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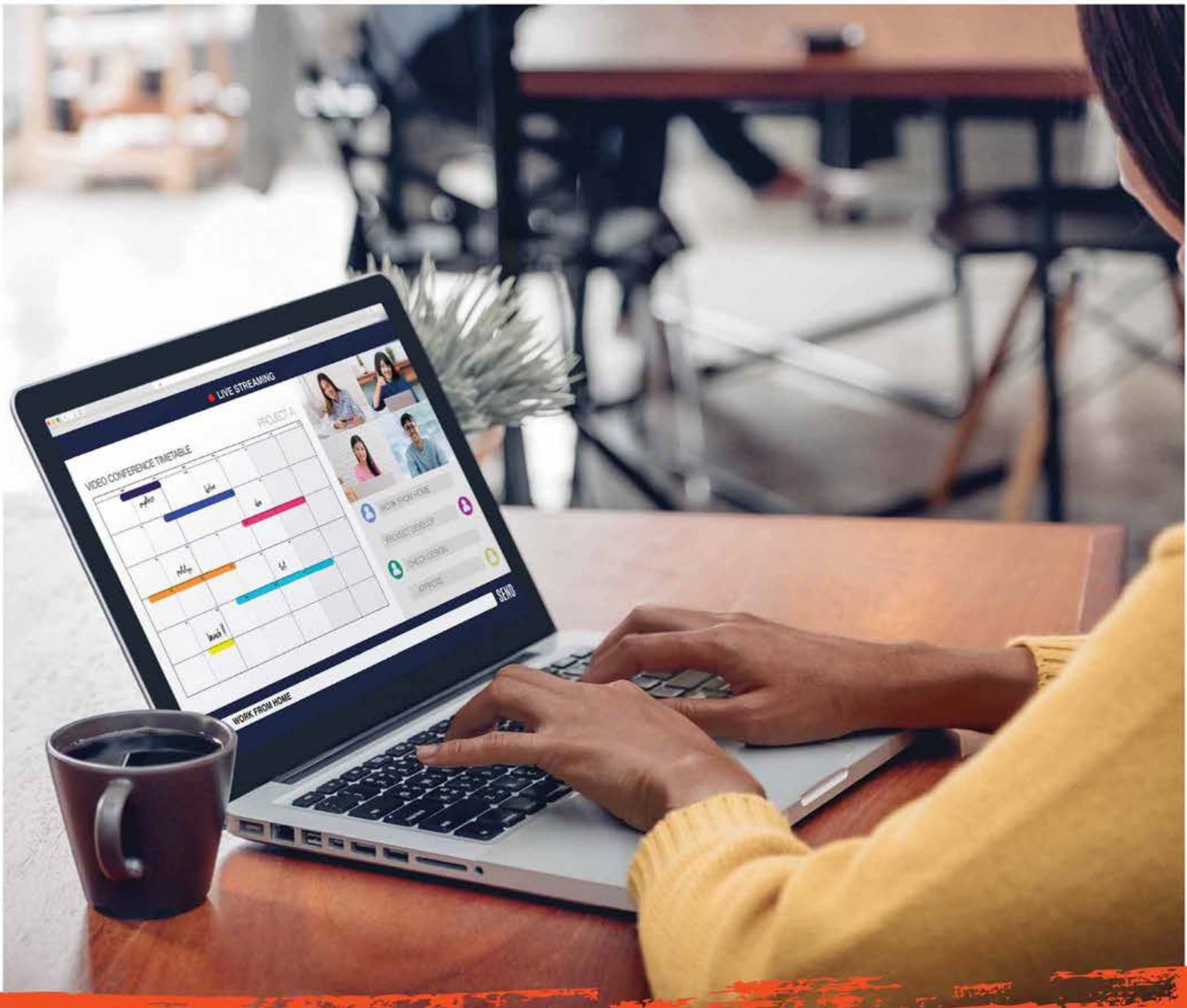
INTRODUCTION TO BUSINESS



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Introduction to Business

Marce Kelly
Santa Monica College

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Butler University

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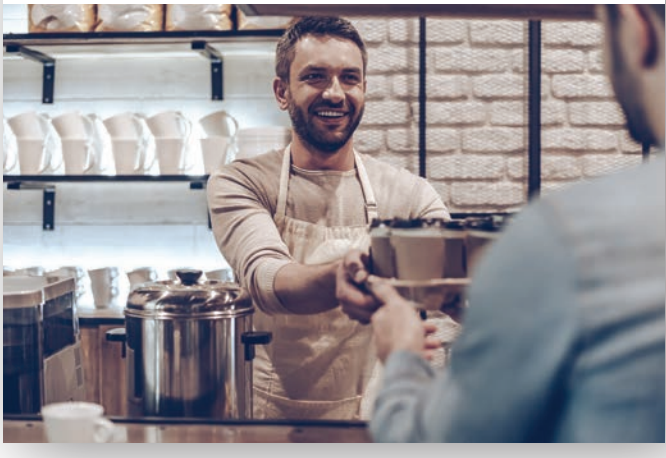

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Part 5
Managing a Business

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With love and appreciation
to my amazing children
who make all things possible!

—Marce Kelly

To Jenny,
the book is done, let's play!

—Chuck Williams

Letter to Students

The idea for this book—a whole new way of learning—began with students like you across the country. We paid attention to students who wanted to learn about business without slogging through endless pages of dry text. We listened to students who wanted to sit through class without craving a triple espresso. We responded to students who wanted to use their favorite gadgets to prepare for tests.

So, we are confident that BUSN will meet your needs. The short, lively text covers all the key concepts without the fluff. The examples are relevant and engaging, and the visual style makes the book fun to read. But the text is only part of the package. You can access a rich variety of study tools via computer or iPad—the choice is yours.

Marce Kelly

© Brent Smith, Butler University

Chuck Williams

We did one other thing we hope you'll like. We paid a lot of attention to students' concerns about the high price of college textbooks. We made it our mission to ensure that our package not only meets your needs but does so without busting your budget!

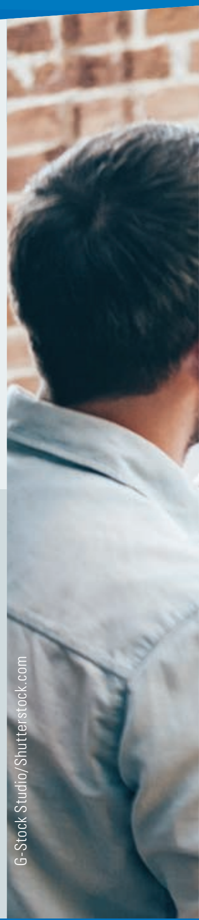
This innovative, student-focused package was developed by the authors—Marce Kelly and Chuck Williams—and the experienced Cengage Learning publishers. The Cengage team contributed a deep understanding of students and professors across the nation, and the authors brought years of teaching and business experience.

Marce Kelly, who earned her MBA from UCLA's Anderson School of Management, spent the first 14 years of her career in marketing by building brands for Neutrogena and The Walt Disney Corporation. But her true love is teaching, so in 2000 she accepted a full-time teaching position at Santa Monica College. Professor Kelly has received seven Outstanding Instructor awards from the International Education Center and has been named four times to *Who's Who Among American Teachers*.

Chuck Williams' interests include employee recruitment and turnover, performance appraisal, and employee training and goal setting. Most recently, he was the Dean of Butler University's College of Business. He has taught in executive development programs at Oklahoma State University, the University of Oklahoma, Texas Christian University, and the University of the Pacific. Dr. Williams was honored by TCU's M.J. Neeley School of Business with the undergraduate Outstanding Faculty Teaching Award, was a recipient of TCU's Dean's Teaching Award, and was TCU's nominee for the U.S. Professor of the Year competition sponsored by the Carnegie Foundation for the Advancement of Teaching. He has written three other textbooks: *Management, Effective Management: A Multimedia Approach,* and *MGMT*.

We would appreciate any comments or suggestions you want to offer about this package. You can reach Chuck Williams at chuck.1.williams@gmail.com, and Marce Kelly at marcella.kelly@gmail.com. We wish you a fun, positive, productive term, and look forward to your feedback!

1 Business Now:
Change Is the Only Constant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Learning Objectives

After studying this chapter, you will be able to:

- **1-1** Discuss the role of business in the economy
- **1-2** Explain the evolution of modern business
- **1-3** Discuss the role of nonprofit organizations in the economy
- **1-4** Outline the core factors of production and how they affect the economy
- **1-5** Describe today's business environment and each key dimension
- **1-6** Explain how current business trends might affect your career choices

1-1 Business Now: Moving at Breakneck Speed

Day by day, the business world simply spins faster. Industries rise—and sometimes fall—in the course of a few short months. Technologies forge instant connections across the globe. Powerful new trends surface and submerge, sometimes within less than a year. In this fast-paced, fluid environment, change is the only constant. According to Charles Darwin, it is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change. And so it is with business.

Successful firms lean forward and embrace the change. They seek the opportunities and avoid the pitfalls. They carefully evaluate risks. They completely understand their market, and they adhere to ethical practices. Their core goal: to generate long-term profits by delivering unsurpassed **value** to their customers.

value The relationship between the price of a good or a service and the benefits that it offers its customers.

The business environment faced an onslaught of changes in the first two decades of the twenty-first century, including the Great Recession in 2008, the explosive growth of social media, the appearance of the #MeToo movement, the growing prominence of Generation Z in the workplace, the breakneck growth of artificial intelligence, historic tax reform, and the growing dominance of China's goliath online retailer Alibaba.

But the pivot point came with the year that none of us will ever forget: 2020. In late 2019, a new, highly contagious,

> "When the ideas are coming, I don't stop until the ideas stop because that train doesn't come along all the time."
>
> —Dr. Dre, Rapper, Record Producer, Entrepreneur

and deadly respiratory virus, later dubbed COVID-19, was discovered in Wuhan, China. As the virus spread around the world in the first months of 2020, the World Health Organization declared a worldwide pandemic. Countries shut down, schools closed, and the death toll mounted. By early March 2020, COVID-19 had hit the United States hard. State after state declared a "state of emergency," initiating mandatory stay-at-home orders in an effort to slow the spread and minimize the death toll. Unsurprisingly, one result was that the longest-ever U.S. economic expansion came to a screeching halt, followed by the steepest quarterly drop in economic output on record. Unemployment skyrocketed, along with food and housing insecurity. By the end of 2020, hope was in sight, as the pharmaceutical industry, working hand-in-glove with the federal government, had developed and tested two different COVID-19 vaccines; daunting logistical challenges remained, however, in terms of how to roll out the vaccines to the population at large, many of whom did not trust it.

In late May, 2020, George Floyd, an unarmed Black man, was brutally killed by police in Minneapolis, Minnesota. Video footage of the killing went viral, triggering massive protests against racism and police violence in virtually every city in the county. The protests continued throughout the summer, fueled by the high-profile unjust shootings of more Black people.

In response to the heightened national awareness of systemic racism, a number of U.S. businesses began to examine their policies and products in an effort to root out racism. Examples:

- **Starbucks:** In 2020, Starbucks hired its first chief inclusion and diversity officer, Nzinga "Zing" Shaw, and committed $1 million in Neighborhood Grants to promote racial equity and create more inclusive and just communities.[1]
- **Quaker Oats:** After 130 years, Quaker Oats decided to retire the Aunt Jemima brand and logo, recognizing that "Aunt Jemima's origins are based

on a racial stereotype," and that, "we also must take a hard look at our portfolio of brands and ensure they reflect our values and meet our consumers' expectations."[2]

- **Washington Redskins:** The owner of this DC NFL team, Dan Snyder, finally agreed to change its name, a racial slur against Native Americans. The deciding factor seemed to be pressure from two of the team's key sponsors, FedEx and Nike. Options under consideration at the time of writing were Redtails, Red Hogs, Warriors, and Red Wolves.[3]

business Any organization or activity that provides goods and services in an effort to earn a profit.

profit The money that a business earns in sales (or revenue), minus expenses, such as the cost of goods and the cost of salaries. Revenue − Expenses = Profit (or Loss).

loss When a business incurs expenses that are greater than its revenue.

entrepreneurs People who risk their time, money, and other resources to start and manage a business.

1-1a Business Basics: Some Key Definitions

While you can certainly recognize a business when you see one, more formal definitions may help as you read through this book. A **business** is any organization or activity that provides goods and services in an effort to earn a profit. **Profit** is the financial reward that comes from starting and running a business. More specifically, profit is the money that a business earns in sales (or revenue), minus expenses such as the cost of goods and the cost of salaries. But clearly, not every business earns a profit all the time. When a business brings in less money than it needs to cover expenses, it incurs a **loss**. If you launch a music label, for instance, you'll need to pay your artists, lease a studio, and purchase equipment, among other expenses. If your label generates hits, you'll earn more than enough to cover all your expenses and make yourself rich. But a series of duds could leave you holding the bag. Just the possibility of earning a profit provides a powerful incentive for people of all backgrounds to launch their own enterprises.[4] People who do risk their time, money, and other resources to start and manage a business are called **entrepreneurs**.

Interestingly, as entrepreneurs create wealth for themselves, they produce a ripple effect that enriches everyone around them. For instance, if your new website becomes the next Facebook, who will benefit? Clearly, *you* will. And you'll probably spend at least some of that money enriching your local clubs, clothing stores, and car dealerships. But others will benefit, too, including your members, advertisers on your site and the staff who support them, contractors who build your facilities, and the government that collects your taxes. The impact of one successful entrepreneur can extend to the far reaches of the economy. In fact, fast-growing new firms generate about 10% of all new jobs in any given year.[5] Multiply the impact by thousands of entrepreneurs—each working in their own self-interest—and you can see how the profit motive benefits virtually everyone.

Oops! What Were They Thinking?

Not Every Dumb Move Is an Utter Disaster…

In the wake of disastrous mismanagement and outrageous mistakes across our economy, it might be hard to remember that some goofs are actually kind of funny. Some examples to help remind you:

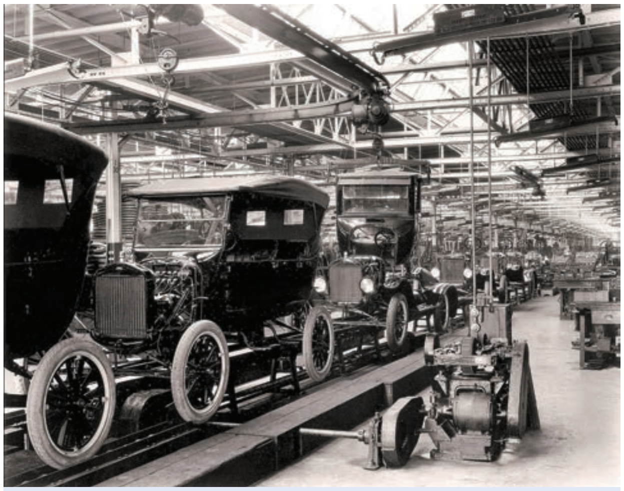
- **Kim Kardashian "kimono":** Woman's shapewear is underwear that is designed to hold a part of the body in a particular form. In 2019, Kim Kardashian tried to copywrite the name "kimono" for her line of shapewear, even though it had nothing to do with the traditional Japanese garment that dates back to nearly 800 B.C.
- **Instagram *swipe bait*:** A clever sneaker manufacturer from China, called Kaiwei Ni, published a Black Friday ad on Instagram Stories in 2017 with a stray hair right in the middle of the screen. The designer of the ad made it look like it was a stray hair on the phone screen of the person viewing it, to get users to swipe up their screen in the attempt to clear the stray hair. Sneaky. Instagram removed this ad immediately for violating its policies and disabled the account from advertising.
- **Socially distant arches:** McDonald's Brazil responded to COVID-19 pandemic by separating its iconic golden arches to remind customers to engage in social distancing. They featured the new logo in television advertising and across social media. Consumers were NOT impressed, and they expressed their disdain for the "precious arches" loudly via Twitter, condemning the move for being tone deaf and exploitative.[6]

From a bigger-picture perspective, business drives up the **standard of living** for people worldwide, contributing to a higher **quality of life**. Businesses not only provide the products and services that people enjoy but also provide the jobs that people need. Beyond the obvious, business contributes to society through innovation—think cars, TVs, and tablet computers. Business also helps raise the standard of living through taxes, which the government spends on projects that range from streetlights to environmental cleanup. Socially responsible firms contribute even more by actively advocating for the well-being of the society that feeds their success.

1-2 The History of Business: Putting It All in Context

You may be surprised to learn that—unlike today—business hasn't always been focused on what the customer wants. In fact, business in the United States has changed rather dramatically over the past 200–300 years. Most business historians divide the history of American business into five distinct eras, which overlap during the periods of transition:

- **The Industrial Revolution:** Technological advances fueled a period of rapid industrialization in America from the mid-1700s to the mid-1800s. As mass production took hold, huge factories replaced skilled artisan workshops. The factories hired large numbers of semiskilled workers who specialized in a limited number of tasks. The result was unprecedented production efficiency but also a loss of individual ownership and personal pride in the production process.
- **The Entrepreneurship Era:** Building on the foundation of the Industrial Revolution, large-scale entrepreneurs emerged in the second half of the 1800s, building business empires. These industrial titans—such as Andrew Carnegie, Cornelius Vanderbilt, JP Morgan, and Nelson Rockefeller—created enormous wealth, raising the overall standard of living across the country. But many also dominated their markets, forcing out competitors, manipulating prices, exploiting workers, and decimating the environment. Toward the end of the 1800s, the government stepped into the business realm, passing laws to regulate business and protect consumers and workers, creating more balance in the economy.
- **The Production Era:** In the early part of the 1900s, major businesses focused on further refining the production process and creating greater efficiencies. Jobs became even more specialized, increasing productivity and lowering costs and prices. In 1913, Henry Ford introduced the assembly line, which quickly became standard across major manufacturing industries. With managers focused on efficiency, the customer was an afterthought. But when customers tightened their belts during the Great Depression and World War II, businesses took notice. The "hard sell" emerged: aggressive persuasion designed to separate consumers from their cash.
- **The Marketing Era:** After World War II, the balance of power shifted away from producers and toward consumers, flooding the market with enticing choices. To differentiate themselves from their competitors, businesses began to develop brands, or distinctive identities, to help consumers understand the differences among various products. The *marketing concept* emerged: a consumer focus that permeates successful companies in every department, at every level. This approach continues to influence business decisions today as global competition heats up to unprecedented levels.
- **The Relationship Era:** Building on the marketing concept, today, leading-edge firms look beyond each immediate transaction



Shawshots/Alamy Stock Photo

Henry Ford's assembly line began operation on December 1, 1913. Initially developed for the Model T, this new production system allowed manufacturers of all kinds to output products like never before.

standard of living The quality and quantity of goods and services available to a population.

quality of life The overall sense of well-being experienced by either an individual or a group.

with a customer and aim to build long-term relationships. Satisfied customers can become advocates for a business, spreading the word with more speed and credibility than even the best promotional campaign. According to technology entrepreneur, Lisa Masiello, "Happy customers are your biggest advocates and can become your most successful sales team." And cultivating current customers is more profitable than constantly seeking new ones. One key tool is technology. Using digital resources, businesses collect enormous amounts of data, allowing them to better serve customers.

1-3 Nonprofits and the Economy: The Business of Doing Good

Nonprofit organizations play a critical role in the economy, often working hand in hand with businesses to improve the quality of life in our society. Focusing on areas such as health, human services, education, art, religion, and culture, **nonprofits** are business-*like* establishments, but their primary goals do not include profits. Chuck Bean, former executive director of the Nonprofit Roundtable, explains: "By definition, nonprofits are not in the business of financial gain. We're in the business of doing good. However, nonprofits are still businesses in every other sense—they employ people, they take in revenue, they produce goods and services and contribute in significant ways to our region's economic stability and growth." Nationwide, nonprofits employ about one in ten workers, accounting for more paid workers than the entire construction industry and more than the finance, insurance, and real-estate sectors combined. And nonprofit museums, schools, theaters, and orchestras have become economic magnets for many communities, drawing additional investment.[7]

nonprofits Business-like establishments that employ people and produce goods and services with the fundamental goal of contributing to the community rather than generating financial gain.

factors of production Four fundamental elements—natural resources, capital, human resources, and entrepreneurship—that businesses need to achieve their objectives.

1-4 Factors of Production: The Basic Building Blocks

Both businesses and nonprofits rely on **factors of production**—four fundamental resources—to achieve their objectives. Some combination of these factors is crucial for an economic system to work and create wealth. As you read through the factors, keep in mind that they don't come free of charge. Human resources, for instance, require wages, while entrepreneurs need a profit incentive.

- **Natural Resources:** This factor includes all inputs that offer value in their natural state, such as land, fresh water, wind, and mineral deposits. Most natural resources must be extracted, purified, or harnessed; people cannot actually create them. (Note that agricultural products, which people do create through planting and tending, are not a natural resource.)

From Basement Dwellers…to Elite Esports Athletes

Not long ago, the best an intense video game player could hope for was a comfy berth in the basement, a superfast internet connection, a respite from nagging, and a fresh bag of Doritos. But video gamers today often have bigger goals—the esports industry has ignited the imagination of millions, and filled their wallets, too. Esports tournaments pack iconic stadiums such as The Staples Center in Los Angeles and Madison Square Garden in New York. Top players can earn as much as $3.5 million annually, while streamers can make more than $1 million a month. The industry overall is expected to rake in more than $1.5 billion in advertising, media rights, and sponsorships by 2021.

Clearly, most gamers won't make it to the big leagues. But according to long-time gamer, Zandr Rose, even recreational players will hone a skillset that applies directly to both school and the workplace:

- **Strategic thinking: Many games require players to think several moves ahead, which requires planning skills.**
- **Performing under pressure: Most games require players to consider and respond to multiple variables under a short deadline.**
- **Teamwork: No matter how skilled an individual player may be, many games will not allow him or her to succeed without effective team cooperation.**

So, let the video games begin![8]

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Many businesses work with nonprofits to boost their impact in the community.

The value of all-natural resources tends to rise with high demand, low supply, or both.

- **Capital:** This factor includes machines, tools, buildings, information, and technology—the synthetic resources that a business needs to produce goods or services. Computers and telecommunications capability have become pivotal elements of capital across a surprising range of industries, from financial services to professional sports. You may be surprised to learn that in this context, capital does not include money, but, clearly, businesses use money to acquire, maintain, and upgrade their capital.
- **Human Resources:** This factor encompasses the physical, intellectual, and creative contributions of everyone who works within an economy. As technology replaces a growing number of manual labor jobs, education and motivation have become increasingly important to human resource development. Given the importance of knowledge to workforce effectiveness, some business experts, such as management guru Peter Drucker, break out knowledge as its own category, separate from human resources.
- **Entrepreneurship:** Entrepreneurs are people who take the risk of launching and operating their own businesses, largely in response to the profit incentive. They tend to see opportunities where others don't, and they use their own resources to capitalize on that potential. Entrepreneurial enterprises can kick-start an economy, creating a tidal wave of opportunity by harnessing the other factors of production. But entrepreneurs don't thrive in an environment that doesn't support them. The key ingredient is economic freedom: freedom of choice (whom to hire, for instance, or what to produce), freedom from excess regulation, and freedom from too much taxation. Protection from corruption and unfair competition is another entrepreneurial "must."

Clearly, all of these factors must be in place for an economy to thrive. But which factor is most important? One way to answer that question is to examine current economies around the world. Russia and China are both rich in natural resources and human resources, and both countries have a solid level of capital (growing in China, and deteriorating in Russia). Yet, neither country is wealthy; both rank relatively low in terms of gross national income per person. The missing ingredient seems to be entrepreneurship, limited in Russia largely through corruption and in China through government interference and taxes. Contrast those examples with, say, Hong Kong. The population is small, and the natural resources are severely limited, yet Hong Kong has consistently ranked among the richest regions in Asia. The reason: operating for many years under the British legal and economic system, the government actively encouraged entrepreneurship, which fueled the creation of wealth. Recognizing the potential of entrepreneurship, China has recently done more to relax regulations and support free enterprise. The result has been tremendous growth, which may yet bring China into the ranks of the wealthier nations.[9]

1-5 The Business Environment: The Context for Success

No business operates in a vacuum. Outside factors play a vital role in determining whether each individual business succeeds or fails. Likewise, the broader **business environment** can make the critical difference in whether an overall economy thrives or disintegrates. The five key dimensions of the business environment are the economic environment, the competitive environment, the technological environment, the social environment, and the global environment, as shown in Exhibit 1.1.

business environment The setting in which business operates. The five key components are economic environment, competitive environment, technological environment, social environment, and global environment.

Exhibit 1.1
The Business Environment

Each dimension of the business environment affects both individual businesses and the economy in general.

1-5a The Economic Environment

In September 2008, the U.S. economy plunged into the worst fiscal crisis since the Great Depression. Huge, venerable financial institutions faced collapse, spurring unprecedented bailouts by the federal government and the Federal Reserve. By the end of the year, the stock market had lost more than a third of its value, and 11.1 million Americans were out of work. Housing prices fell precipitously, and foreclosure rates reached record levels. As fear swept through the banking industry, many businesses and individuals could not borrow money to meet their needs. Economic turmoil in the United States spread quickly around the world, fueling a global economic crisis.

The U.S. economy continued to stagger through 2010 and 2011, with unemployment remaining stubbornly high, although signs of recovery began to emerge in late 2012, and certainly in 2013. The Federal Reserve—the U.S. central banking system—took unprecedented, proactive steps to encourage an economic turnaround. And former President Barack Obama spearheaded passage of a massive economic stimulus package, designed not only to create jobs but also to build infrastructure—with a focus on renewable energy—to position the U.S. economy for stability and growth in the decades to come. (The price, of course, was more national debt, which will ultimately counterbalance some of the benefits.) Ultimately, the United States experienced the longest economic expansion ever recorded—ended by the COVID-19 pandemic in early 2020, which crippled the growing economy. The critical question is: how and when will the economy recover, and what scars will remain?[10]

The government also takes active steps on an ongoing basis to reduce the risks of starting and running a business. The result: free enterprise and fair competition flourish. Despite the economic crisis, research suggests that most budding entrepreneurs still plan to launch their firms in the next three years. One government policy that supports business is the relatively low federal tax rate, both for individuals and businesses. A number of states—from Alabama to Nevada—make their local economies even more appealing by providing special tax deals to attract new firms. The federal government also runs entire agencies that support business, such as the Small Business Administration. Other branches of the government, such as the Federal Trade Commission, actively promote fair competitive practices, which help give every enterprise a chance to succeed.

Another key element of the U.S. economic environment is legislation that supports enforceable contracts. For instance, if you contract a baker to supply your health food company with 10,000 pounds of raw kale chips at $1.00 per pound, that firm must comply or face legal consequences. The firm can't wait until a day before delivery and jack up the price to $10.00 per pound because you would almost certainly respond with a successful lawsuit. Many U.S. businesspeople take enforceable contracts for granted, but in a number of developing countries—which offer some of today's largest business

> "A banker is a fellow who lends you his umbrella when the sun is shining, but wants it back the minute it begins to rain."
>
> —Mark Twain, American Author

opportunities—contracts are often not enforceable (at least not in day-to-day practice).

Corruption also affects the economic environment. A low level of corruption and bribery dramatically reduces the risks of running a business by ensuring that everyone plays by the same set of rules—rules that are clearly visible to every player. Fortunately, U.S. laws keep domestic corruption mostly—but not completely—at bay. Other ethical lapses, such as shady accounting, can also increase the cost of doing business for everyone involved. But in the wake of corporate ethical meltdowns such as Enron, the federal government has passed tough-minded new regulations to increase corporate accountability. If the new legislation effectively curbs illegal and unethical practices, every business will have a fair chance at success.

Upcoming chapters on economics and ethics will address these economic challenges and their significance in more depth. But bottom line, we have reason for cautious (some would say very cautious) optimism. The American economy has a proven track record of flexibility and resilience, which will surely help us navigate this crisis and uncover new opportunities.

1-5b The Competitive Environment

As global competition intensifies yet further, leading-edge companies have focused on customer satisfaction like never before. The goal: to develop long-term, mutually beneficial relationships with customers. Getting current customers to buy more of your product is a lot less expensive than convincing potential customers to try your product for the first time. And if you transform your current customers into loyal advocates—vocal promoters of your product or service—they'll get those new customers for you more effectively than any advertising or discount program. Companies such as Amazon, Coca-Cola, and Northwestern Mutual life insurance lead their industries in customer satisfaction, which translates into higher profits even when the competition is tough.[11]

Customer satisfaction comes in large part from delivering unsurpassed value. The best measure of value is the size of the gap between product benefits and price. A product has value when its benefits to the customer are equal to or greater than the price that the customer pays. Keep in mind that the cheapest product doesn't necessarily represent the best value. If a 99-cent toy from Big Lots breaks in a day, customers may be willing to pay several dollars more for a similar toy from somewhere else. But if that 99-cent toy lasts all year, customers will be delighted by the value and will likely encourage their friends and family to shop at Big Lots. The key to value is quality, and virtually all successful firms offer top-quality products relative to their direct competitors.

Exhibit 1.2 Global Brand Champions

Most Valuable	Biggest Gainers	Percentage Growth
Apple	Amazon	+60%
Amazon	Microsoft	+53%
Microsoft	Spotify	+52%
Google	Adobe	+41%
Samsung	Netflix	+41%
Coca-Cola	PayPal	+38%
Toyota	Salesforce	+34%
Mercedes-Benz	Nintendo	+31%
McDonald's	Mastercard	+17%
Disney	Visa	+15%

Source: Interbrand Best Global Brands 2020, https://interbrand.com/best-global-brands/, accessed January 6, 2021.

A recent ranking study by consulting firm Interbrand highlights brands that use imagination and innovation to deliver value to their customers. Exhibit 1.2 shows the winners and the up-and-comers in the race to capture the hearts, minds, and dollars of consumers around the world.

Leading Edge versus Bleeding Edge **Speed-to-market**—the rate at which a firm transforms concepts into actual products—can be another key source of competitive advantage. And the pace of change just keeps getting faster. In this tumultuous setting, companies that stay ahead of the pack often enjoy a distinct advantage. But keep in mind that there's a difference between leading edge and bleeding edge. Bleeding-edge firms launch products that fail because they're too far ahead of the market. During the late 1990s, for example, in the heart of the dot.com boom, Webvan, a grocery delivery service, launched to huge fanfare. But the firm went bankrupt just a few years later in 2001, partly because customers weren't yet ready to dump traditional grocery stores in favor of cyber-shopping. (Online grocery shopping finally came into its own during the COVID-19 pandemic, with research indicating that 68% of American consumers ordered groceries online between April and August 2020.)[12] Leading-edge firms, on the other hand, offer products just as the market becomes ready to embrace them.[13]

speed-to-market The rate at which a new product moves from conception to commercialization.