideas before achieving success. Individuals who recognize marketplace opportunities are free to use their capital, time, and talents to pursue those opportunities for profit. The willingness of individuals to start new ventures drives economic growth and keeps competitive pressure on existing companies to continue to satisfy customers.

By almost any measure, the entrepreneurial spirit fuels growth in the U.S. economy. Of all the businesses operating in the United States, about one in seven companies started operations during the past year. These newly formed businesses are also the source of many of the nation's new jobs. These companies are a significant source of employment or self-employment. There are more than 31 million U.S. small businesses currently in operation employing over 60 million people.¹⁶ More than 22 million consist of self-employed people without any employees. Almost 8.5 million U.S. employees currently work for a business with fewer than 20 employees.¹⁷ Does starting a business require higher education? Not necessarily, although it certainly helps. Some students choose to launch a business before they finish college. **Table 1.2** lists some of the well-known start-ups that had their humble beginnings in a college dorm room. Today, the venture capital fund DormRoomFund.com provides funding for student entrepreneurs and is run by college students. Entrepreneurs and business start-ups are discussed in detail in Chapter 6.

Besides creating jobs and selling products, entrepreneurship provides the benefits of innovation. In contrast to more established firms, start-up companies tend to innovate most in fields of technology, making new products available to businesses and consumers. Because small companies are more flexible, they can make changes to products and processes more quickly than larger corporations. Entrepreneurs often find new ways to use natural resources, technology, and other factors of production. Often, they do this because they have to—they may not have enough money to build an expensive prototype or launch a wide-scale promotional campaign.

Sometimes an entrepreneur may innovate by simply tweaking an existing idea. For backcountry campers, hikers, and other outdoor enthusiasts, freeze-dried “just-add-water-and-serve” meals in a pouch are traditionally lightweight with an extensive shelf life. Avid backpacker, chef, and former restaurateur, Jennifer Scism, began experimenting by cooking and dehydrating her own meals prior to heading out on long expeditions. The result is Good To-Go, a Maine-based company that sells gourmet freeze-dried foods free of preservatives and additives. Now in 600 stores nationwide, the gourmet meals in a pouch include herbed mushroom risotto, pad Thai, smoked three-bean chili, and Indian vegetable korma, to name a few.¹⁸

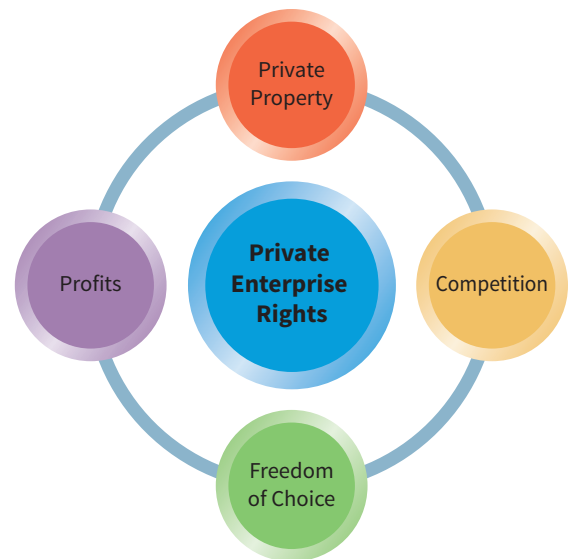


FIGURE 1.5 Basic Rights within a Private Enterprise System

entrepreneur person who seeks a profitable opportunity and takes the necessary risks to set up and operate a business.

TABLE 1.2 Dorm Room Entrepreneurs

Company	Founders	Idea	Website
Dropbox	Arash Ferdowski and Drew Houston	Frustrated by the inability to receive and send large files over email, Ferdowski and Houston created an online file storage solution, now the leader in file sharing with millions of users worldwide.	http://www.dropbox.com
Facebook	Mark Zuckerberg, Dustin Moscovitz, Eduardo Saverin, Andrew McCollum, and Chris Hughes	Facebook was created by a group of Harvard students in search of a way to interact with other students. Zuckerberg dropped out of school and continues to run the company today.	http://www.facebook.com
Google	Sergey Brin and Larry Page	Brin and Page began brainstorming while in school about creating the world's largest search engine. They suspended their PhD studies, and both run Alphabet today (see the chapter opening story).	http://www.google.com
Insomnia Cookies	Seth Berkowitz	Insomnia Cookies, now in 70 locations, specializes in feeding the insatiable hunger of college students, companies, and anyone else, with warm, delicious cookies delivered right to your door.	http://www.insomniacookies.com
ModCloth	Susan Gregg Koger and Eric Koger	ModCloth offers styles from hundreds of independent designers in a full range of sizes. They also design and sell an exclusive line of their own apparel.	http://www.modcloth.com
SnapChat	Evan Spiegel and Robert Murphy	Approached by a friend who wasn't sure about whether to send a certain photo, Spiegel and Murphy figured out a way to magically send pictures that soon disappear after being viewed by the recipient.	http://www.snapchat.com
Inogen	Alison Perry Bauerlin	While in college, Bauerlin founded Inogen, a lightweight and travel-approved portable oxygen device designed to free patients in need of oxygen from heavy tanks.	http://www.inogen.com

Sources: Rachel Knuttel, "The 12 Coolest Dorm Room Startups," <http://thelala.com>, accessed February 10, 2018; Ken Yeung, "Mark Zuckerberg on the Real Beginnings of Facebook," *The Next Web*, <http://thenextweb.com>, accessed February 10, 2018; company website, "About Us," <https://insomniacookies.com>, accessed February 10, 2018; company website, "About Us," <http://modcloth.com>, accessed February 10, 2018; company website, www.snapchat.com, accessed February 10, 2018; company website, "Create Your Website for Free," <https://wordpress.com>, accessed February 10, 2018; Company website, "About Us," accessed February 10, 2018, <http://inogen.com>.

Entrepreneurship is also important to existing companies in a private enterprise system. More and more, large companies are recognizing the value of entrepreneurial thinking among their employees, hoping to benefit from enhanced flexibility, improved innovation, and new market opportunities. For example, Nike's mobile app called SNKRS uses augmented reality to give "sneakerheads" (people who collect and trade sneakers as a hobby) a one-stop shop for everything Nike, in addition to a heads-up about the release of new models and the ability to purchase new and limited-edition sneakers through the app.¹⁹

As discussed in the next section, entrepreneurs have played a vital role in the history of U.S. business. As forward-thinking innovators, they have created global companies in new industries, developed successful business methods and processes, and brought about economic wealth, jobs, and opportunities.

Assessment Check

1. What is an alternative term for *private enterprise system*?
2. What is the most basic freedom under the private enterprise system?
3. What is an entrepreneur?

4 Seven Eras in the History of Business

In the more than 500 years since the first European settlements appeared on the North American continent, amazing changes have occurred in the size, focus, and goals of U.S. businesses. As **Figure 1.6** indicates, U.S. business history is divided into seven distinct time periods: (1) the Colonial period, (2) the Industrial Revolution, (3) the age of industrial entrepreneurs, (4) the production era, (5) the marketing era, (6) the relationship era, and (7) the social era. The next sections describe how events in each of these time periods have influenced U.S. business practices.

The Colonial Period

Colonial society emphasized rural and agricultural production. Colonial towns were small compared to European cities, and they functioned as marketplaces for farmers and craftspeople. The economic focus of the nation centered on rural areas, because prosperity depended on the output of farms, orchards, and the like. The success or failure of crops influenced every aspect of the economy.

Colonists depended on England for manufactured items, as well as financial backing for their infant industries. Even after the Revolutionary War (1776–1783), the United States maintained close economic ties with England. British investors continued to provide much of the financing for developing the U.S. business system, and this financial influence continued well into the 19th century.

Era	Main Characteristics	Time Period
Colonial	Primarily agricultural	Prior to 1776
Industrial Revolution	Mass production by semiskilled workers, aided by machines	1760–1850
Industrial entrepreneurs	Advances in technology and increased demand for manufactured goods, leading to enormous entrepreneurial opportunities	Late 1800s
Production	Emphasis on producing more goods faster, leading to production innovations such as assembly lines	Through the 1920s
Marketing	Consumer orientation, seeking to understand and satisfy needs and preferences of customer groups	Since 1950s
Relationship	Benefits derived from deep, ongoing links with individual customers, employees, suppliers, and other businesses	Began in 1990s
Social	New ways for businesses and consumers to communicate and share information through the Internet and social media	Since 2000s

FIGURE 1.6 Seven Eras in Business History

The Industrial Revolution

The Industrial Revolution began in England around 1750. It moved business operations from an emphasis on independent, skilled workers who specialized in building products one by one to a factory system that mass-produced items by bringing together large numbers of semiskilled workers. The factories profited from the savings created by large-scale production, bolstered by increasing support from machines over time. As businesses grew, they could often purchase raw materials more cheaply in larger lots than before. Specialization of labor, limiting each worker to a few specific tasks in the production process, also improved production efficiency.

Influenced by these events in England, business in the United States began a time of rapid industrialization. Agriculture became mechanized, and factories sprang up in cities. During the mid-1800s, the pace of the revolution was increased as newly built railroad systems provided fast, economical transportation. In California, for example, the combination of railroad construction and the gold rush fueled a tremendous demand for construction.

The Age of Industrial Entrepreneurs

Building on the opportunities created by the Industrial Revolution, entrepreneurship increased in the United States. Henry Engelhard Steinway of Seesen, Germany, built his first piano by hand in his kitchen in 1825 as a wedding present for his bride. In 1850, the family emigrated to New York, where Henry and his sons opened their first factory in Manhattan in 1853. Over the next 30 years, they developed innovations that led to the modern piano. Through an apprenticeship system, the Steinways transmitted their skills to the following generations. Steinway pianos have long been world famous for their beautiful tone, top-quality materials and workmanship, and durability. Now known as Steinway Musical Instruments, the company still builds its pianos by hand in its factory in Astoria, New York, under the same master-apprentice system that Henry and his sons began. Building each piano takes nearly a year from start to finish (see [Figure 1.7](#)). In response to 21st-century demands, the company has launched Etude, an app for the iPad that displays sheet music the user can play on an on-screen piano keyboard.²⁰

Inventors created a virtually endless array of commercially useful products and new production methods. Many of them are famous today:

- Eli Whitney, best known for inventing the cotton gin, introduced the concept of interchangeable parts, an idea that would later facilitate mass production on a previously impossible scale.
- Robert McCormick designed a horse-drawn reaper that reduced the labor involved in harvesting wheat. His son, Cyrus McCormick, saw the commercial potential of the reaper and launched a business to build and sell the machine. By 1902, the company was producing 35% of the nation's farm machinery.
- Cornelius Vanderbilt (railroads), J.P. Morgan (banking), and Andrew Carnegie (steel), among others, took advantage of the enormous opportunities waiting for anyone willing to take the risk of starting a new business.

The entrepreneurial spirit of this golden age in business did much to advance the U.S. business system and raise the country's overall standard of living. That market transformation, in turn, created new demand for manufactured goods.

The Production Era

As demand for manufactured goods continued to increase through the 1920s, businesses focused even greater attention on the activities involved in producing those goods. Work became increasingly specialized, and huge, labor-intensive factories dominated U.S. business. Assembly lines, introduced by Henry Ford, became commonplace in major industries. Business owners turned over their



Fred R. Conrad/The New York Times/Redux

FIGURE 1.7 Steinway has built pianos for home use and for artists from George Gershwin to Billy Joel.

responsibilities to a new class of managers trained in operating established companies. Their activities emphasized efforts to produce even more goods through quicker methods.

During the production era, business focused attention on internal processes rather than external influences. Marketing was almost an afterthought, designed solely to distribute items generated by production activities. Little attention was paid to consumer wants or needs. Instead, businesses tended to make decisions about what the market would get. If you wanted to buy a Ford Model T automobile, your color choice was black—the only color produced by the company.

The Marketing Era

The Great Depression of the early 1930s changed the shape of U.S. business yet again. As incomes nosedived, businesses could no longer automatically count on selling everything they produced. Managers began to pay more attention to the markets for their goods and services, and sales and advertising took on new importance. During this period, selling was often synonymous with marketing.

Demand for all kinds of consumer goods exploded after World War II. After nearly five years of doing without new automobiles, appliances, and other items, consumers were buying again. At the same time, however, competition also heated up. Soon businesses began to think of marketing as more than just selling; they envisioned a process of determining what consumers wanted and needed, and then designing products to satisfy those needs. In short, they developed a **consumer orientation**.

Businesses began to analyze consumer desires before beginning actual production. Consumer choices skyrocketed. Automobiles came in a wide variety of colors and styles, and car buyers could choose among them. Companies also discovered the need to distinguish their goods and services from those of competitors. **Branding**—the process of creating an identity in consumers' minds for a good, service, or company—is an important marketing tool. A **brand** can be a name, term, sign, symbol, design, or some combination that identifies the products of one company and differentiates them from competitors' offerings.

Branding can go a long way toward creating value for a firm by providing recognition and a positive association between a company and its products. Some of the world's most famous—and enduring—brands include Apple, Google, Microsoft, Coca-Cola, Amazon, and Samsung.²¹ There is more in-depth discussion about branding in Chapter 12.

The marketing era has had a tremendous effect on the way business is conducted today. Even the smallest business owners recognize the importance of understanding what customers want and the reasons they buy.

The Relationship Era

As business continues in the 21st century, a significant change is taking place in the ways companies interact with customers. Since the Industrial Revolution, most businesses have concentrated on building and promoting products in the hope that enough customers will buy them to cover costs and earn acceptable profits, an approach called **transaction management**.

In contrast, in the **relationship era**, businesses are taking a different, longer-term approach to interacting with and creating authentic customer relationships. Companies now seek ways to actively nurture customer loyalty by carefully managing every interaction. They earn enormous paybacks for their efforts. A company that retains customers over the long haul can potentially reduce costs associated with acquiring new customers. Because customer spending tends to accelerate over time, revenues also grow. Companies with long-term customers often can avoid costly reliance on price discounts to attract new business, and they find that many new buyers come from loyal customer referrals.

Business owners gain several advantages by developing ongoing relationships with customers. Because it is much less expensive to serve existing customers than to find new ones, businesses that develop long-term customer relationships can reduce their overall costs. Long-term relationships with customers enable businesses to improve their understanding of what customers want and prefer from the company. As a result, businesses enhance their chances of sustaining real advantages through competitive differentiation.

consumer orientation business philosophy that focuses first on determining unmet consumer wants and needs and then designing products to satisfy those needs.

branding process of creating an identity in consumers' minds for a good, service, or company; a major marketing tool in contemporary business.

brand name, term, sign, symbol, design, or some combination that identifies the products of one company and differentiates them from competitors' offerings.

transaction management building and promoting products in the hope that enough customers will buy them to cover costs and earn profits.

relationship era business era in which companies seek ways to actively nurture customer loyalty by carefully managing every interaction.

The relationship era is an age of connections—between businesses and customers, employers and employees, technology and manufacturing, and even separate companies. The global economy is increasingly interconnected, as businesses expand worldwide. In this new environment, techniques for managing networks of people, businesses, information, and technology are critically important to success in today’s business environment. See the “Job Description” feature to learn more about what it takes to be a business operations associate in a technology company.

The Social Era

social era business era in which companies seek ways to connect and interact with customers using technology.

relationship management

collection of activities that build and maintain ongoing, mutually beneficial ties with customers and other parties.

The **social era** of business can be described as a new approach to the way businesses and individuals interact, connect, communicate, share, and exchange information with each other in virtual communities and networks around the world.

The social era, based on the premise that organizations create value through connections with groups or networks of people with similar goals and interests, offers businesses immense opportunities, particularly through the use of technology and **relationship management**—the collection of activities that build and maintain ongoing, mutually beneficial ties with customers and other parties.

Social media tools and technologies come in various shapes and sizes. They include weblogs, blogs, podcasts, and microblogs (such as Twitter); social and professional networks (such as Facebook and LinkedIn); picture-sharing platforms (such as Instagram and Tumblr); and content communities (such as YouTube), to name a few.²²

As consumers continue to log fewer hours on computers and more time on mobile devices, companies have implemented mobile strategies using real-time data and location-based technology. Businesses use mobile social media applications to engage in marketing research, communications, sales promotions, loyalty programs, and other processes. In the social era, businesses tailor specific promotions to specific users in specific locations at specific times to build customer loyalty and long-term relationships. For example, customers who are members of GameStop’s PowerUp loyalty program can opt in to receive mobile offers and messages when they are near one of the video game retailer’s stores.²³

Job Description

“BizOps” Associate

Overview The business operations team at a technology company—also called BizOps for short—coordinates and aligns organization-wide operations and strategies. Team members, who gain a holistic view of an organization, are charged with defining and leading strategic, operational, and organizational improvements across a company’s product, sales, marketing, and engineering teams.

Responsibilities As a member of a BizOps team, you might work on growth strategies for a variety of goods and services. You might also provide insight to company managers on initiatives for decision making, operations, investments, and acquisitions. In addition, planning and goal setting are integral parts of the daily job activities for a BizOps associate.

Requirements Typically a business degree with an emphasis in finance or management is preferred. Some BizOps professionals also have a few years of experience at management consulting firms where they developed strategies and solutions for clients. Attention to detail, as well as strong organization and communication skills, are essential for a successful career in BizOps. A keen

interest in innovation as well as a knack for implementing ideas quickly as part of ongoing business opportunities can be helpful skills.

Outlook Opportunities for BizOps professionals will continue to grow over the next several years, as more technology start-up businesses come on line and other companies expand their operations. Professionals with a proven track record—typically five years of solid BizOps experience—will continue to be in high demand and have significant opportunities at the senior management level. If you like being part of an innovative team that gets involved and executes a technology company’s fast-moving strategic priorities, this may be the career for you.

Sources: Tammy Everts, “What Do We Mean When We Talk about BizOps?” *SOASTA*, <https://www.soasta.com/>, accessed February 7, 2018; Jordan Kong, “Why Your Startup Also Needs a BizOps Team,” *Medium*, <https://medium.com>, accessed February 7, 2018; Dan Yoo, “Why BizOps Is the Hottest Team in Tech,” *LinkedIn Pulse*, <https://www.linkedin.com>, accessed February 7, 2018; company website, “Google Careers—Business Strategy,” www.google.com, accessed February 7, 2018; Dan Yoo, “How BizOps Adapts to You and Your Company,” *LinkedIn Pulse*, <https://www.linkedin.com>, accessed February 7, 2018.

Assessment Check

1. What was the Industrial Revolution?
2. During which era was the idea of branding developed?
3. What is the difference between transaction management and management in the relationship era?

5 Current Trends Related to Business

Planning and strategizing for the future requires a knowledge of the past, but perhaps more importantly, an understanding of trends that will determine the future business environment. In this section, we will examine a few significant current trends.

Covid-19 The global impact of Covid-19 will be studied for years into the future, but already we can recognize several trends that have emerged due to disruptions caused by the pandemic. A recent study identifies an acceleration in the rate of adoption of digital technologies by consumers and businesses. Purchasing online became more familiar to customers seeking convenience, safety and other benefits provided by e-commerce. Firms like Amazon benefited dramatically from the seismic shift to more online purchasing, as indicated by its stock market share-price which nearly doubled in value between March, when the pandemic broke, and August 2020.²⁴

Employees learned to work away from their company offices and, like consumers, communicated using digital conferencing software like Zoom which skyrocketed in popularity with both business and consumer customers. As an indication of Zoom's growth in popularity, its stock market share price increased five-fold between March and October 2020.²⁵

Employers recognized an increase in employee empathy for one another, as individuals shared the stress of dealing with Covid-19 in our own unique situations. Employees also grew more concerned with personal and family wellness, diversity and inclusivity in the workplace environment. Isolation from traditional workplaces has generated interest in research into how attitude toward work and the development of networks of co-workers might be affected. This is an important concern for future management development as so much of our skills are due to our interactions with co-workers in social settings on the job. Without those traditional interactions and meetings with mentors and coaches at work, some are questioning how future development will take place and how employees will learn, when those who guide are not physically present.²⁶

Growing Partnerships and Relationships

Businesses are finding that they must form partnerships with other organizations to take full advantage of available opportunities. One form of partnership between organizations is a **strategic alliance**, a partnership formed to create a competitive advantage for the businesses involved.

The strategic alliance between the American pharmaceutical giant Pfizer and the German biotechnology company BioNTech brought together the production and global distribution capability of Pfizer and the leading-edge development of a vaccine against Covid-19. Working together the firms could deliver a vaccine to the world by bringing their respective capabilities to the task.²⁷

The voice of Amazon's voice-enabled intelligent personal assistant, Alexa, will soon be heard outside the home. In fact, major automobile companies, including Ford, Toyota, Hyundai, and Volkswagen, plan to include Amazon's voice-controlled digital assistant in their cars (see **Figure 1.8**). This is just one example of how automobile companies are forming strategic alliances with technology companies—all in an effort to make safer cars and to embrace emerging technologies.²⁸

strategic alliance partnership formed to create a competitive advantage for the businesses involved; in international business, a business strategy in which a company finds a partner in the country where it wants to do business.



FIGURE 1.8 Automobile maker Ford has included Amazon's voice-controlled digital assistance in their cars.

Another way of building relationships, is to incorporate issues and values into your business that are of concern to your customers. As environmental concerns continue to influence consumers' choices of everything from yogurt to clothing to cars, many observers say the question about "going green" is no longer whether, but how. The need to develop environmentally friendly products and processes continues to be a major focus for businesses today.

Companies in every industry are researching ways to save energy, cut emissions and pollution, reduce waste, and, not incidentally, save money and increase profits as well. King & King Architects of Syracuse, New York, a member of the Green Building Council, recently relocated to a 48,000-square-foot warehouse. A grant from the New York State Energy Research and Development Authority (NYSERDA) enabled King & King to install energy-improved, high-efficiency windows, heating and cooling, ventilation, and insulation. These and many other improvements will save the company the equivalent amount of electricity consumed by 24 single-family homes per year—and won the company a High Performance Building Plaque from NYSERDA.²⁹

Energy remains a significant cost for most companies, and carbon-based fuels such as coal are responsible for most of the additional carbon dioxide in the atmosphere. Many companies have begun to address this issue, none perhaps with more flair than Greensulate, a small business in New York City that insulates rooftops with beautiful meadows of lavender, native grasses, and a hardy plant called sedum. The company's efforts to date have eliminated more than 3,000 pounds of carbon from the atmosphere.³⁰ Owned by electric vehicle maker Tesla, SolarCity, a California installer of rooftop solar cells, has become a leader in clean energy services for businesses, schools, and not-for-profit organizations.³¹

Each new era in U.S. business history has forced managers to reexamine the tools and techniques they formerly used to compete. Tomorrow's managers will need creativity and vision to stay on top of rapidly changing technology and to manage complex relationships in the global business world of the fast-paced 21st century. As green operations become more cost-effective, and consumers and shareholders demand more transparency from corporations, more companies continue to realize its importance and value.

Changes in the Workforce

A skilled and knowledgeable workforce is an essential resource for keeping pace with the accelerating rate of change in today's business world. Employers need reliable workers who are dedicated to developing strong ties with customers and partners. To compete in global markets, businesses must be aware of the ongoing transition to a knowledge economy, which involves increased reliance on employees' intellectual capabilities over physical inputs or natural resources. Knowledge-based activities within an organization help accelerate the pace of technical and scientific advances. More recently, the integration of machines and artificial intelligence in the workplace continues to grow as a number of companies in the health care and financial sectors have successfully substituted artificial intelligence technologies for employees. See how McDonald's is using intelligent decision making when it comes to packaging in the "Clean & Green Business" feature.³²

Companies now face several trends that challenge their skills for managing and developing human resources. Those challenges include aging of the population and a shrinking labor pool, growing diversity of the workforce, the changing nature of work, the need for flexibility and mobility, and the use of collaboration and new models of work such as crowdsourcing and artificial intelligence (intelligence by machines) to innovate and become more efficient.

Aging of the Population and Shrinking Labor Pool There are more than 8.5 million U.S. workers 65 or older in today's workforce, a 60% increase compared to a decade ago.³³ However, today many members of the Baby Boomer generation, the huge number of people born between 1946 and 1964, are still hitting the peaks of their careers. At the same time, members of so-called Generation X (born from 1965 to 1981) and Generation Y or Millennials (born from 1982 to 2005) are building their careers, so employers are finding themselves managing a multi-generational workforce with up to five different generations.

Clean & Green Business

Happy Meal Packaging Not All Happy

After enjoying a Happy Meal at McDonald's, one thought that is probably not at top of mind for kids and parents alike is the impact of the meal's packaging on the planet's forests. In a typical Happy Meal, in addition to the paper cup and napkins, the burger is wrapped in paper, as is the plastic straw; the fries arrive in a paper sleeve; ketchup packets, made from a thin plastic film, are also supplied—and of course, there's the plastic toy. At the world's largest restaurant chain, serving over 69 million people daily, with 37,000 locations in over 100 countries, all of this packaging, made primarily from trees, goes straight into the trash, and subsequently, a landfill.

In an effort to reduce waste, McDonald's is working on improving its sourcing, transportation, and packaging. The company recently announced that by 2025, all packaging, including single-use plastic straws, on customer products will come from "renewable or recycled sources," or sources with a preference for certification by environmental organizations, the Forest Stewardship Council or the Programme for the Endorsement of Forest Certification. Both nonprofit organizations have a goal to protect forests for future generations by setting standards for responsible forest management. Additionally, by 2025, McDonald's has also said that it will make recycling an option at all global locations. To date, only 10% of its 37,000 locations offer recycling. McDonald's customers continue to express concern over the company's green image. The company acknowledges that it has a long road ahead to accomplish its goal of

recycling 100% of guest packaging at all of its restaurants. Recycling infrastructure, regulations, and consumer behaviors differ from city to city and country to country. However, the burger giant believes that even small changes can and will make a difference.

Questions for Critical Thinking

1. The average American uses six trees worth of paper each year. In reality, forest products like toilet paper, napkins, tissues, and paper towels are used by people every day. What solutions exist to lessen or prevent clearing the earth's forests to produce such products?
2. McDonald's has also committed to replace recycle bins within its stores and to do away with eco-unfriendly and nearly impossible-to-recycle plastic (polystyrene) foam cups. Research the status and results of its initiatives.

Sources: Organization site, "About Us," <https://us.fsc.org/en-us>, accessed February 11, 2018; company website, "Thinking Circular with More Sustainable Packaging and Recycling," <http://corporate.mcdonalds.com>, accessed February 11, 2018; Melissa Locker, "If McDonald's Keeps Its Promise, Your Happy Meal Could Be Green Within Seven Years," *Fast Company*, <http://fastcompany.com>, accessed February 11, 2018; Robert Reed, *Chicago Tribune*, "McDonald's to Drop Foam Packaging by Year End," <http://www.chicagotribune.com>, accessed February 11, 2018; Ben Geier, "McDonald's Promises to Become More Eco-friendly," *ABC Action News*, <https://www.abcactionnews.com>, accessed February 11, 2018.

Other generations include Generation Z, born after Millennials, and the Silent Generation—workers born before 1946. This broad age diversity brings management challenges with it, such as accommodating a variety of work lifestyles, the potential for negative stereotyping changing expectations of work, and varying levels of technological expertise. Still, despite the widening age spectrum of the workforce, some economists predict a labor shortage as Baby Boomers retire.

Continued rapid technological change has intensified the hiring challenge by requiring knowledge workers and workers with even more advanced, often technical, skills. Over 33% of Americans 25 and older have completed a bachelor's degree, an increase from 28% a decade ago. In addition, companies are increasingly seeking—and finding—talent at the extreme ends of the working-age spectrum. Teenagers are entering the workforce sooner, and some seniors are staying longer—or seeking new careers after retiring from their prior careers. Many older workers work part-time or flexible hours. Meanwhile, for those older employees who do retire, employers must administer a variety of retirement planning, disability programs and insurance benefits.

Increasingly Diverse Workforce While the population is aging in much of the developed world, in emerging markets like Brazil, Russia, India, and China, the young population is contributing to a global migration. To gain access to more diverse educational and work opportunities, workers in developing regions have moved to countries like the United States. This pattern has contributed to an increasingly diverse U.S. workforce—beyond simply age, race, and gender differences.

To retain employees, managers must focus on diversity and inclusion in workplace policies—particularly in industries such as technology. Today's U.S. workforce is comprised of more immigrants than ever before, along with highly educated women, military veterans, and people with varying physical and mental abilities. Minority groups will make up approximately 56% of the total population by the year 2060.³⁴ Aligning diversity initiatives with business goals

diversity blending individuals of different genders, ethnic backgrounds, cultures, religions, ages, and physical and mental abilities to enhance a company's chances of success.

outsourcing using outside vendors—contracting work out to another party—for the production of goods or fulfillment of services and functions previously performed in house.

and objectives might include mentoring and career development opportunities designed to increase diversity in higher-level positions within an organization. In addition, employee retention strategies might include flexible work programs, training to increase technology proficiency, and relevant, meaningful employee perks and benefits.

Diversity, blending individuals of different genders, ethnic backgrounds, cultures, religions, ages, and physical and mental abilities, creates far more innovative and creative perspectives. Studies have shown that diverse employee teams and workforces with varied perspectives and experience tend to perform tasks more effectively and develop better solutions to business problems. According to the chief diversity officer for microprocessor maker Intel, the company plans to invest \$300 million in its “Diversity in Technology Initiative” to achieve full representation of women and underrepresented minorities.³⁵

Outsourcing and the Changing Nature of Work Not only is the U.S. workforce changing, but so is the very nature of work. Manufacturing used to account for most of the annual output of the United States, but the balance has now shifted to services such as hospitality, retail, health care, human services, information technology, financial services, and education. As **Table 1.3** shows, employment by major service industry sectors continues to grow. This means that product firms, for example, with a higher service component, must rely on well-trained employees who have the knowledge, problem solving and technical skills, and ability to communicate and deal with people as part of their daily work. **Outsourcing** involves the use of outside vendors—contracting work out to another party—for the production of goods or fulfillment of services and functions previously performed in house. Oftentimes, competitive pressures drive a company to reduce costs by outsourcing in order to focus its resources on other components of its business. In addition to cultural and language differences, outsourcing also creates its own challenges, such as fully understanding the client's business and balancing costs while increasing value to the client.

TABLE 1.3 Employment by Major Service Industry Sector, 2006, 2016, and Projected 2026

Industry Sector	Thousands of Jobs (000s)			Change	
	2006	2016	2026	2006–16	2016–26
Services-providing excluding special industries	114,724.2	125,294.1	135,820.6	10,569.9	10,526.5
Utilities	548.5	556.2	559.6	7.7	3.4
Wholesale trade	5,904.6	5,867.0	6,012.8	-37.6	145.8
Retail trade	15,353.2	15,820.4	16,232.7	467.2	412.3
Transportation and warehousing	4,469.6	4,989.1	5,353.4	519.5	364.3
Information	3,037.9	2,772.3	2,824.8	-265.6	52.5
Financial activities	8,366.6	8,284.8	8,764.6	-81.8	479.8
Professional and business services	17,566.2	20,135.6	22,295.3	2,569.4	2,159.7
Educational services	2,900.9	3,559.7	4,066.2	658.8	506.5
Health care and social assistance	15,253.3	19,056.3	23,054.6	3,803.0	3,998.3
Leisure and hospitality	13,109.7	15,620.4	16,939.4	2,510.7	1,319.0
Other services	6,240.5	6,409.4	6,761.4	168.9	352.0
Federal government	2,732.0	2,795.0	2,739.2	63.0	-55.8
State and local government	19,241.2	19,427.9	20,216.6	186.7	788.7

Source: Government website, “Employment by Major Industry Sector,” <https://www.bls.gov>, accessed February 8, 2018.

Offshoring is the relocation of business processes, both production (manufacturing) and services (accounting), to lower-cost locations overseas. In recent years, India ranked as the top offshoring destination worldwide, followed by China and Malaysia.³⁶ Some U.S. companies are now structured so that entire divisions or functions are developed and staffed overseas. As U.S. firms are becoming increasingly concerned about protecting their intellectual property and keeping jobs in the United States, many have focused on **nearshoring**, outsourcing production or services to locations near a company's home base, or closer to customers.³⁷

Flexibility and Mobility Millennials, the largest demographic group in today's workforce, tend to care less about money and the work-comes-first lifestyle, and more about training, flexibility, diversity and inclusion, and getting along with co-workers. Millennials expect greater choice and control over their physical space as compared to Baby Boomers, and they also bring a different set of skills to the workplace. Millennials, more open to freelancing or working on contract over traditional full-time employment, expect flexible work hours along with mobility to work at home, a café, or the office. Many prefer to use technology (including their personal smart phones), to collaborate online, where they can share knowledge, a sense of purpose or mission, and a free flow of ideas across any geographical distance or time zone.³⁸

To retain valued employees, managers of global workforces need to present exciting work opportunities, build and earn trust, and ensure that employees have a choice over when, where, and how to work. Such managers and their employees need to be flexible and responsive to change while work, technology, and the relationships between them continue to evolve.

Innovation through Collaboration Some observers also see a trend toward more collaborative work in the future, as opposed to individuals working alone. Businesses using teams hope to build a creative environment where all members contribute their knowledge and skills to solve problems or seize opportunities.

Technology continues to break down the physical barriers that once existed in a workplace setting where workers arrived at the office primarily for face-to-face collaboration. To achieve high levels of productivity, employees have become increasingly dependent on technology—including messaging apps, video conferencing for virtual collaboration, and digital devices like smart phones and laptops. Using technology, global teams are able to collaborate from all corners of the world, and physical office presence seems far less important. This has contributed to a new way of working called **crowdsourcing**, enlisting the collective talent of a number of people to get work done. Crowdsourcing allows companies to find workers for a specific task or project in a more efficient and cost-effective way—using online marketplaces to hire global talent beyond their own workforce.³⁹

offshoring relocation of business processes, both production (manufacturing) and services (accounting), to lower-cost locations overseas.

nearshoring outsourcing production or services to locations near a company's home base or closer to customers.

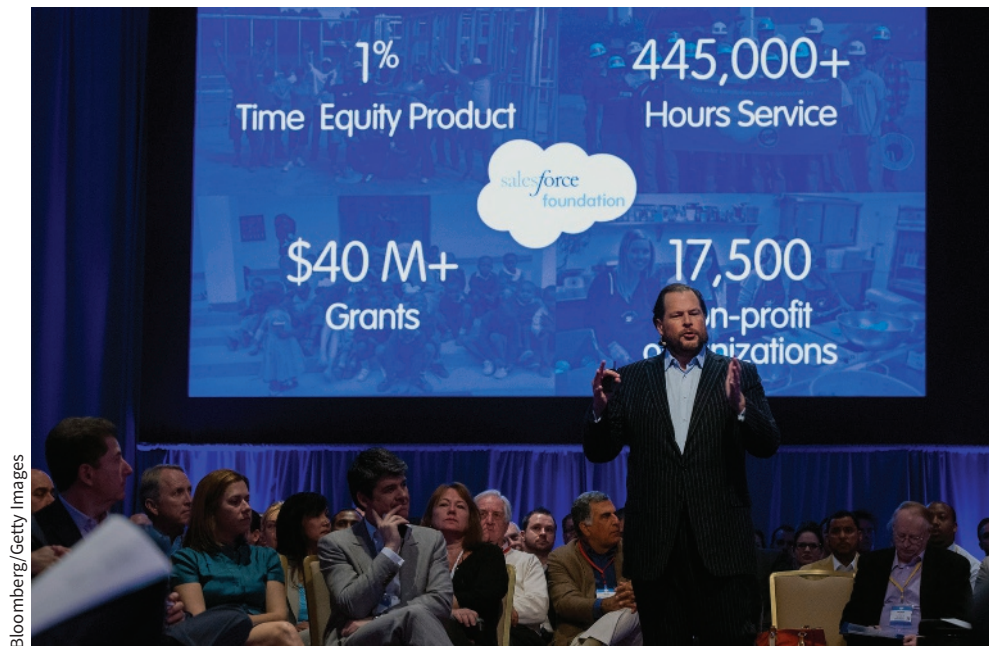
crowdsourcing enlisting the collective talent of a number of people to get work done.

Assessment Check

1. Define *outsourcing*, *offshoring*, and *nearshoring*.
2. Describe the importance of collaboration and employee partnership.

6 Skills and Attributes Needed by Today's Managers

Ongoing change is causing a radical transformation in today's business environment—where new industries, business models, and technologies are continually developing. Different from the past, the use of data, networks, and artificial intelligence for decision making and communication will impact the way today's managers lead in an environment of hyper-change. Companies now look for highly motivated visionaries and transformational managers and



Bloomberg/Getty Images

FIGURE 1.9 Marc Benioff, CEO of Salesforce.com, is a visionary leader who has disrupted traditional, on-premise enterprise software with customer relationship management (CRM) delivered via the cloud.

leaders. For today's manager, the ability to communicate and strategically apply critical thinking skills and creativity to both challenges and opportunities will continue to be a top priority.

Importance of Vision

vision ability to perceive marketplace needs and what an organization must do to satisfy them.

To thrive in the 21st century, businesspeople need **vision**, the ability to perceive marketplace needs and what an organization must do to satisfy them. Marc Benioff, CEO of Salesforce.com (see **Figure 1.9**), a pioneer of cloud computing, is a visionary leader. Benioff founded Salesforce.com to replace traditional enterprise software—computer programs with business applications—with an on-demand information management service. Because of social and mobile cloud technologies, businesses now have the opportunity to connect with customers, employees, partners, and others in more strategic and effective ways. At a recent conference, Benioff was quoted as saying, “Salesforce.com needs to be for enterprise customers what Steve Jobs has always been to me—to be visionary and paint the future as much as possible.”⁴⁰ Another leader with a definite vision is Shake Shack's Danny Meyers. See the “Business Model” feature for his story.

Importance of Critical Thinking and Creativity

Critical thinking and creativity are essential characteristics of today's manager. Today's businesspeople need to look at a wide variety of situations, draw connections among disparate information, and develop future-oriented solutions. This need applies not only to top executives but to mid-level managers and entry-level workers as well.

Critical thinking is the ability to analyze and assess information to pinpoint problems or opportunities. The critical thinking process includes activities such as determining the authenticity, accuracy, and worth of data, information, knowledge, and arguments. It involves looking beneath the surface for deeper meaning and connections that can help identify critical issues and solutions.

Creativity is the capacity to develop novel solutions to perceived organizational problems. Although most people think of it in relation to writers, artists, musicians, and inventors,

critical thinking ability to analyze and assess information to pinpoint problems or opportunities.

creativity capacity to develop novel solutions to perceived organizational problems.

Business Model

Shake Shack Blends Up “Enlightened Hospitality”

If you've been to New York City recently, one of its many tourist attractions is a burger joint which began as a single location in New York's Madison Square Park. Based in New York, Shake Shack is a regional “fast-casual” restaurant known for its high-quality, sustainably sourced food offerings, which include its signature “ShackBurger,” hot dogs, crinkle fries, and, of course, milk shakes. The growing “fast-casual” restaurant segment, which includes Chipotle and Panera, is a hybrid of fast food and casual dining. Compared to fast food restaurants, Shake Shack offers healthier, higher quality, and specially prepared food in an upscale setting with top-notch service.

Shake Shack's owner, restaurateur Danny Meyers, is an example of someone who has reaped significant rewards operating within the private enterprise system. By successfully identifying and serving the needs and demands of customers who think nothing of standing in long lines to experience all-natural menu items and great customer service, Meyer has created somewhat of a cult following for his Shake Shack dining experience.

Also coveted for its frozen custard, Shake Shack's core philosophy is based on the simple mantra of “enlightened hospitality,” which translates to a warmer, friendlier, and more engaging customer service experience for its burger-loving clientele. Known affectionately as the “Shack Team,” employees are expected to embody the “5 tenets of enlightened hospitality”: “taking care of each other, our guests, our community, our suppliers, and our stockholders”. With its initial public offering (whereby shares are sold to public investors), the Shack Team has more than just a few stockholders to consider and has expanded beyond the Big Apple to locations

including Miami, Chicago, Atlanta, and Austin. Globally the company has more than 136 locations throughout the United States, Japan, the Middle East, Russia, Turkey, and the United Kingdom. With a vision of “stand for something good,” Meyer's Shack Team seems to be serving up its unique dining experience to an increasing number of satisfied customers.

Questions for Critical Thinking

1. Shake Shack plans to continue its global expansion. Critics are concerned that Shake Shack's regional strength in its New York hub may not translate to a larger potential in other countries. Do you agree? Why or why not?
2. In regard to sustainability, many consumers believe that ethically raised animals are not just better for their diets but also better for the overall community and the global supply chain. Research fast-casual dining and provide examples of how, in addition to using hormone- and antibiotic-free beef, for example, this restaurant sector has gained traction among Millennials.

Sources: Company website, <https://www.shakeshack.com>, accessed February 10, 2018; Melody Hahm, “Why Shake Shack Won't Be the Next Chipotle,” *Yahoo Finance!*, <http://finance.yahoo.com>, accessed February 10, 2018; Leslie Picker and Craig Giammona, “For Shake Shack and Box, a Harsh Post-IPO Reality Sets In,” *Bloomberg Business*, <https://www.bloomberg.com>, accessed February 10, 2018; Roberto A. Ferdman, “The Chipotle Effect: Why America Is Obsessed with Fast Casual Food,” *Washington Post*, <http://www.washingtonpost.com>, accessed February 10, 2018; Trefis Team, “How the Fast Casual Segment Is Gaining Market Share in the Restaurant Industry,” *Forbes*, <https://www.forbes.com>, accessed February 10, 2018.

that is a very limited definition. In business, creativity refers to the ability to see better and different ways of doing business. A computer engineer who solves a glitch in a software program is executing a creative act.

Reed Hastings, founder and CEO of Netflix, an online provider of digital streaming media, is a manager with vision. In part, his vision for Netflix was to eliminate the fees associated with late video returns at movie rental retailers like now-defunct Blockbuster. Hastings initially developed a better and different way of doing business by allowing consumers a more convenient and less expensive way to watch DVDs at home—by sending them to subscription-based customers through the mail. Next, using broadband technology, Hastings launched a premium and original content streaming service to allow consumers to view movies and TV shows directly from their personal computers, mobile devices, and televisions. With a current subscription base of over 120 million streaming customers, Hastings has creatively transformed his original DVD-by-mail company to an American global on-demand Internet streaming media provider.⁴¹

With some practice and mental exercise, you can cultivate your own ability to think creatively. Here are some exercises and guidelines:

- In a group, brainstorm by listing ideas as they come to mind. Build on other people's ideas, but don't criticize them. Wait until later to evaluate and organize the ideas.
- Think about how to make familiar concepts unfamiliar. A glue that doesn't stick very well? That's the basis for 3M's popular Post-it notes.
- Plan ways to rearrange your thinking with simple questions such as “What features can we leave out?” or by imagining what it feels like to be the customer.

- Cultivate curiosity, openness, risk, and energy as you meet people and encounter new situations. View these encounters as opportunities to learn.
- Treat failures as additional learning experiences.
- Get regular physical exercise. When you work out, your brain releases endorphins, and these chemicals stimulate creative thinking.

Creativity and critical thinking must go beyond generating new ideas, however. They must lead to action. In addition to creating an environment in which employees can nurture ideas, managers must give them opportunities to take risks in order to innovate and develop new solutions.

Ability to Lead Change

Today's business leaders must guide their employees and organizations through the changes brought about by technology, marketplace demands, and global competition. Managers must be skilled at recognizing employee strengths and motivating people to move toward common goals as members of a team. Throughout this book, real-world examples demonstrate how companies have initiated sweeping change initiatives.

Factors that require organizational change can come from both external and internal sources; successful managers must be aware of both. External forces might include feedback from customers, developments in the global marketplace, economic trends, and new technologies. Internal factors might arise from new company goals, emerging employee needs, labor union demands, or production issues.

Assessment Check

1. Why is vision an important managerial quality?
2. What is the difference between creativity and critical thinking?

7 What Makes for a Successful and Admirable Company?

How do we measure business success? What makes a company and its management successful depends on the criteria used. As illustrated in Figure 1.1 presented at the start of the chapter, the goals businesspeople set for themselves and their organizations are at the center of all activity. Whether a company is successful has much to do with achieving those goals and the actions taken by the organization's management.

We admire and celebrate the success of people and firms who not only achieve desirable goals set by the organization, but which are also consistent with our concept of fair play and contribution to the greater good of society. So, it follows that businesses that bring to market products and services that satisfy customer needs in a socially responsible manner will be admired, while those that are perceived to be conducting themselves unethically and possibly harming society will not.

Every year, business magazines and organizations publish lists of companies that they consider to be "most admired." Companies, like individuals, may be admired for many reasons. Most people would mention profitability, consistent growth, a safe and challenging work environment, high-quality goods and services, and business ethics and social responsibility. **Business ethics** refers to the standards of conduct and moral values involving decisions made in the work environment. **Social responsibility** is a management philosophy that includes contributing resources to the community, preserving the natural environment,

business ethics standards of conduct and moral values regarding right and wrong actions in the work environment.

social responsibility business's consideration of society's well-being and consumer satisfaction, in addition to profits.

Judgment Call

Failed Emissions Test: Volkswagen's Costs Mount

Established in 1937, German giant Volkswagen is the second-largest automobile manufacturer in the world behind Toyota, with three cars in the top ten list of best-selling cars of all time—the Golf, the Beetle, and the Passat. Despite its success as an iconic brand with car models that span multiple revisions and generations, software that turns off emissions controls on 11 million of its vehicles globally has caused the company irreparable damage.

How did this happen? Volkswagen knowingly placed in its cars a device with software that turns emissions control systems on and off. This type of software is commonly referred to as “defeat software,” which turns emissions controls off under normal driving conditions and turns them on when the car is undergoing an emissions test. The U.S. Environmental Protection Agency (EPA) first discovered the defeat device in diesel engines. When Volkswagen's four-cylinder cars weren't hooked up to emissions testing equipment, they did, in fact, emit up to 40 times more pollution than allowed under U.S. standards. When the car recognizes that it is being tested, it communicates with its computer to adjust how the car is running, thereby reducing emissions to legal levels. The result: inaccurate emissions tests on diesel vehicles fitted with the device.

According to the EPA, using a defeat device in cars to evade clean air standards is illegal and a threat to public health. Fallout from the emissions scandal brings the cost for VW to over \$30 billion, which includes a buyback of over 500,000 vehicles, a \$4.3 billion settlement with the U.S. Justice Department, \$17 billion paid to U.S. consumers and dealers, and a \$2.8 billion criminal penalty.

A fine of \$400,000 and a seven-year prison sentence have been imposed on a former Michigan-based senior Volkswagen executive in charge of VW's environmental and engineering office. He was found

guilty of concealing the software used to evade pollution limits on close to 600,000 diesel vehicles. Although car sales nationwide are declining, VW has still not returned to the sales level achieved prior to the eruption of what some refer to as its worst crisis ever.

Questions for Critical Thinking

1. What impact do you think the emissions scandal will have on the long-term future sales of Volkswagen cars in the United States?
2. Knowing that the company acknowledges its wrongdoing, would you purchase a car from Volkswagen in the near future? Why or why not?

Sources: Karl Russell, Guilbert Gates, Josh Keller, and Derek Watkins, “How Volkswagen Got Away with Diesel Deception,” *New York Times*, <http://www.nytimes.com>, accessed February 8, 2018; Dan Neil, “VW Lost Its Moral Compass in Quest for Growth,” *Wall Street Journal*, <http://www.wsj.com>, accessed February 8, 2018; Alfred Joyner, “VW Emissions Scandal Explained in 60 Seconds,” *International Business Times*, <http://www.ibtimes.co.uk>, accessed February 8, 2018; Bill Chappell, “Volkswagen CEO Resigns, Saying He's Shocked by Emissions Scandal,” *National Public Radio*, <http://www.npr.org>, accessed February 8, 2018; Timothy Gardner and Bernie Woodall, “Volkswagen Could Face \$18 Billion Penalties from EPA,” *Reuters*, <http://in.reuters.com>, accessed February 8, 2018; Andrea Murphy, “2015 Global 2000: The World's Biggest Auto Companies,” *Forbes*, <https://www.forbes.com>, accessed February 8, 2018; Eric D. Lawrence, “VW Engineer Gets 40 Months in Prison for Role in Diesel Scandal,” *USA Today*, <http://usatoday.com>, accessed February 8, 2018; Paul A. Eisenstein, “Volkswagen Slapped with Largest Ever Fine for Automakers,” *NBC News*, <https://www.nbcnews.com>, accessed February 9, 2018; Neal E. Boudettenov, “Volkswagen Sales in U.S. Rebound After Diesel Scandal,” *New York Times*, <https://www.nytimes.com>, accessed February 12, 2018.

and developing or participating in nonprofit programs designed to promote the well-being of the general public. You'll find business ethics and social responsibility examples throughout this book, as well as a deeper exploration of these topics in Chapter 4. For businesses to behave ethically and responsibly, their employees need to have strong moral compasses that guide them. The “Judgment Call” feature describes some of the challenges of defining what is ethical.

As you read this text, you'll be able to decide why companies should—or should not—be admired. *Fortune* publishes two lists of most admired companies each year, one for U.S.-based firms and one for the world. The list is compiled from surveys and other research conducted by the Hay Group, a global human resources and organizational consulting firm. Criteria for making the list include innovation, people management, use of corporate assets, social responsibility, quality of management, and quality of products and services.⁴² Companies that made the list in a recent year include Apple, Amazon, Alphabet, Berkshire Hathaway, Starbucks, Disney, and Microsoft.

Assessment Check

1. Define *business ethics* and *social responsibility*.
2. Identify three criteria used to judge whether a company might be considered admirable.

What's Ahead

As business continues to evolve at a frenetic pace, new technologies, demographic changes, and fewer global barriers are changing the landscape.

Throughout this book, you'll be exposed to the real-life stories of many businesspeople. You'll learn about the range of business careers available and the daily decisions, tasks, and challenges that they face. By the end of the course, you'll understand how marketing, production, accounting, finance, and management create synergies to provide competitive advantages for companies.

This knowledge can help you enhance your career potential while becoming more aware.

Now that this chapter has introduced a conceptual map to guide your study and some basic terms and issues in today's business environment, Chapter 2 deals with economic challenges facing business today. Chapter 3 focuses on international business and the challenges and opportunities faced by companies competing in world markets, and Chapter 4 takes a detailed look at the ethical and social responsibility issues facing business today.

Chapter in Review

Summary of Learning Objectives

LEARNING OBJECTIVE 1 Define *business*.

Business consists of all profit-seeking activities that provide goods and services necessary to an economic system. Not-for-profit organizations are business-like establishments whose primary objective is public service over profits.

Assessment Check Answers

1.1 What activity lies at the center of every business endeavor? At the heart of every business endeavor is an exchange between a buyer and a seller.

1.2 What is the primary objective of a not-for-profit organization? Not-for-profit organizations place public service above profits, although they need to raise money in order to operate and achieve their social goals.

LEARNING OBJECTIVE 2 Identify and describe the economic factors of production.

The factors of production consist of four basic inputs: land, labor, capital, and entrepreneurship. Land is used in the production of a good, and includes all production inputs or natural resources that are useful in their natural states such as oil, gas, minerals, and timber. Labor includes anyone who works for a company. Capital includes technology, tools, information, and physical facilities. Entrepreneurship is the willingness to take risks to create and operate a business.

Assessment Check Answers

2.1 Identify the four basic inputs to an economic system. The four basic inputs are land, labor, capital, and entrepreneurship.

2.2 List four types of capital. Four types of capital are technology, tools, information, and physical facilities.

LEARNING OBJECTIVE 3 Describe the private enterprise system.

The private enterprise system is an economic system that rewards companies for their ability to perceive and serve the needs and demands of consumers. Competition in the private enterprise system ensures success for companies that satisfy consumer demands. Citizens in a private enterprise economy enjoy the rights to private property, profits, freedom of choice, and competition. Entrepreneurship drives economic growth.

Assessment Check Answers

3.1 What is an alternative term for *private enterprise system*? *Capitalism* is an alternative word for private enterprise system.

3.2 What is the most basic freedom under the private enterprise system? The most basic freedom is the right to private property.

3.3 What is an entrepreneur? An entrepreneur is a risk taker who is willing to start, own, and operate a business.

LEARNING OBJECTIVE 4 Identify the seven eras in the history of business.

The seven historical eras are the Colonial period, the Industrial Revolution, the age of industrial entrepreneurs, the production era, the marketing era, the relationship era, and the social era. In the Colonial period, businesses were small and rural, emphasizing agricultural production. The Industrial Revolution brought factories and mass production to business. The age of industrial entrepreneurs built on the Industrial Revolution through an expansion in the number and size of companies. The production era focused on the growth of factory operations through assembly lines and other efficient internal processes. During and following the Great Depression, businesses concentrated on finding markets for their products through advertising and selling,

giving rise to the marketing era. In the relationship era, businesspeople focused on developing and sustaining long-term relationships with customers and other businesses. In the social era, businesses use technology and relationship management to connect and communicate with consumers and promote innovation. Strategic alliances create a competitive advantage through partnerships. Concern for the environment also helps build strong relationships with customers.

Assessment Check Answers

4.1 What was the Industrial Revolution? The Industrial Revolution began around 1750 in England and moved business operations from an emphasis on independent, skilled workers to a factory system that mass-produced items.

4.2 During which era was the idea of branding developed? The idea of branding began in the marketing era.

4.3 What is the difference between transaction management and management in the relationship era? Transaction management is an approach that focuses on building, promoting, and selling enough products to cover costs and earn profits. In the relationship era, businesses seek ways to actively nurture customer loyalty by carefully managing every interaction.

LEARNING OBJECTIVE 5 Explain current trends related to business.

The workforce is changing in several significant ways: it is aging and the labor pool is shrinking, and it is becoming increasingly diverse. The nature of work has shifted toward services and a focus on information. More businesses now rely on outsourcing, offshoring, and nearshoring to produce goods or fulfill services and functions that were previously handled in house or in-country. In addition, today's workplaces are becoming increasingly flexible, allowing employees to work from different locations. And with artificial intelligence (AI) to become more efficient, companies are fostering innovation through teamwork and collaboration.

Assessment Check Answers

5.1 Define outsourcing, offshoring, and nearshoring. Outsourcing involves using outside vendors to produce goods or fulfill services and functions that were once handled in house. Offshoring is the relocation of business processes to lower-cost locations overseas. Nearshoring is the outsourcing of production or services to locations near a company's home base.

5.2 Describe the importance of collaboration and employee partnership. Businesses are increasingly focusing on collaboration rather than on individuals working alone. No longer do employees

just put in their time at a job they hold their entire career. The new employer–employee partnership encourages teamwork, creative thinking, and problem solving.

LEARNING OBJECTIVE 6 Identify the skills and attributes needed for today's manager.

For today's managers, the ability to communicate and strategically apply critical thinking skills and creativity to both challenges and opportunities will be a top priority. Critical thinking skills and creativity allow managers to pinpoint problems and opportunities and plan novel solutions. Finally, managers are dealing with rapid change, and they need skills to help lead their organizations through shifts in external and internal conditions.

Assessment Check Answers

6.1 Why is vision an important managerial quality? To thrive in the 21st century, managers need vision, the ability to perceive marketplace needs and to determine what an organization must do to satisfy those needs.

6.2 What is the difference between creativity and critical thinking? Critical thinking is the ability to analyze and assess information to pinpoint problems or opportunities. Creativity is the capacity to develop novel solutions to perceived organizational problems.

LEARNING OBJECTIVE 7 Outline the characteristics that make for a successful and admirable company.

A company is usually admired for its solid profits, stable growth, a safe and challenging work environment, high-quality goods and services, and business ethics and social responsibility.

Assessment Check Answers

7.1 Define business ethics and social responsibility. Business ethics refers to the standards of conduct and moral values involving decisions made in the work environment. Social responsibility is a management philosophy that includes contributing resources to the community, preserving the natural environment, and developing or participating in nonprofit programs designed to promote the well-being of the general public.

7.2 Identify three criteria used to judge whether a company might be considered admirable. Criteria in judging whether companies are admirable include three of the following: solid profits, consistent growth, a safe and challenging work environment, high-quality goods and services, and business ethics and social responsibility.

Business Terms You Need to Know

business 4
 profits 4
 not-for-profit organizations 4
 factors of production 5
 land 5
 labor 6
 capital 6
 entrepreneurship 6
 private enterprise system 7
 capitalism 7
 competition 8

competitive differentiation 8
 private property 8
 entrepreneur 9
 consumer orientation 13
 branding 13
 brand 13
 transaction management 13
 relationship era 13
 social era 14
 relationship management 14
 strategic alliance 15

diversity 18
 outsourcing 18
 offshoring 19
 nearshoring 19
 crowdsourcing 19
 vision 20
 critical thinking 20
 creativity 20
 business ethics 22
 social responsibility 22

Review Questions

1. Why is business so important to a country's economy?
2. In what ways are not-for-profit organizations a substantial part of the U.S. economy? What unique challenges do not-for-profits face?
3. Identify and describe the four basic inputs that make up factors of production. Give an example of each factor of production that an auto manufacturer might use.
4. What is a private enterprise system? What four rights are critical to the operation of capitalism? Why would capitalism function poorly in a society that does not ensure these rights for its citizens?
5. In what ways is entrepreneurship vital to the private enterprise system?
6. Identify the seven eras of business in the United States. How did business change during each era?
7. Describe the focus of the most recent era of U.S. business. How is this different from previous eras?
8. Define partnership and strategic alliance. How might a motorcycle dealer and a local radio station benefit from an alliance?
9. Identify the major changes in the workforce that will affect the way managers build a world-class workforce. Why is the knowledge economy so important?
10. Identify four qualities that managers of the 21st century must have. Why are these qualities important in a competitive business environment?

Projects and Teamwork Applications

1. The entrepreneurial spirit fuels growth in the U.S. economy. Choose a company that interests you—one you have worked for or dealt with as a customer—and read about the company by visiting its website. Learn what you can about the company's early history: Who founded it and why? Is the founder still with the organization? Do you think the founder's original vision is still embraced by the company? If not, how has the vision changed?
2. Branding distinguishes one company's goods or services from those of its competitors. Each company you purchase from hopes that you will become loyal to its brand. Some well-known brands are Amazon, Google, Toyota, and Apple. Choose a type of good or service you use regularly and identify the major brands associated with it. Are you loyal to a particular brand? Why or why not?
3. More and more businesses are forming strategic alliances to become more competitive. Sometimes, businesses pair up with not-for-profit organizations in a relationship that is beneficial to both. Choose a company whose goods or services interest you, such as REI, FedEx, Kashi, or Sam's Club. On your own or with a classmate, research the company to learn about its alliances with not-for-profit organizations. Then describe one of the alliances, including goals and benefits to both parties. Create a presentation for your class.
4. This chapter describes how the nature of the workforce is changing: the population is aging, the labor pool is shrinking, the workforce is becoming more diverse, the nature of work is changing, the workplace is becoming more flexible and mobile, and with artificial intelligence (AI), to innovate and become more efficient, employers are fostering collaboration among their employees. Form teams of two to three students. Select a company and research how that company is responding to changes in the workforce as discussed in the chapter. When you have completed your research, be prepared to present it to your class. Choose one of the following companies or select your own: Allstate, Cargill, Staples, or Microsoft.
5. Today's business leaders must guide their employees and organizations through the changes brought about by technology, marketplace demands, and global competition. Choose a for-profit or not-for-profit organization and provide one example for each of the specific changes brought about by: (a) technology, (b) marketplace demands, and (c) global competition.

Web Assignments

1. **Nearshoring despite uncertainty around trade, trends.** General Electric, who manufactures water heaters, among many other products, has recently moved production back to the United States from China. As global economic conditions have changed, companies like Apple, Walmart, and Caterpillar have also followed suit—seeing opportunities closer to home as good business sense. Research nearshoring (also called insourcing, reshoring, and resourcing) trends and identify examples of three companies, the advantages, and why they have made the decision to do so.
2. **Companies and not-for-profits.** In addition to companies, virtually all not-for-profit organizations have websites. Four websites are listed below, two for companies (Amazon and Best Buy) and two for not-for-profits (Mayo Clinic and Wounded Warrior Project). What is the purpose of each website? What type of information is available? How are the sites similar? How are they different?

www.amazon.com

www.mayoclinic.org

www.bestbuy.com

www.woundedwarriorproject.org

3. **Characteristics of U.S. workforce.** Visit the website for the U.S. Bureau of Labor Statistics—a good source of basic demographic and economic data. On the home page, scroll down to the Career Information box and click on “Occupational Outlook Handbook.” Within the Occupational Groups, explore the “Business and Financial” occupations. Which ones look interesting? Are you surprised by the median pay levels listed for these careers? Why or why not?

www.bls.gov

Note: Internet web addresses change frequently. If you don't find the exact sites listed, you may need to access the organization's home page and search from there or use a search engine such as Google or Bing.

Cases

Case 1.1 Mars Expands Its Sweet Line of Business

Stricken with childhood polio, Frank C. Mars learned the art of hand dipping chocolate in his mother's kitchen and went on to start Mars back in the early 1900s. A privately held business in its fourth generation of family ownership, Mars has more than 85,000 employees around the globe. Some of the company's sweet brands include Snickers, Starburst, M&Ms, LifeSavers, Skittles, Juicy Fruit, and Orbit chewing gum. The company also owns Uncle Ben's Rice and Whiskas pet food. Recently, for the first time in 35 years, Mars opened a new \$270 million, 500,000-square-foot chocolate factory in Topeka, Kansas, creating 200 new jobs. On a daily basis, the plant's output will amount to 8 million miniature Snickers candy bars and 39 million peanut M&Ms.

As America's seventh-largest private company with over \$35 billion in sales, Mars, based in McLean, Virginia, rarely grants interviews to the media, even preferring to keep information like how the little "m" gets stamped on the outer shell of an M&M private. Internally, however, there remain few, if any, secrets—flat screens throughout its facilities display up-to-date financial information about the company. This reflects the company's philosophy of closely tying employee compensation to financial results. Employees can earn bonuses of 10% to 100% of their salaries for team performance.

For the sixth time, Mars recently made it onto *Fortune's* roster of 100 Best Companies to Work For. Known for its extensive training, community engagement, and health and wellness programs, Mars offers other benefits and perks in its highly collaborative environment, including free candy and being able to bring one's pet to work. Turnover is less than 6% among its U.S. employees, known as "Martians." Perhaps the most significant feature of this "Best Company" is its internal advancement and reward opportunities. The company develops and encourages cross-division talent and expects its employees to follow its five guiding principles of quality, responsibility, mutuality, efficiency, and freedom. "The consumer is our boss, quality is our work and value for money is our goal," reads the Mars quality principle.

Questions for Critical Thinking

1. Discuss how guiding principles, internal advancement, and reward opportunities such as those practiced at Mars can help with employee retention.
2. Discuss the pros and cons of company secrecy. Are there certain situations in which a company benefits by keeping information confidential? Are there other situations in which secrecy can be harmful? Using examples, please explain.

Sources: Oliver Stately, "To Fill 70,000 Jobs, Chocolate Giant Mars Will Have to Overcome Its Deeply Secretive Past," *Quartz*, <http://quartz.com>, accessed February 9, 2018; company website, "History of Mars" and "The Five Principles," <http://www.mars.com>, accessed February 9, 2018; Annie Gasparro, "At Mars Inc., 'Fun Size' Chocolate and Right-Size Conglomerate," *Wall Street Journal*, <http://www.wsj.com>, accessed February 9, 2018; Andrea Murphy, "America's Largest Private Companies 2015," *Forbes*, <https://www.forbes.com>, accessed February 9, 2018; "100 Best Companies to Work For: 2015," *Fortune*, <http://money.cnn.com>, accessed February 9, 2018; David A. Kaplan, "Mars: A Pretty Sweet Place to Work," *Fortune*, <http://management.fortune.cnn.com>, accessed February 9, 2018; Vandana Sinha, "Read Our First-Ever Conversation

with Mars," *Biz Beat*, <http://www.bizjournals.com>, accessed February 9, 2018; company website, "Reviews: Mars, Inc.," <http://reviews.greatplacetowork.com/mars-incorporated>, accessed February 9, 2018.

Case 1.2 Jack Ma of Alibaba Helps China Breathe Easier

A little over two decades ago, Jack Ma founded Alibaba Group in his Hangzhou apartment. Alibaba includes an online payment system, Alipay, and two e-commerce sites, Tmall and Taobao. Valued at close to \$500 billion, Alibaba had the largest ever U.S.-listed initial public offering (IPO) to date—the first sale of stock by a company to the general public. As a result of its IPO, Alibaba has become far better known in the United States. Similarly, the company has been described as a Chinese combination of eBay, Amazon, and PayPal.

Jack Ma, who is in his 50s, has been referred to as the "godfather of China's scrappy entrepreneurial spirit." As the face of China's new age of entrepreneurs, he commands a cult-like following among the younger Chinese generation. At a speech given upon his retirement as Alibaba's CEO five years ago, Ma reminded the audience that business cannot prosper when it continues to be ruined by overdevelopment, which includes China's hazardous levels of pollution. Recently, he set up a way to give a certain percentage of his wealth to causes related to health care, education, and the environment in China.

Alluding to China's increased economic prosperity and rising middle class, Ma points out that the dreams of the Chinese people may fade away if the sun cannot be seen. When Ma's family and friends were diagnosed with lung and liver cancer, he became increasingly concerned about cleaning up China's air and water. He has committed 2% of the value of Alibaba's stock to help preserve the environment. As he is a self-made Internet billionaire, many see Ma's move, the largest of its kind in China, as the beginning of a new era of giving among China's billionaires.

Questions for Critical Thinking

1. A philanthropist is someone who donates time and money to charitable causes. Why do you think there might be more challenges for philanthropists in China as compared to those in the United States?
2. What are some of the issues that can arise in a country experiencing unpredictable economic prosperity among segments of its population?

Sources: Scott Cendrowski, "Alibaba's Jack Ma Is China's Biggest Philanthropist," *Fortune*, <http://fortune.com>, accessed February 8, 2018; Liyan Chen, Ryan Mac, and Brian Solomon, "Alibaba Claims Title for Largest Global IPO Ever with Extra Share Sales," *Forbes*, <https://www.forbes.com>, accessed February 8, 2018; Steven Millward, "Godfather of China's Scrappy Entrepreneurial Spirit: Alibaba's Jack Ma Is FT's Person of the Year," *TechinAsia*, <http://www.techinasia.com>, accessed February 8, 2018; Andrew Browne and Paul Mozur, "Alibaba's Jack Ma Sets Up Philanthropic Trust," *Wall Street Journal*, <http://www.wsj.com>, accessed February 8, 2018; Susan Chan Shifflett, "China's Hottest Tech Giants Join the 'War on Pollution,'" *The Diplomat*, <http://thediplomat.com>, accessed February 8, 2018; Paul R. La Monica, "Look Out, Amazon: China's Alibaba May Soon Be Bigger," *CNN Money*, <http://money.cnn.com>, accessed February 8, 2018; Claire Brownell, "Jack Ma on Kindred Spirit Trudeau, Retirement and Why Alibaba Is Not the 'Amazon of China,'" *Financial Post*, <http://business.financialpost.com>, accessed February 8, 2018.

Case 1.3 TripAdvisor: “Speed Wins”

At TripAdvisor, a global travel website with user-generated reviews and opinions, competition within the global travel industry remains cutthroat and intense. Steve Kaufer is the co-founder and CEO of Trip Advisor, and taped on his office door is a sign that reads “Speed Wins.” The sign, handwritten by Kaufer when he first started TripAdvisor in 2000, is the company’s informal and internal motto. As the company has grown to over 3,000 employees, the sign has been moved multiple times.

One of the basic rights under the private enterprise system happens to be fair competition. Because it is so inexpensive for competitors to start-up, there are many unknowns, and in a business environment in which things move so quickly, one of the core aspects of a company’s response must be speed and fast response. “If you don’t respond quickly, you will kind of go through this decay,” says the company’s President of Vacation Rentals. TripAdvisor boasts over 570 million reviews and opinions, 60 million photos from travelers worldwide, and more than 7 million hotels, bed and breakfasts, specialty lodging, vacation rentals, restaurants, and attractions in 136,000 destinations. With those kinds of numbers, TripAdvisor remains focused on creating value for its users and, using its global footprint, to continuously acquire new knowledge of what users respond to most favorably.

This chapter explores the ways companies are admired—and TripAdvisor certainly falls into that category. The company has earned the reputation as one of the most highly recognized, used, and trusted travel websites in the global travel industry. TripAdvisor’s customers are thrilled with the company’s quick and constant improvements and new features on its site that services hundreds of millions of visitors each month in more than two dozen languages. The company remains focused on the quality of what is produced and what goes on its site, and with volumes of information, its meticulously built infrastructure must support it well and accurately.

TripAdvisor fosters managerial success through a culture that promotes finding successful outcomes while sponsoring novelty, new ideas, and even failure. Tolerance for failure in the organization—not out of sloppiness but from outcomes that just didn’t work out—is the way TripAdvisor’s management team subscribes to learning, which results in better long-term decision making.

One of the basic inputs of an economic system happens to be entrepreneurship. TripAdvisor began by accidental discovery in 2000 when Steve Kaufer, a classic entrepreneur, was planning a vacation to Mexico for his family. During the planning process Kaufer’s wife realized her husband’s frustration with biased hotel reviews—and the lack of user-generated information and feedback from travelers. Sure, plenty of breathtaking pictures and beautifully printed and designed brochures from travel agents were available. Rather than reading what hotel operators were saying about themselves, what Kaufer really wanted to know was what customers were saying about the hotels. This lack of information is what ultimately led Kaufer to create a first-hand, user-generated feedback system and platform.

Another basic input of an economic system happens to be human resources, and TripAdvisor is acutely focused on its hiring practices to

ensure a cultural fit. As part of its “Speed Wins” culture, TripAdvisor hires people who wish to get out of a larger bureaucratic company environment as well as those with a predisposition to moving quickly. The company develops its employees to take knowledge and convert it into interesting user experiences not only for its travelers, but for business advertisers, too.

Leveraging technology, the TripAdvisor site attracts over 455 million users a month in search of firsthand travel research and experience. Kaufer admits that the biggest change impacting his business is the way in which people use technology. TripAdvisor has adapted to the changing nature of today’s business and technology environment. As internet usage has moved to a mobile device, TripAdvisor has invested in in-destination functionality for their products, so that people can use the application not just to plan their trip, but also in short bursts while they are moving around and using their mobile phones. Kaufer’s goal is for his customers to bring the TripAdvisor experience with them on their trip. In addition, virtual reality and virtual tours—where travelers can experience places before they even go—are becoming part of what Kaufer refers to as his company’s universal value proposition—that which allows travelers the ability to share their opinion thereby allowing other travelers the ability to make their decisions based on those opinions.

Questions for Critical Thinking

1. How does TripAdvisor use the four basic inputs of an economic system?
2. Steve Kaufer, an entrepreneur, has said, “I watch with amazement at how some of the companies these days start-up without much of a notion of how they’re going to make money. But just if they get a lot of eyeballs, if they got a lot of usage, they’ll figure it out. I’m the first to say that several companies have figured that out in spades, and they’re wonderfully successful. Amen. I want to remind people, that is the exception to the rule.” From what you can tell, how has Kaufer made TripAdvisor a success?
3. How has the company earned the reputation as the most recognized, used, and trusted travel website? What are the admirable traits of TripAdvisor? (You may want to go to the TripAdvisor.com website to learn more about the company.)
4. This chapter discusses that at the heart of every business endeavor is an exchange between buyer and seller. How does this relate to TripAdvisor’s business?

Sources: Adele Blair, “Airbnb, TripAdvisor, Product Review: We Still Trust Strangers’ Recommendations,” *Sydney Morning Herald*, <http://www.smh.com.au>, accessed February 9, 2018; Dennis Schaal, “Buying TripAdvisor: Would Antitrust Issues Kill a Priceline or Google Acquisition?” *Skift.com*, <https://skift.com>, accessed February 9, 2018; Yue Wu, “The Story of TripAdvisor,” <http://www.onlineeconomy.org>, *The Online Economy: Strategy and Entrepreneurship*, accessed February 9, 2018; company website, “Fact Sheet,” https://www.tripadvisor.com/PressCenter-c4-Fact_Sheet.html, accessed February 9, 2018; Victoria Abbott Riccardi, “A Day in the Life of TripAdvisor CEO Steve Kaufer,” *Boston Globe*, <http://bostonglobe.com>, accessed February 9, 2018; company website, “About TripAdvisor,” <https://tripadvisor.mediaroom.com>, accessed February 9, 2018.