

# Taking Risks and Making Profits within the DYNAMIC BUSINESS Environment

# 1

## LEARNING goals

After you have read and studied this chapter, you should be able to

- 1 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.
- 2 Compare and contrast being an entrepreneur and working for others.
- 3 Analyze the effects of the economic environment and taxes on businesses.
- 4 Describe the effects of technology on businesses.
- 5 Demonstrate how businesses can meet and beat competition.
- 6 Analyze the social changes affecting businesses.
- 7 Identify what businesses must do to meet global challenges, including war and terrorism.
- 8 Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.



**W**hat do you do when you are a full-figured woman and want nice clothes to wear, especially a flattering bathing suit? Few designers offer fashionable clothing in larger sizes, making shopping for clothes very frustrating for plus-sized women. That was the issue facing Monif Clarke. She decided to fill the need for such clothes by designing her own line. Using a \$30,000 loan from her father and help from her mother (her business partner), she started Monif C. Contemporary Plus Sizes.

As a plus-sized woman, Clarke understands the need for a new point of view in the plus-size market. "It took me many years to appreciate my curves and recognize them as a plus and NOT a minus . . . I was tired of buying the standard uniform that every woman has, I needed luxurious feminine clothes that make a statement . . . Who says plus size can't be sexy, luxurious, and feminine?" Clarke's designs are heavily inspired by her love of the Caribbean, the glamour of New York City nightlife, and European style. Recognizing the importance of versatility, she makes certain that the clothes work well for day and night . . . dressed up or down. Fabrics, trims, and treatments are carefully selected. The Monif C. collection is targeted to young, contemporary women. You can go to [www.Monifc.com](http://www.Monifc.com) to see her collection for yourself.

Clarke earned her degree from Rutgers University where she majored in math and computer science. She signed up for classes at New York's Fashion Institute of Technology and started networking (meeting people) and attending trade shows. She met a manufacturer who she tried to convince to produce her collection, but her order was too small to be profitable for him. However, he was so impressed with Clarke's enthusiasm and persistence that he gave her the contact information of the manufacturer, fabric vendors, and trim vendors who she still works with today. All of her garments are made in New York's garment district. That makes sense for local, new designers because such factories will take lower minimum orders.

Clarke got a lot of good publicity when her outfits appeared on TLC's *What Not to Wear* television show, which featured her clothing as a good option for plus-sized women. Despite the good publicity, Monif C. had trouble getting merchandise into leading department stores since they were looking for more traditional designs (black or tan that try to conceal curves). Clarke turned to the Internet and developed an e-commerce site to distribute her creative collection. She also teamed up with other online retailers such as Overstock.com and Ideeli.com to carry her fashions. Some customers helped her spread the word by modeling her clothes on YouTube.

Monif C. now sells her clothing to retailers throughout the United States and around the world. Like all businesses,

Monif C. was affected by the economic downturn, but Clarke was able to set prices and adapt products to meet the changing needs of the market. When her mother died, Clarke was forced to hire new people, and she became even more motivated to succeed. Monifc.com has been around since 2005, so it has proven successful. Be sure to check out the swimsuit models on her website. Swimsuits now make up over 40 percent of sales.

Businesses are constantly trying to adapt to the wants and needs of their customers and to the technologies that those customers are using. This chapter will introduce you to entrepreneurship in general and some of the many changes occurring in businesses today. As you learn more about businesses and non-profit organizations, you will see that adapting to changing times is a constant necessity.

## profile

### Getting to Know

X

Monif Clarke  
of Monifc.com

Sources: Tamara E. Holmes, "Plus-Sized Profits," *Black Enterprise*, April 2011, and [www.Monifc.com](http://www.Monifc.com), accessed April 2011.





NAME THAT

company

*This microlending organization provides small loans to entrepreneurs too poor to qualify for traditional loans. The person who started the organization has started 30 of what he calls social businesses that do not have profit as their goal. Name that organization and its founder. (Find the answers in the chapter.)*

## LEARNING goal 1

Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

### business

Any activity that seeks to provide goods and services to others while operating at a profit.

### goods

Tangible products such as computers, food, clothing, cars, and appliances.

### services

Intangible products (i.e., products that can't be held in your hand) such as education, health care, insurance, recreation, and travel and tourism.

### entrepreneur

A person who risks time and money to start and manage a business.

### revenue

The total amount of money a business takes in during a given period by selling goods and services.

### profit

The amount of money a business earns above and beyond what it spends for salaries and other expenses.

### loss

When a business's expenses are more than its revenues.

## ENTREPRENEURSHIP AND WEALTH BUILDING

One thing you can learn from the chapter-opening Profile is that success in business is based on constantly adapting to the market. A **business** is any activity that seeks to provide goods and services to others while operating at a profit. To earn that profit, you provide desired goods, jobs, and services to people in the area. **Goods** are *tangible* products such as computers, food, clothing, cars, and appliances. **Services** are *intangible* products (i.e., products that can't be held in your hand) such as education, health care, insurance, recreation, and travel and tourism. Once you have developed the right goods and services, based on consumer wants and needs, you need to reach those consumers using whatever media they prefer, including blogs, tweets, Facebook, TV advertising, and more.<sup>1</sup>

Although you don't need to have wealth as a primary goal, one result of successfully filling a market need is that you can make money for yourself, sometimes a great deal, by giving customers what they want. Sam Walton of Walmart began by opening one store in Arkansas and, over time, became one of the richest people in the United States.<sup>2</sup> There are over 11 million millionaires in the world.<sup>3</sup> Maybe you will be one of them some day if you start your own business. An **entrepreneur** is a person who risks time and money to start and manage a business.

## Revenues, Profits, and Losses

**Revenue** is the total amount of money a business takes in during a given period by selling goods and services. **Profit** is the amount of money a business earns above and beyond what it spends for salaries and other expenses needed to run the operation. A **loss** occurs when a business's expenses are more than its revenues. If a business loses money over time, it will likely have to close, putting its employees out of work. About 80,000 businesses in the United States close each year; even more close during a slowdown like the United States experienced starting in 2008.<sup>4</sup>



As noted above, the business environment is constantly changing. What seems like a great opportunity one day—for example, online grocery shopping or SUVs—may become a huge failure when the economy changes. Starting a business may thus come with huge risks.<sup>5</sup> But huge risks often result in huge profits. We'll explore that concept next.

## Matching Risk with Profit

**Risk** is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable. Profit, remember, is the amount of money a business earns *above and beyond* what it pays out for salaries and other expenses. For example, if you were to start a business selling hot dogs from a cart in the summer, you would have to pay for the cart rental. You would also have to pay for the hot dogs and other materials and for someone to run the cart while you were away. After you paid your employee and yourself, paid for the food and materials you used, paid the rent on the cart, and paid your taxes, any money left over would be profit.

Keep in mind that profit is over and above the money you pay yourself in salary. You could use any profit to rent or buy a second cart and hire other employees. After a few summers, you might have a dozen carts employing dozens of workers.

Not all enterprises make the same amount of profit. Those that take the most risk may make the most profit. There is high risk, for example, in making a new kind of automobile.<sup>6</sup> It's also risky to open a business in an inner city, because insurance and rent are usually higher than in suburban areas, but reduced competition makes substantial profit possible. Irish entrepreneur Denis O'Brien, of Digicel, makes billions of dollars selling cell phones in the poorest, most violent countries in the world. Big risk, big profits.

## Standard of Living and Quality of Life

Entrepreneurs such as Sam Walton (Walmart) and Bill Gates (Microsoft) not only became wealthy themselves; they also provided employment for many other people. Walmart is currently the nation's largest private employer.

Businesses and their employees pay taxes that the federal government and local communities use to build hospitals, schools, libraries, playgrounds, roads, and other public facilities. Taxes also help to keep the environment clean, support people in need, and provide police and fire protection. Thus, the wealth businesses generate and the taxes they pay help everyone in their communities. A nation's businesses are part of an economic system that contributes to the standard of living and quality of life for everyone in the country (and, potentially, the world). How has the recent economic slowdown affected the standard of living and quality of life in your part of the world?

The term **standard of living** refers to the amount of goods and services people can buy with the money they have. For example, the United States has one of the highest standards of living in the world, even though workers in some other countries, such as Germany and Japan, may on average make more money per hour. How can that be? Prices for goods and services in Germany and Japan are higher than in the United States, so a person in those countries can buy less than what a person in the United States can buy with the same amount of money. For example, a bottle of beer may cost \$7 in Japan and \$3 in the United States.

### risk

The chance an entrepreneur takes of losing time and money on a business that may not prove profitable.

### standard of living

The amount of goods and services people can buy with the money they have.

*Mary Kate and Ashley Olsen are now the head designers of their company Dualstar which has three clothing lines ranging from the high-end to the more affordable. Today the business is worth over \$1 billion. What risks and rewards did the twins face when they started their business?*





Often, goods cost more in one country than another because of higher taxes and stricter government regulations. Finding the right level of taxes and regulation is important in making a country or city prosperous. We'll explore that issue more deeply in Chapter 2. At this point, it is enough to understand that the United States enjoys a high standard of living largely because of the wealth created by its businesses.

#### quality of life

The general well-being of a society in terms of its political freedom, natural environment, education, health care, safety, amount of leisure, and rewards that add to the satisfaction and joy that other goods and services provide.

The term **quality of life** refers to the general well-being of a society in terms of its political freedom, natural environment, education, health care, safety, amount of leisure, and rewards that add to the satisfaction and joy that other goods and services provide. Maintaining a high quality of life requires the combined efforts of businesses, nonprofit organizations, and government agencies. The more money businesses create, the more is potentially available to improve the quality of life for everyone. It's important to be careful, however. Working to build a higher standard of living may lower the quality of life if it means less time with family or more stress.<sup>7</sup>

## Responding to the Various Business Stakeholders

#### stakeholders

All the people who stand to gain or lose by the policies and activities of a business and whose concerns the business needs to address.

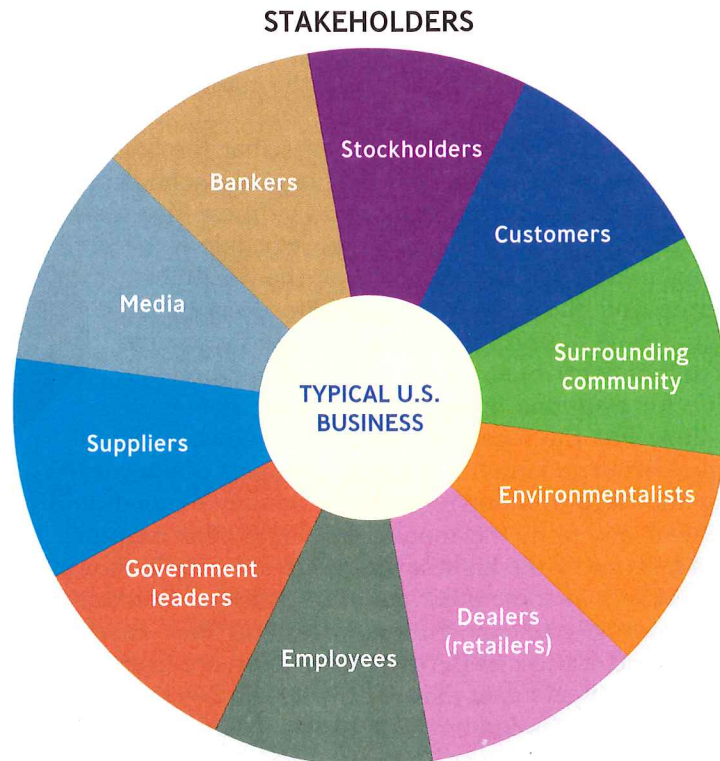
**Stakeholders** are all the people who stand to gain or lose by the policies and activities of a business and whose concerns the business needs to address.<sup>8</sup> They include customers, employees, stockholders, suppliers, dealers (retailers), bankers, people in the surrounding community, the media, environmentalists, and elected government leaders (see Figure 1.1).

A primary challenge for organizations of the 21st century will be to recognize and respond to the needs of their stakeholders. For example, the need for the business to make profits may be balanced against the needs of employees to earn sufficient income or the need to protect the environment.<sup>9</sup> Ignore the media, and they might attack your business with articles that hurt sales. Oppose the local community, and it may stop you from expanding.

figure 1.1

#### A BUSINESS AND ITS STAKEHOLDERS

Often the needs of a firm's various stakeholders will conflict. For example, paying employees more may cut into stockholders' profits. Balancing such demands is a major role of business managers.





Staying competitive may call for outsourcing. **Outsourcing** means contracting with other companies (often in other countries) to do some or all the functions of a firm, like its production or accounting tasks. Outsourcing has had serious consequences in some states where jobs have been lost to overseas competitors. We discuss outsourcing in more detail in Chapter 3.

The other side of the outsourcing coin is *insourcing*.<sup>10</sup> Many foreign companies are setting up design and production facilities here in the United States. For example, Korea-based Hyundai operates design and engineering headquarters in Detroit, Michigan, and produces cars in Montgomery, Alabama. Japanese automakers Honda and Toyota have been producing cars in the United States for years. Insourcing creates many new U.S. jobs and helps offset those being outsourced.<sup>11</sup>

It may be legal and profitable to outsource, but is it best for all the stakeholders? Business leaders must make outsourcing decisions based on all factors. Pleasing stakeholders is not easy and often calls for trade-offs.

## Using Business Principles in Nonprofit Organizations

Despite their efforts to satisfy their stakeholders, businesses cannot do everything needed to make a community all it can be. Nonprofit organizations—such as public schools, civic associations, charities like United Way and Salvation Army, and groups devoted to social causes—also make a major contribution to the welfare of society. A **nonprofit organization** is an organization whose goals do not include making a personal profit for its owners or organizers. Nonprofit organizations often do strive for financial gains, but they use them to meet their social or educational goals rather than for personal profit.<sup>12</sup>

*Social entrepreneurs* are people who use business principles to start and manage not-for-profits and help address social issues. Muhammad Yunus won the Nobel Prize for starting the Grameen Bank, a microlending organization that provides small loans to entrepreneurs too poor to qualify for traditional loans. Yunus has started 30 of what he calls social businesses that do not have profit as their goal. One, for example, provides cataract operations for a fraction of the usual cost.<sup>13</sup>

### outsourcing

Contracting with other companies (often in other countries) to do some or all of the functions of a firm, like its production or accounting tasks.

### nonprofit organization

An organization whose goals do not include making a personal profit for its owners or organizers.



*The goals of nonprofit organizations are social and educational, not profit-oriented. The Red Cross, for instance provides assistance to around 30 million people annually from refugees to victims of natural disasters. Why do good management principles apply equally to businesses and nonprofit organizations?*



Your interests may lead you to work for a nonprofit organization such as those started by Yunus. That doesn't mean, however, that you shouldn't study business in college. You'll still need to learn business skills such as information management, leadership, marketing, and financial management. The knowledge and skills you acquire in this and other business courses are useful for careers in any organization, including nonprofits. We'll explore entrepreneurship in more detail right after the Progress Assessment.

### progress assessment

- What is the difference between *revenue* and *profit*?
- What is the difference between *standard of living* and *quality of life*?
- What is risk, and how is it related to profit?
- What do the terms *stakeholders*, *outsourcing*, and *insourcing* mean?

*To create wealth for its citizens, a country requires more than natural resources. It needs the efforts of entrepreneurs and the skill and knowledge to produce goods and services. How can government support entrepreneurship and the spread of knowledge?*

## LEARNING goal 2

Compare and contrast being an entrepreneur and working for others.

## ENTREPRENEURSHIP VERSUS WORKING FOR OTHERS



There are two ways to succeed in business. One is to rise through the ranks of large companies. The advantage of working for others is that somebody else assumes the company's entrepreneurial risk and provides you with benefits like paid vacation time and health insurance.<sup>14</sup> It's a good option, and many people choose it.

The other, riskier path is to become an entrepreneur. The national anthem, "The Star Spangled Banner," says that the United States is the "land of the free and the home of the brave." Part of being free is being able to own your own business and reap the profits from it. But freedom to succeed also means freedom to fail, and many small businesses fail each year. It takes a brave person to start one. As an entrepreneur, you don't receive any benefits such as paid vacation time, day care, a company car, or health insurance. You have to provide them for yourself! But what you gain—freedom to make your own decisions, opportunity, and possible wealth—is often worth the effort.

Before you take on the challenge, you should study successful entrepreneurs to learn the process. You can talk to them personally and read about them in Chapter 6, as well as in other books and magazines.

## Opportunities for Entrepreneurs

Millions of people from all over the world have taken the entrepreneurial challenge and succeeded. For example, the number of Hispanic-owned businesses in the United States has grown dramatically (Hispanics are now the largest ethnic group in the United States). Both Hispanic men and women are doing



## SPOTLIGHT ON SMALL business



### Networking of Minority Businesses

The Black Enterprise Entrepreneurs Conference attracts about 2,000 accomplished business owners each year. Earl Graves, the publisher of *Black Enterprise* magazine says, "We cannot build businesses of size, scale and significance in the global marketplace without aggressively and effectively building and leveraging our relationships with others." He goes on to say, "You need to establish mutually beneficial relationships within your industry, with customers, suppliers, other business owners, bankers, lawyers, financiers, and corporate managers to grow your business."

A good example of black entrepreneurs relying on others as vendors, customers, investors, and partners is the story of Carol's Daughter, the hair care and beauty products company founded as an online and mail-order



business by Lisa Price. Price started out by experimenting with homemade fragrances and bath products in her Brooklyn kitchen. When she met music industry executive Steve Stoute, he grew so convinced of the potential of her business that he encouraged others like celebrities Will Smith and Shawn "Jay-Z" Carter to invest in her company. Carol's Daughter is now a nationally recognized brand with a store in Harlem and retail partnerships with Sephora, Macy's, and Home Shopping Network.

Sources: Earl G. Graves, "To Build Our Businesses, We Must Leverage Our Relationships,"

*Black Enterprise*, March 2011; and artgoodiesonline, accessed March 2011.

particularly well. Similar successes are true of businesses owned by Asians, Pacific Islanders, Native Americans, and Alaskan Natives.

Women now own over a third of all businesses. Names you may know include Oprah Winfrey, Donna Karan, and Lillian Vernon. Andrea Jung is the CEO of Avon Products. The world's most powerful women include Ho Ching, the chief executive of Temasek Holdings in Singapore; Indra Nooyi, chief executive of Pepsico, U.S.; and Cynthia Carroll, chief executive of Anglo American in the United Kingdom.

Businesses owned by minority women are growing faster than those owned by men or nonminority women. Women of color are establishing businesses at twice the rate of their male counterparts and more than four times that of nonminority entrepreneurs.<sup>15</sup> Read the nearby Spotlight on Small Business box to learn more about minority entrepreneurs.

### The Importance of Entrepreneurs to the Creation of Wealth

Have you ever wondered why some countries are relatively wealthy and others poor? Economists have been studying the issue of wealth creation for many years. They began by identifying five **factors of production** that seemed to contribute to wealth (see Figure 1.2):

1. Land (or natural resources).
2. Labor (workers).

#### **factors of production**

The resources used to create wealth: land, labor, capital, entrepreneurship, and knowledge.



3. Capital. (This includes machines, tools, buildings, or whatever else is used in the production of goods. It may not include money; money is used to buy factors of production but is not always considered a factor by itself.)
4. Entrepreneurship.
5. Knowledge.

Traditionally, business and economics textbooks emphasized only four factors of production: land, labor, capital, and entrepreneurship. But the late management expert and business consultant Peter Drucker said the most important factor of production in our economy is and always will be *knowledge*.

What do we find when we compare the factors of production in rich and poor countries? Some poor countries have plenty of land and natural resources. Russia, for example, has vast areas of land with many resources such as timber and oil, but it is not considered a rich country (yet). Therefore, land isn't the critical element for wealth creation.

Most poor countries, such as Mexico, have many laborers, so it's not labor that's the primary source of wealth today. Laborers need to find work to make a contribution; that is, they need entrepreneurs to create jobs for them. Furthermore, capital—machinery and tools—is now fairly easy for firms to find in world markets, so capital isn't the missing ingredient either. Capital is not productive without entrepreneurs to put it to use.

What makes rich countries rich today is a combination of *entrepreneurship* and the effective use of *knowledge*. Entrepreneurs use what they've learned (knowledge) to grow their businesses and increase wealth. Economic and political freedom also matter.

The business environment either encourages or discourages entrepreneurship. That helps explain why some states and cities in the United States grow rich while others remain relatively poor. In the following section, we'll explore what makes up the business environment and how to build an environment that encourages growth and job creation.

figure 1.2

THE FIVE FACTORS OF  
PRODUCTION

**Land**

Land and other natural resources are used to make homes, cars, and other products.

**Labor**

People have always been an important resource in producing goods and services, but many people are now being replaced by technology.

**Capital**

Capital includes machines, tools, buildings, and other means of manufacturing.

**Entrepreneurship**

All the resources in the world have little value unless entrepreneurs are willing to take the risk of starting businesses to use those resources.

**Knowledge**

Information technology has revolutionized business, making it possible to quickly determine wants and needs and to respond with desired goods and services.



## progress assessment

- What are some of the advantages of working for others?
- What benefits do you lose by being an entrepreneur, and what do you gain?
- What are the five factors of production? Which ones seem to be the most important for creating wealth?

## THE BUSINESS ENVIRONMENT

The **business environment** consists of the surrounding factors that either help or hinder the development of businesses. Figure 1.3 shows the five elements in the business environment:

1. The economic and legal environment.
2. The technological environment.
3. The competitive environment.
4. The social environment.
5. The global business environment.

**business environment**

The surrounding factors that either help or hinder the development of businesses.



figure 1.3

TODAY'S DYNAMIC BUSINESS ENVIRONMENT



Businesses that create wealth and jobs grow and prosper in a healthy environment. Thus, creating the right business environment is the foundation for social benefits of all kinds, including good schools, clean air and water, good health care, and low rates of crime. Businesses normally can't control their environment, but they need to monitor it carefully and do what they can to adapt as it changes.

## LEARNING goal 3

Analyze the effects of the economic environment and taxes on businesses.

### The Economic and Legal Environment

People are willing to start new businesses if they believe the risk of losing their money isn't too great. The economic system and the way government works with or against businesses can have a strong impact on that level of risk. For example, a government can *minimize spending* and *keep taxes and regulations to a minimum*, policies that tend to favor business. Much of the debate in recent elections has focused on whether or not to raise taxes and how to lower government spending.<sup>16</sup> President Obama is increasing government spending with the idea of getting the economy moving faster. Some economists agree with such a stimulus, but some do not.<sup>17</sup> One way for government to actively promote entrepreneurship is to *allow private ownership of businesses*. In some countries, the government owns most businesses, and there's little incentive for people to work hard or create profit. Around the world today, however, some governments are selling those businesses to private individuals to create more wealth. One of the best things the governments of developing countries can do is to *minimize interference with the free exchange of goods and services*.

The government can further lessen the risks of entrepreneurship by *passing laws that enable businesspeople to write enforceable contracts*. In the United

Starting a business is much harder in some countries than in others. In India, for example, it requires a time-consuming and bureaucratic process to obtain government permission. Nonetheless, new businesses can become a major source of wealth and employment; this sari shop is one small example. What do you think would be the effect of a little more freedom to create business opportunities in this country of over a billion people?





States, the Uniform Commercial Code, for example, regulates business agreements like contracts and warranties so that firms know they can rely on one another. In countries that don't yet have such laws, the risks of starting a business are that much greater. You can read more about business laws in Bonus Chapter A at the end of this book.

The government can also *establish a currency that's tradable in world markets*. That is, the currency lets you buy and sell goods and services anywhere in the world when it is easily exchanged for that of the other countries where you do business. If the Chinese did not want to trade their yuan for the U.S. dollar, for instance, it's hard to imagine how Coca-Cola or Disney would have been able to sell their products and services there.

Finally, the government can help *minimize corruption* in business and in its own ranks. Where governments are corrupt, it's difficult to build a factory or open a store without a government permit, which is obtained largely through bribery of public officials. Among businesses themselves, unscrupulous leaders can threaten their competitors and unlawfully minimize competition.

Many laws in the United States attempt to minimize corruption. Nonetheless, corrupt and illegal activities at some companies do negatively affect the business community and the economy as a whole.<sup>18</sup> The news media widely reports these scandals. Ethics is so important to the success of businesses and the economy as a whole that we feature stories about ethics in most chapters and devote Chapter 4 to the subject.

The capitalist system relies heavily on honesty, integrity, and high ethical standards. Failure of those fundamentals can weaken the whole system. The faltering economy that began in 2008 was due in large part to such failure. Some mortgage lenders, for instance, failed to do the research necessary to ensure their borrowers' creditworthiness. Many subprime borrowers (people with low credit ratings) forfeited their loans. The ripple effects of these unpaid debts not only cost many people their homes but also reduced the value of housing across the world and made it difficult even for business borrowers to get new loans. Part of the blame for this economic disaster can be placed on the borrowers who didn't tell the truth about their income or who otherwise deceived the lenders.

It is easy to see the damage caused by the poor moral and ethical behavior of some businesspeople.<sup>19</sup> What is not so obvious is the damage caused by the moral and ethical lapses of the everyday consumer—that is, you and me. The nearby Making Ethical Decisions box discusses that issue in more depth.

## LEARNING goal 4

Describe the effects of technology on businesses.

## The Technological Environment

Since prehistoric times, humans have felt the need to create tools that make work easier. Few technological changes have had a more comprehensive and lasting impact on businesses, however, than the emergence of information technology (IT): computers, networks, cell phones, and especially the Internet.

The iPod, iPhone, BlackBerry and other smartphones, as well as social media like MySpace, Facebook, and Twitter, have completely changed the way people communicate with one another. Advertisers and other businesspeople



# MAKING ethical decisions



## Ethics Begins with You

It is easy to criticize the ethics of people whose names appear in the headlines. It is more difficult to see the moral and ethical misbehavior of your own social group. Do you find some of the behaviors of your friends morally or ethically questionable?

A survey found that the number of employees calling in sick had reached a five-year high, and three-fifths were not sick at all. Other employees have been caught conducting personal business at work, such as doing their taxes. And others play video games on their work computers. We're sure you can add many more examples.

Many companies today are creating ethics codes to guide their employees' behavior. We believe the trend toward

improving ethical behavior is so important that we've made it a major theme of this book. Throughout the text you'll see boxes like this one, called Making Ethical Decisions, that pose ethical dilemmas and ask what you would do to resolve them. The idea is for you to think about the moral and ethical dimensions of every decision you make.

Here is your first one: You have become addicted to your electronic gadgets. Some days at work you spend most of the time playing games, watching TV, texting, sending e-mails to friends, or reading a book or magazine on your devices. What is the problem in this situation? What are your alternatives? What are the consequences of each alternative? Which alternative will you choose? Is your choice ethical?

### technology

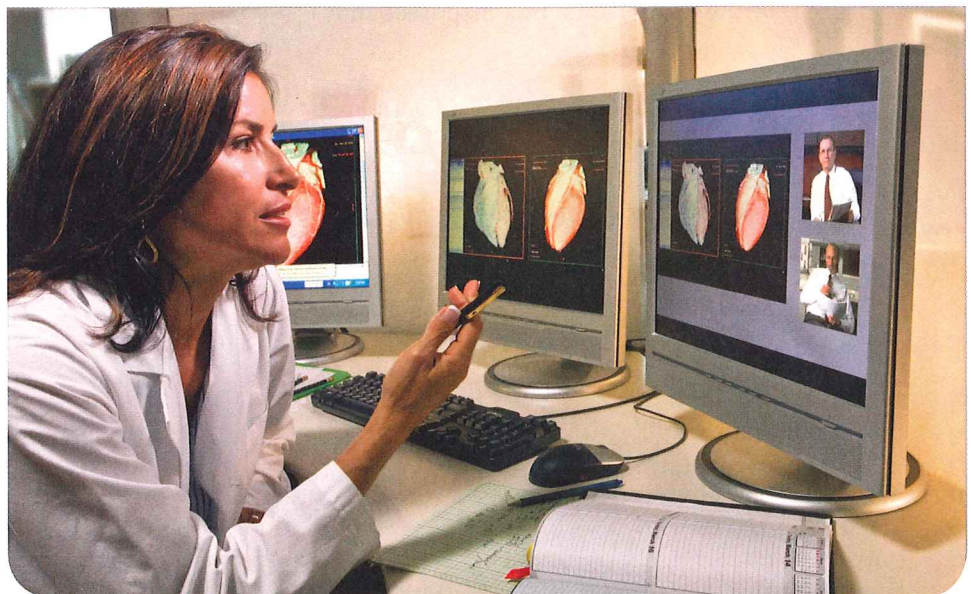
Everything from phones and copiers to computers, medical imaging devices, personal digital assistants, and the various software programs that make business processes more effective, efficient, and productive.

have created ways of using these tools to reach their suppliers and customers. Even politicians have harnessed the power of the Internet to advance their causes. See the nearby Social Media in Business box for an example of how a well-established company uses these tools to interact with customers.

IT is such a major force in business today that we discuss its impact on businesses throughout the entire text.

**How Technology Benefits Workers and You** One of the advantages of working for others is that the company often provides the tools and technology to make your job more productive. **Technology** means everything from phones and copiers to computers, medical imaging devices, personal digital assistants, and the

*Technology makes workers more productive. Instead of spending hours traveling to meet, for instance, this doctor is using teleconferencing to consult with a colleague about diagnosis and treatment options. Are some workers likely to be more comfortable with new technology than others?*





## SOCIAL MEDIA IN **business**



### JCPenney Keeps in Touch

Nothing highlights the dynamic nature of business more than the number of new electronic devices people carry today, including iPads, iPhones, e-readers, and cell phones of all kinds. People seem to be constantly texting, tweeting, and talking to each other. You cannot help but notice them in restaurants, on buses, and even walking down the street. Hopefully, though, you don't see them doing it while they're driving.

In order to reach the coveted 18-to-35-year-olds, JCPenney ran local ads featuring fashion blogger Geri Hirsh. In the spots, Hirsh showcased the retailer's spring line as she was preparing for an Oscar party. JCPenney's social media team then posted clothing selected by Hirsh to the brand's Facebook page, which includes a shopping app.

During the Oscar broadcast, JCPenney incorporated Twitter and Facebook into the spring campaign using seven commercials. JCPenney was the only retail sponsor for the show and wanted to reach young women. During the show, the company posted mini-blogs with trivia questions about

fashion. The first person to send in a correct answer received a \$20 gift card from the retailer. Before the show, the company also sent warm-up tweets with questions like, "Which film should win for Best Costume?"

The store also launched a "Shop Like a Celebrity" sweepstakes on Facebook. Winners received a free trip to New York complete with a two-night hotel stay, a \$500 JCPenney gift card, and fashion advice from blogger Mia Morgan (The Fashion Alchemist). Other digital components of the campaign included a design contest on social shopping site Polyvore and an original video series on Olsenboye.com. JCPenney is a great example of how successful well-established businesses continue to adapt to the wants and needs of their customers and to the technology they use.

Sources: Christopher Heine, "JCPenney Hopes Twitter Contest Creates Oscar Buzz," *Department Store Retailing News* online, accessed March 3, 2011; and Marilyn Much, "The Changing Face (book) of Internet Commerce," *Investor's Business Daily*, February 2, 2011.

various software programs that make business processes more effective, efficient, and productive. *Effectiveness* means producing the desired result. *Efficiency* means producing goods and services using the least amount of resources.

**Productivity** is the amount of output you generate given the amount of input, such as the number of hours you work. The more you can produce in any given period, the more money you are worth to companies. The average worker in the United States contributes \$63,885 to GDP, making U.S. workers some of the world's most productive employees. The problem with productivity today is that workers are so productive that fewer are needed, and that is contributing to the high unemployment rate we are now experiencing.<sup>20</sup>

Technology affects people in all industries. For example, Don Glenn, a farmer in Decatur, Alabama, uses his personal computer to compare data from the previous year's harvest with infrared satellite photos of his farm that show which crops are flourishing. He has a desktop terminal called a DTN that allows him to check the latest grain prices, and he uses AgTalk, a web-based bulletin board, to converse with other farmers from all over the world. He also bids for bulk fertilizer on XSag.com, an online agricultural exchange. High-tech equipment tells Glenn how and where to spread fertilizer and seed, tracks yields yard by yard, and allows him to maintain high profit margins.

**The Growth of E-Commerce** **E-commerce** is the buying and selling of goods over the Internet. There are two major types of e-commerce transactions: business-to-consumer (B2C) and business-to-business (B2B). As important as the Internet has been to retailers like Amazon.com in the consumer market, it has become even more important in the B2B market, where businesses sell

#### **productivity**

The amount of output you generate given the amount of input (e.g., hours worked).

#### **e-commerce**

The buying and selling of goods over the Internet.



goods and services to one another, such as IBM selling consulting services to a local bank. Websites have become the new stores.<sup>21</sup>

Traditional businesses must deal with the competition from B2B and B2C firms, and vice versa. Many new parents would just as soon buy used items posted on Craigslist than shop in a baby-goods store. Starting a business on eBay has never been easier. More than 450 million Chinese citizens are using the Internet. This is about double the number of U.S. users.<sup>22</sup> And what did people do before they could google? E-commerce has become so important that we will discuss it throughout the text.

**database**

An electronic storage file for information.

**identity theft**

The obtaining of individuals' personal information, such as Social Security and credit card numbers, for illegal purposes.

**Using Technology to Be Responsive to Customers** A major theme of this text is that those businesses most responsive to customer wants and needs will succeed. That realization points to one way in which even traditional retailers can use Internet technology. For example, businesses use bar codes to identify products you buy and their size, quantity, and color. The scanner at the check-out counter identifies the price but can also put all your purchase information into a **database**, an electronic storage file for information.

Databases enable stores to carry only the merchandise their local population wants. But because companies routinely trade database information, many retailers know what you buy and from whom you buy it. Thus they can send you catalogs and other direct mail advertising offering the kind of products you might want, as indicated by your past purchases. We discuss other ways businesses use technology to be responsive to consumers throughout the text.

Unfortunately, the legitimate collection of personal customer information also opens the door to identity theft. **Identity theft** is the obtaining of individuals' personal information, such as Social Security and credit card numbers, for illegal purposes. The Federal Trade Commission says millions of U.S. consumers are victims of identity theft each year. What you should learn from these examples is to limit those to whom you give personal information. You also need antivirus software on your computer as well as a firewall and anti-spyware software.<sup>23</sup> You may also want to monitor your credit report. It is important for you to understand identity theft, security, privacy, stability, and other important IT issues.

## LEARNING goal 5

Demonstrate how businesses can meet and beat competition.

## The Competitive Environment

Competition among businesses has never been greater. Some have found a competitive edge by focusing on quality. The goal for many companies is zero defects—no mistakes in making the product. However, even achieving a rate of zero defects isn't enough to stay competitive in world markets. Companies now have to offer both high-quality products and good value—that is, outstanding service at competitive prices.

**Competing by Exceeding Customer Expectations** Today's customers want not only good quality at low prices but great service as well. Every manufacturing and service organization in the world should have a sign over its door telling its workers that the customer is king. Business is becoming customer-driven, not management-driven as often occurred in the past. Successful organizations



must now listen more closely to customers to determine their wants and needs, and then adjust the firm's products, policies, and practices accordingly. We will explore these ideas in more depth in Chapter 13.

**Competing by Restructuring and Empowerment** To meet the needs of customers, firms must give their frontline workers—for example, office clerks, front-desk people at hotels, and salespeople—the responsibility, authority, freedom, training, and equipment they need to respond quickly to customer requests. They also must allow workers to make other decisions essential to producing high-quality goods and services. The process is called **empowerment**, and we'll be talking about it throughout this book.

As many companies have discovered, it sometimes takes years to restructure an organization so that managers can and will give up some of their authority, and employees will assume more responsibility. We'll discuss such organizational changes in Chapter 8.

#### **empowerment**

Giving frontline workers the responsibility, authority, freedom, training, and equipment they need to respond quickly to customer requests.

## LEARNING goal 6

Analyze the social changes affecting businesses.

#### **demography**

The statistical study of the human population with regard to its size, density, and other characteristics such as age, race, gender, and income.

## The Social Environment

**Demography** is the statistical study of the human population with regard to its size, density, and other characteristics such as age, race, gender, and income. In this text, we're particularly interested in the demographic trends that most affect businesses and career choices. The U.S. population is going through major changes that are dramatically affecting how people live, where they live, what they buy, and how they spend their time. Furthermore, tremendous population shifts are leading to new opportunities for some firms and to declining opportunities for others. For example, there are many more retired workers than in the past, creating new markets for all kinds of goods and services.<sup>24</sup>

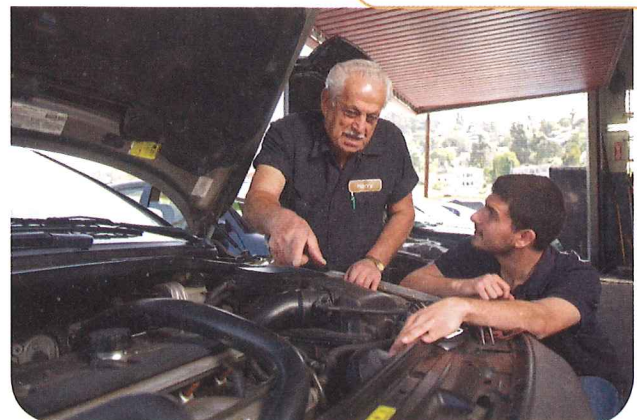
**Managing Diversity** *Diversity* has come to mean much more than recruiting and keeping minority and female employees. Diversity efforts now include seniors, people with disabilities, homosexuals, atheists, extroverts, introverts, married people, singles, and the devout. It also means dealing sensitively with workers and cultures around the world.

Legal and illegal immigrants have had a dramatic effect on many cities. Schools and hospitals have been especially affected. Some local governments are making every effort to adapt, including changing signs, brochures, websites, and forms to include other languages. Has your city experienced such changes? What are some of the impacts you've noticed?

*The U.S. boasts enormous ethnic and racial diversity. Its workforce is also widely diverse in terms of age, which means managers must adopt to the generational demographics of the workplace. What are some challenges of working with someone much younger or much older than yourself?*

### **The Increase in the Number of Older Citizens**

People ages 65 to 74 are currently the richest demographic group in the United States. They thus represent a lucrative market for companies involved with food service, transportation, entertainment, education, lodging, and so on. By 2020, the percentage of the population over 60 will be 22.8 percent (versus







*More and more working families consist of single parents who must juggle the demands of a job and responsibilities of raising children. What can managers do to try to retain valued employees who face such challenges?*

16 percent in 2000). What do these changes mean for you and for businesses in the future? Think of the products and services that middle-aged and elderly people will need—medicine, nursing homes, assisted-living facilities, adult day care, home health care, recreation, and the like—and you'll see opportunities for successful businesses of the 21st century. Don't rule out computer games and Internet services, even Wii. Businesses that cater to older consumers will have the opportunity for exceptional growth in the near future. The market is huge.<sup>25</sup>

On the other hand, retired people will be draining the economy of wealth. Social Security has become a major issue. The pay-as-you-go system (in which workers today pay the retirement benefits for today's retirees) operated just fine in 1940, when 42 workers supported each retiree; but by 1960, there were only 5 workers per retiree, and today, as the baby-boom generation (born between 1946 and 1964) begins to retire, that number is under 3 and dropping. In addition, the government has been spending the accumulated Social Security money instead of leaving it in a Social Security account.

Soon, less money will be coming into Social Security than will be going out. The government will have to do something to make up for the shortfall: raise taxes, reduce Social Security benefits (e.g., raise the retirement age at which people qual-

ify for payments), reduce spending elsewhere (e.g., in other social programs like Medicare or Medicaid), or borrow on the world market.

In short, paying Social Security to senior citizens in the future will draw huge amounts of money from the working population. That is why there is so much discussion in the media today about what to do with Social Security.

**The Increase in the Number of Single-Parent Families** It is a tremendous task to work full-time and raise a family. Thus, the rapid growth of single-parent households has also had a major effect on businesses. Single parents, including those forced by welfare rules to return to work after a certain benefit period, have encouraged businesses to implement programs such as family leave (giving workers time off to attend to a sick child or elder relative) and flextime (allowing workers to arrive or leave at selected times). You will read about such programs in more detail in Chapter 11.

## LEARNING goal 7

Identify what businesses must do to meet global challenges, including war and terrorism.

## The Global Environment

The global environment of business is so important that we show it as surrounding all other environmental influences (see again Figure 1.3). Two important changes here are the growth of global competition and the increase of free trade among nations.



World trade, or *globalization*, has grown thanks to the development of efficient distribution systems (we'll talk about these in Chapter 15) and communication advances such as the Internet. Globalization has greatly improved living standards around the world. China and India have become major U.S. competitors. Lenovo, a Chinese firm, bought IBM's PC unit. Shop at Walmart and most other U.S. retail stores, and you can't help but notice the number of "Made in China" stickers you see. Call for computer help, and you are as likely to be talking with someone in India as someone in the United States.

World trade has its benefits and costs. You'll read much more about its importance in Chapter 3 and in the Reaching Beyond Our Borders boxes throughout the text.

**War and Terrorism** The wars in Iraq and Afghanistan have drawn billions of dollars from the U.S. economy. Some companies—like those that make bullets, tanks, and uniforms—have benefited greatly. Others, however, have lost workers to the armed forces, and still others (e.g., tourism) have grown more slowly as money has been diverted to the war effort. The threat of other wars and terrorism leads the government to spend even more money on the military. Such expenditures are subject to much debate, especially as the United States responds to an economic recession. Note the increased unrest in the world as people in other nations are demanding more freedom.

The threat of terrorism also adds greatly to organizational costs, including the cost of insurance. In fact, some firms are finding it difficult to get insurance against terrorist attacks. Security, too, is costly. Airlines, for example, have had to install stronger cockpit doors and add more passenger screening devices.

Like all citizens, businesspeople benefit from a peaceful and prosperous world. One way to lessen international tensions is to foster global economic growth among both profit-making and nonprofit organizations.

**How Global Changes Affect You** As businesses expand to serve global markets, new jobs will be created in both manufacturing and service industries. Global trade also means global competition. The students who will prosper will be those prepared for the markets of tomorrow. Rapid changes create a need for continuous learning, so be prepared to continue your education throughout your career. You'll have every reason to be optimistic about job opportunities in the future if you prepare yourself well.

**The Ecological Environment** Few issues have captured the attention of the international business community more than climate change. **Climate change** is the movement of the temperature of the planet up or down over time. The issue now is global warming, but the issue may become global cooling. Some of the world's largest firms—including General Electric, Coca-Cola, Shell, Nestlé, DuPont, Johnson & Johnson, British Airways, and Shanghai Electric—say the evidence for climate change is overwhelming. Saving energy and producing products that cause less harm to the environment is a trend called **greening**.<sup>26</sup> Greening has become such a pervasive issue that we devote boxes to that subject throughout the text. (See the nearby Thinking Green box for things you can do to contribute to the cause.)

#### climate change

The movement of the temperature of the planet up or down over time.

#### greening

The trend toward saving energy and producing products that cause less harm to the environment.

### progress assessment

- What are four ways the government can foster entrepreneurship?
- What's the difference between effectiveness, efficiency, and productivity?
- What is *empowerment*?
- What are some of the major issues affecting the economy today?



## THINKING green



### Getting Involved Personally

There is little doubt humans can take action to protect the environment. What can we do now to start?

It's not necessary to change your lifestyle radically in order to make a difference. Simply heating or cooling your apartment or house more efficiently is a good start. Why not buy a reusable grocery bag? You can recycle paper and containers. You can walk or ride a bike instead of driving. You can reduce your use of electrical equipment and of water (pumping water takes a lot of electricity). Buy produce that is grown

locally to save the energy used in shipping food from faraway places. If you're in the market for a car, you could "go green" by buying a hybrid or a small, fuel-efficient car.

The idea is to become more ecologically aware and join others throughout the world in using less energy and emitting less carbon into the atmosphere. Everyone benefits when the air is cleaner. That's part of what the green movement is all about.

### LEARNING goal 8

Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.

## THE EVOLUTION OF U.S. BUSINESS

Businesses in the United States have become so productive that they need fewer workers than ever before to produce goods. If global competition and improved technology are putting skilled people out of work, should we be concerned about the prospect of high unemployment rates and low incomes? Where will the jobs be when you graduate? These important questions force us all to look briefly at the U.S. economy and its future.

### Progress in the Agricultural and Manufacturing Industries

The United States has experienced strong economic development since the 1800s. The agricultural industry led the way, providing food for the United States and much of the world. Cyrus McCormick's invention of the harvester in 1834, other inventions such as Eli Whitney's cotton gin, and modern improvements on such equipment did much to make large-scale farming successful. Technology has made modern farming so efficient that the number of farmers has dropped from about 33 percent of the population to about 1 percent today. However, average farm size is now about 450 acres versus 160 acres in the past.

Agriculture is still a major industry in the United States. What has changed is that the millions of small farms that existed previously have been replaced by some huge farms, some merely large farms, and some small but highly specialized farms. The loss of farm workers over the past century is not a negative sign. It is instead an indication that U.S. agricultural workers are the most productive in the world.



Most farmers who lost their jobs during the 19th and 20th centuries went to work in factories springing up around the country. Manufacturers, like farms, began using technology like tools and machines to become more productive. Eventually the consequence in manufacturing, as in farming, was the elimination of many jobs.

Again, the loss to society is minimized if the wealth created by increased productivity and efficiency creates new jobs elsewhere—and that's exactly what has happened over the past 50 years. Many workers in the industrial sector found jobs in the growing service sector. Most of those who can't find work today are people who need retraining and education to become qualified for jobs that now exist or will exist in the near future, like building wind farms or making electric automobiles. We'll discuss the manufacturing sector and production in more detail in Chapter 9.



*Agriculture is one of the largest and most important industries in the US. Technology has increased productivity and made farmers more efficient, allowing for larger farms. This trend has reduced the price of food for consumers, but has also reduced the number of small, family-run farms. Does the new technology also help smaller farms compete? How?*

## Progress in Service Industries

In the past, the fastest-growing industries in the United States produced goods like steel, automobiles, and machine tools. Today, the fastest-growing firms provide services in areas like law, health, telecommunications, entertainment, and finance.

Together, services make up about 70 percent of the value of the U.S. economy. Since the mid-1980s, the service industry has generated almost all the increases in employment. Although service-sector growth has slowed, it remains the largest area of growth. Chances are very high that you'll work in a service job at some point in your career. Figure 1.4 lists many service-sector jobs; look it over to see where the careers of the future are likely to be. Retailers like American Eagle are part of the service sector. Each new retail store can create managerial jobs for college graduates.

Another bit of good news is that there are *more* high-paying jobs in the service sector than in the goods-producing sector. High-paying service-sector jobs abound in health care, accounting, finance, entertainment, telecommunications, architecture, law, software engineering, and more. Projections are that some areas of the service sector will grow rapidly, while others may have much slower growth. The strategy for college graduates is to remain flexible, find out where jobs are being created, and move when appropriate.<sup>27</sup>

## Your Future in Business

Despite the growth in the service sector we've described above, the service era now seems to be coming to a close as a new era is beginning. We're in the midst of an information-based global revolution that will alter all sectors of the economy: agricultural, industrial, and service. It's exciting to think about the role you'll play in that revolution. You may be a leader who will implement the changes and accept the challenges of world competition based on world quality standards. This book will introduce you to some of the concepts that make such leadership possible, not just in business but also in government agencies and nonprofit organizations. Business can't prosper in the future without the cooperation of government and social leaders throughout the world.



There's much talk about the service sector, but few discussions actually list what it includes. Here's a representative list of services as classified by the government:

<b>Lodging Services</b>		<b>Amusement and Recreation Services</b>	
Hotels, rooming houses, and other lodging places		Restaurants	Racetracks
Sporting and recreation camps		Symphony orchestras	Golf courses
Trailer parks and camp sites for transients		Pool halls	Amusement parks
		Bowling alleys	Carnivals
		Fairs	Ice skating rinks
		Botanical gardens	Circuses
		Video rentals	Infotainment
<b>Personal Services</b>		<b>Health Services</b>	
Laundries	Child care	Physicians	Nursery care
Linen supply	Shoe repair	Dentists	Medical labs
Diaper service	Funeral homes	Chiropractors	Dental labs
Carpet cleaning	Tax preparation		
Photographic studios	Beauty shops		
Health clubs			
<b>Business Services</b>		<b>Legal Services</b>	
Accounting	Exterminating	<b>Educational Services</b>	
Ad agencies	Employment agencies	Libraries	Computer schools
Collection agencies	Computer programming	Schools	Online schools
Commercial photography	Research & development labs		
Commercial art	Management services		
Stenographic services	Public relations		
Window cleaning	Detective agencies		
Consulting	Interior design		
Equipment rental	Web design		
Tax preparation	Trash collection		
<b>Automotive Repair Services and Garages</b>		<b>Social Services</b>	
Auto rental	Tire retreading	Child care	Family services
Truck rental	Exhaust system shops	Job training	Elder care
Parking lots	Car washes		
Paint shops	Transmission repair		
<b>Miscellaneous Repair Services</b>		<b>Noncommercial Museums, Art Galleries, and Botanical and Zoological Gardens</b>	
Radio and television	Welding	<b>Selected Membership Organizations</b>	
Watch	Sharpening	Business associations	Civic associations
Reupholstery	Septic tank cleaning		
<b>Motion Picture Industry</b>		<b>Financial Services</b>	
Production	Theaters	Banking	Real estate agencies
Distribution	Drive-ins	Insurance	Investment firms (brokers)
		<b>Miscellaneous Services</b>	
		Architectural	Surveying
		Engineering	Utilities
		Telecommunications	Lawn care
		Vending	Delivery

figure 1.4

WHAT IS THE SERVICE  
SECTOR?

progress assessment

- What major factor caused people to move from farming to manufacturing and from manufacturing to the service sector?
- What does the future look like for tomorrow's college graduates?



## summary

Learning Goal 1. Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

- **What is the relationship of businesses' profit to risk assumption?**

*Profit* is money a business earns above and beyond the money that it spends for salaries and other expenses. Businesspeople make profits by taking risks. *Risk* is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable. A loss occurs when a business's costs and expenses are higher than its revenues.

- **Who are stakeholders, and which stakeholders are most important to a business?**

Stakeholders include customers, employees, stockholders, suppliers, dealers, bankers, the media, people in the local community, environmentalists, and elected government leaders. The goal of business leaders is to try to recognize and respond to the needs of these stakeholders and still make a profit.

Learning Goal 2. Compare and contrast being an entrepreneur and working for others.

- **What are the advantages and disadvantages of entrepreneurship?**

Working for others means getting benefits like paid vacations and health insurance. Entrepreneurs take more risks and lose those benefits. They gain the freedom to make their own decisions, more opportunity, and possible wealth.

- **What are the five factors of production?**

The five factors of production are land, labor, capital, entrepreneurship, and knowledge. Of these, the most important are entrepreneurship and knowledge. Entrepreneurs are people who risk time and money to start and manage a business. What makes rich countries rich today is a combination of *entrepreneurship* and the effective use of *knowledge*.

Learning Goal 3. Analyze the effects of the economic environment and taxes on businesses.

- **What can governments in developing countries do to reduce the risk of starting businesses and thus help entrepreneurs?**

The government may allow private ownership of businesses, pass laws that enable businesspeople to write contracts that are enforceable in court, establish a currency that's tradable in world markets, help to lessen corruption in business and government, and keep taxes and regulations to a minimum. From a business perspective, lower taxes mean lower risks, more growth, and thus more money for workers and the government.

Learning Goal 4. Describe the effects of technology on businesses.

- **How has technology benefited workers, businesses, and consumers?**

Technology enables workers to be more effective, efficient, and productive. *Effectiveness* means doing the right thing in the right way. *Efficiency* means producing items using the least amount of resources. *Productivity* is the amount of output you generate given the amount of input (e.g., hours worked).



Learning Goal 5. Demonstrate how businesses can meet and beat competition.

- **What are some ways in which businesses meet and beat competition?**

Some companies have found a competitive edge by focusing on making high-quality products, all the way to zero defects. Companies also aim to exceed customer expectations. Often that means *empowering* frontline workers by giving them more training and more responsibility and authority.

Learning Goal 6. Analyze the social changes affecting businesses.

- **How have social changes affected businesses?**

Diversity has come to mean much more than recruiting and keeping minority and female employees. Diversity efforts now include seniors, disabled people, homosexuals, atheists, extroverts, introverts, married people, singles, and the devout. It also means dealing sensitively with workers and cultures around the world. Providing Social Security benefits to senior citizens in the future will draw huge amounts of money from the working population. That is why there is so much discussion about Social Security in the media today.

Learning Goal 7. Identify what businesses must do to meet global challenges, including war and terrorism.

- **Which countries are creating the greatest challenges?**

China and India are two major competitors.

- **What will be the impacts of future wars and terrorism?**

Some businesses, such as those in the defense industry, may prosper. Others, such as tourism, may suffer. One way to minimize world tensions is to help less developed countries to become more prosperous.

Learning Goal 8. Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.

- **What is the history of our economic development in the United States, and what does it tell us about the future?**

Agricultural workers displaced by improved farm technology went to work in factories. Improved manufacturing productivity and increased competition from foreign firms contributed to the development of a service economy in the United States. The service era is now giving way to an information-based global revolution that will affect all sectors of the economy. The secret to long-term success in such an economy is flexibility and continuing education to be prepared for the opportunities that are sure to arise.

- **What job opportunities for college graduates exist in the service sector?**

Check over Figure 1.4, which outlines the service sector. That is where you are most likely to find the fast-growing firms of the future.

## key terms

business 4

business

environment 11

climate change 19

database 16

demography 17

e-commerce 15

empowerment 17

entrepreneur 4

factors of

production 9

goods 4

greening 19

identity theft 16

loss 4

nonprofit

organization 7

outsourcing 7



productivity 15  
profit 4  
quality of life 6

revenue 4  
risk 5  
services 4

stakeholders 6  
standard of living 5  
technology 14

## critical thinking

Imagine you are thinking of starting a restaurant in your community. Answer the following questions:

1. Who will be the various stakeholders of your business?
2. What are some of the things you can do to benefit your community other than providing jobs and tax revenue?
3. How will you establish good relationships with your suppliers? With your employees?
4. Do you see any conflict between your desire to be as profitable as possible and your desire to pay employees a living wage?
5. Which of the environmental factors outlined in this chapter might have the biggest impact on your business? How?

## developing workplace skills

1. Poll the class and determine which students believe that climate change is primarily caused by humans and which believe that other factors, such as climate cycles or sun spots, are the primary cause. Discuss what students can do to minimize human effects on the environment regardless of the primary causes of climate change. Are there any negative consequences to trying to minimize humans' impact on the environment?
2. Imagine you are a local businessperson who has to deal with the issue of outsourcing. You want to begin with the facts. How many, if any, jobs have been lost to outsourcing in your area? Are there any foreign firms in your area that are creating jobs (insourcing)? You may want to use the Internet to find the data you need.
3. What indicates that you and other people in the United States have a high standard of living? What are some signs that maintaining such a high standard of living may have a negative impact on quality of life?
4. Look through your local phone book to find five businesses that provide services in your area. List those businesses and, for each, describe how social trends might affect them in both positive and negative ways. Be prepared to explain your descriptions.
5. Form into teams of four or five and discuss the technological and e-commerce revolutions. How many students now shop for goods and services online? What have been their experiences? What other high-tech equipment do they use (iPhones, iPads, laptops, etc.)?



## taking it to the net

### Purpose

To learn what changes are occurring in the business environment today and how those changes are affecting businesses.

### Exercise

1. Go to the National Taxpayers Union website ([www.ntu.org](http://www.ntu.org)) "Who Pays Income Taxes? See Who Pays What." Study the tables showing what percent of taxes the various income groups pay. Do you think that businesspeople pay their fair share? What percent of taxes does the top 1 percent of earners pay? What about the top 5 percent? The lowest 50 percent? How do such tax rates affect incentives to become a successful entrepreneur?
2. Go to the Census Bureau's website ([www.census.gov](http://www.census.gov)) and learn what the population of the United States is at this moment. While at the site, you may want to look up the population in your town or city. Explore what other data are available at this site. What trends seem most important to you and to businesspeople in general?
3. Do a Google search for "business blogs" and check out some of the available results. Go to one of the blogs that seems interesting to you and write a brief paragraph about it—including such things as who sponsors it, who contributes the posts, and what other features it has—and how it may help a student in an introductory business course.

## casing the web

To access the case "Moving Up the Corporate Ladder," visit [www.mhhe.com/ubl0e](http://www.mhhe.com/ubl0e)

## video case

To access the video case featuring Redbox, visit [www.mhhe.com/ubl0e](http://www.mhhe.com/ubl0e)



