Chapter 1: Business Now: Change Is the Only Constant
(pp. 2-0)

Business Now: Change Is the Only Constant: Chapter Objectives

LEARNING OBJECTIVES

After studying this chapter, you will be able to...

LO1 Define business and discuss the role of business in the economy
LO2 Explain the evolution of modern business

LO3 Discuss the role of nonprofit organizations in the economy

LO4 Outline the core factors of production and how they affect the economy

LO5 Describe today's business environment and discuss each key dimension

LO6 Explain how current business trends might affect your career choices

P. 2

“WHETHER YOU THINK THAT YOU CAN, OR THAT YOU CAN’T, YOU ARE USUALLY RIGHT.”

— HENRY FORD, FOUNDER,

FORD MOTOR COMPANY

LO1 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. And powerful new trends surface and submerge, sometimes within less than a year. In this fast-paced, fluid environment, change is the only constant.

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.

Over the past few years, the explosive growth in Face-book and Twitter have played a pivotal part in forging a new role for both businesses and consumers in today’s dynamic business environment. In a nod to Twitter, AdvertisingAge magazine dug through the most recent Census data and identified a host of trends in a “Twitter-Ready” 140 character format. Among the highlights:
The median household income in the U.S. is roughly $50,000.
The top 40% of Americans earn 75% of the money.
Four in ten kids are born to single moms.
By 2010, birthrates had dropped to an all-time record low.
60% of Americans now live in the South and West Regions.
26% of men make six or more cell phone calls a day.

### 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 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, buy or 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 enterprise. Despite the economic meltdown of 2008, American business start-ups in 2009 reached their highest level in 14 years.

You’ve probably noticed the entrepreneurial ambition among your peers, since more than 40% of college freshmen plan to launch their own business at some point in their career—and many actually begin the process while in college. People who risk their time, money, and other resources to start and manage a business are called **entrepreneurs**.

The *Forbes* list of the richest Americans highlights the astounding ability of the entrepreneurial spirit to build wealth. The top ten—featured in Exhibit 1.1—include multiple members of the Walton family who were not themselves entrepreneurs: their money comes from retail powerhouse Walmart, founded by brilliant, eccentric entrepreneur Sam Walton.

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, in the last thirty years, literally all net job creation in this country has taken place in firms less than five years old. Multiply the impact by thousands of entrepreneurs—each working in his or her own self-interest—and you can see how the profit motive benefits virtually everyone.

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

### LO2 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
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.

### EXHIBIT 1.1 The Richest Americans 2010, *Forbes Magazine*

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Ooops! What were they thinking?: Not Every Dumb Move Is an Utter Disaster...
In the wake of disastrous mistakes and outrageous mismanagement across our economy, it might be tough to remember that some mistakes are actually pretty amusing. But BNET Website collected a number of examples that might help remind you.\(^5\) A sampling:

- **“We care—NOT!!”** After shipping nearly 12 million potentially defective computers, a lawsuit against Dell alleges that the firm offered its sales force training that included tips such as: “Don't bring this to customer's attention proactively” and “Emphasize uncertainty.”

- **The wrong kind of stimulus:** According to the Social Security Administration's Inspector General, more than 17,000 prison inmates and almost 72,000 dead people received economic stimulus checks from the federal government, totalling $22.3 million.

- **Do those chips come with ear plugs?:** In 2010, PepsiCo, noisily introduced biodegradable packaging for its Sun Chips brand, but soon switched back to its non-recyclable bags, after Facebook groups popped up with names such as: “Sorry but I can't hear you over this Sun Chips bag” and “I wanted Sun Chips but my roommate was sleeping.” Testing indicated that the complainers had a legitimate point. Opening the biodegradable bags created more than 100 decibels of noise (similar to the noise level of a jet taking off at a distance of 300 meters).

- **Accidental Cyber-Snooping:** As Google sent its “Street View” cars all over the world collecting panoramic images for uploading into GoogleMaps, the firm “unintentionally” collected and retained, among other things, passwords and complete email messages picked up from unsecured Wi-Fi networks.

- **Wasted time or well worthwhile?** To celebrate the 30th anniversary of Pac-Man in 2010, engineers at Google turned the site's home page into a fully functional version of the game, wasting an estimated 4.8 million hours of the world's time and more than $120 million in lost productivity.

- **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 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.

When in doubt, we usually don't!
Most of us can probably think of a time when we should have taken some action, but instead we did nothing, because doing nothing was easier.... Enter the choice architects, behavioral scientists, who claim that businesses, governments, and other institutions can engineer our options to “nudge” us into making choices that are (ideally) more socially desirable, or (from a business standpoint) more profitable than the choices that we'd make on our own. A couple of examples:

- **Better Aim:** As most women who share toilets with men can attest, even the best-intentioned men don’t seem to, uh, aim well when it comes to toilet hygiene. In busy restrooms, this is more than just a gross annoyance; dirty bathrooms increase cleaning costs and undermine brand image. Aad Kiedboon, an economist who worked for the Schiphol International Airport in Amsterdam, tackled this issue by etching the image of a black housefly onto the bowls of the airport's urinals, just to the left of the drain. As a result, “spillage” decreased 80%.

- **Musical Stairs:** In response to rising obesity rates, the city of Stockholm has retrofitted a staircase in its Odenplan subway station to resemble giant piano keys, which produce real sound, to encourage commuters to climb the stairs rather than ride the escalator. Hidden video footage suggests that so far it's been a resounding success—well used and fun for everyone.

Advocates argue that choice architects work for the good of society, encouraging—but never coercing—people to make positive choices. Critics argue that choice architects are manipulative—shoving rather than nudging, which interferes with peoples’ freedom of choice. In the wrong hands, that can be dangerous. What is your perspective? In the hands of business, will choice architecture ultimately be positive or negative?

- **The Marketing Era:** After WWII, 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 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. And cultivating current customers is more profitable than constantly seeking new ones. One key tool is technology. Using the Web and other digital resources, businesses gather detailed information about their customers and use these data to serve them better.
LO3 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, 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

Many businesses work with nonprofits to boost their impact in the community. AP Images/Tyler Morning Telegraph, Tom Worner

LO4 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.) 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.8

**LO5 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 1.2.
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, neither businesses nor individuals could borrow money to meet their needs. Economic turmoil in the United States spread quickly around the world, fueling a global economic crisis.

But through 2009, the U.S. economy began to recover, although unemployment remained high. The Federal Reserve—the U.S. central banking system—took unprecedented, proactive steps to encourage an economic turnaround. And 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, will be more national debt, which could counterbalance some of the benefits.)

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 of the government policies that support business is the relatively low federal tax rate, both for individuals and businesses. And President Obama has proposed lowering the tax rate even further for a large swath of individual taxpayers 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 company to supply your silk screening business with 1,000 blank tee shirts at $4.00 per piece, that firm must comply or face legal consequences. The firm can't wait until a day before delivery and jack up the price to $8.00 per piece, because you would almost certainly respond with a successful lawsuit. Many U.S. business people take enforceable contracts for granted.

**Flex Your Creativity: Use Boredom to Build Your Brain**

Next time you're checked out when you really ought to be paying attention, consider that you might be actually building your brainpower rather than melting it. A growing body of research about boredom suggests that boredom “should be recognized as a legitimate human emotion that can be central to learning and creativity.” One reason may be that creative problem solving taps into many different parts of our brains. Boredom may give us an opportunity to activate our less-used cerebral resources, triggering those magical “Aha!” moments that seem to happen whenever we're not trying too hard. Experiments in the 1970s suggested that boredom actually “had the power to exert pressure on individuals to stretch their inventive capacity.” So, next time you're bored, don’t be too quick to whip out your smartphone—you may be cheating yourself (and the world) of your next big creative breakthrough.
but in a number of developing countries—which offer some of today’s largest business 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 risk 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 ethical meltdowns at major corporations such as Enron and WorldCom, 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 opportunity.

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 Dr. Pepper, Olive Garden restaurants, and Northwestern Mutual life insurance lead their industries in customer satisfaction, which translates into higher profits even when the competition is tough.\(^{10}\)

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.

A recent ranking study by consulting firm Interbrand highlights brands that use imagination and innovation to deliver value to their customer. Exhibit 1.3 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

| EXHIBIT 1.3 2010 Global Brand Champions and the Ones to Watch, BusinessWeek and Interbrand |
|-----------------------------------------------|---------------------------------|----------------|
| MOST VALUABLE | BIGGEST GAINERS / BRANDS | PERCENTAGE GAIN |
| 1. COCA-COLA | 1. Apple | +37% |
| 2. IBM | 2. Google | +36% |
| 3. MICROSOFT | 3. Blackberry | +32% |
| 4. GOOGLE | 4. JP Morgan | +29% |
| 5. GE | 5. Allianz | +28% |
| 6. MCDONALD'S | | |

\(^{10}\)
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. Leading-edge firms, on the other hand, offer products just as the market becomes ready to embrace them.11

Apple provides an excellent example of leading edge. You may be surprised to learn that Apple—which controls about 70%12 of the digital music player market—did not offer the first MP3 player. Instead, it surveyed the existing market to help develop a new product, the iPod, which was far superior in terms of design and ease-of-use. But Apple didn't stop with one successful MP3 player. Racing to stay ahead, they soon introduced the colorful, more affordable iPod mini. And before sales reached their peak, they launched the iPod Nano, which essentially pulled the rug from under the blockbuster iPod mini just a few short months before the holiday selling season. Why? If they hadn't done it, someone else may well have done it instead. And Apple is almost manically focused on maintaining its competitive lead.13

The Workforce Advantage

Employees can contribute another key dimension to a firm's competitive edge. Recent research suggests that investing in worker satisfaction yields tangible, bottom-line results. The researchers evaluated the stock price of Fortune magazine's annual list of the “100 Best Companies to Work for in America” to the SandP 500, which reflects the overall market. In 2009, the heart of the Great Recession, the firms with the highest employee satisfaction provided a 10.3% annual return, compared to a 2.95% return for the firms in the SandP 500. While the critical difference in performance most likely stemmed from employee satisfaction, other factors—such as excellent product and superb top management—likely also played a role in both employee satisfaction and strong stock performance.14

Finding and holding the best talent will likely become a crucial competitive issue in the next decade, as the baby boom generation begins to retire. The 500 largest U.S. companies anticipate losing about half of their senior managers over the next five to six years. Since, January 1, 2011, 10,000 baby boomers began to turn 65 (the traditional retirement age) every day, and the Pew Research Center anticipates that this trend will continue for 19 years. Replacing the skills and experience these workers bring to their jobs may be tough: baby boomers include about 77 million people, while the generation that follows includes only 46 million. Firms that cultivate human resources now will find themselves better able to compete as the market for top talent tightens.15

The Technological Environment

The broad definition of business technology includes any tools that businesses can use to become more efficient and effective. But more specifically, in today's world, business technology usually refers to computers, telecommunications, and other digital tools. Over the past few decades, the impact of digital technology on business has been utterly transformative. New industries have emerged, while others have disappeared. And some fields—
such as travel, banking, and music—have changed dramatically. Even in

Motivated Apple employees help create satisfied Apple customers. © David Butow/Bloomberg via Getty Images

Innovation: For Better or for Worse
Creativity matters, not just for individual businesses, but also for the overall economy. And with global competition, the stakes are high. The editors of *Encyclopedia Britannica* recently explored creativity over time and across countries, compiling a list of the 100 greatest inventions of all time. The editors chose the winners—which they did not rank—based on how profoundly the innovations have affected human life—for better or for worse. Before you read further, consider which inventions you would place on the list. How have they affected human life? What inventions would you expect to find on the list in the future?

Many of the citations are not surprising, such as the computer, eyeglasses, gunpowder, candles, vaccinations, and the atomic bomb. Others are somewhat amusing, including disposable diapers (which have improved the quality of life for millions of parents worldwide!), cat litter, Astroturf (artificial grass), and Post-it notes. A few citations, such as Muzak (generic “elevator music”), and bikinis, are somewhat puzzling, although they have clearly permeated contemporary culture.

While most of the inventions on this top 100 list are fairly recent, some are older than you might think. Flush toilets, for instance, have been around since the 1500s, although toilet tissue wasn't invented until 1857. Vending machines were invented in Egypt sometime between 200 and 100 BC. And the construction nail was invented by the Sumerians in about 3300 BC.

Interestingly, over the last century, corporations, rather than individuals, have been responsible for a growing number of key innovations. Examples include the Camcorder (Sony), the laptop computer (Radio Shack), and Viagra (Pfizer). This trend is only likely to build momentum as global competition intensifies.

The United States, despite our relatively short history, dominates the list of greatest inventions, with 162 of 325 mentions, or just under 50%. One reason may be that our nation celebrates individuality, creativity, and, of course, the profit incentive. If we continue to flex our creative muscles, we could find ourselves with a competitive edge far into the twenty-first century.

Sometimes, accessing creativity is simply a matter of asking the right questions. Nottingham-Spirk, a successful industrial design firm responsible for a string of blockbuster new product hits, constantly asks questions of its own inventors, from the mild (e.g., “What can we so to make this 'NICE' product a 'WOW'?”) to the wild (e.g., “What if the candy bar could levitate?”). And the firm uses the answers to all of these questions to drive innovation.  

categories with relatively unchanged products, companies have leveraged technology to streamline production and create new efficiencies. Examples include new processes such as computerized billing, digital animation, and robotic
manufacturing. For fast-moving firms, the technological environment represents a rich source of competitive advantage, but it clearly can be a major threat for companies that are slow to adopt or to integrate new approaches.

The creation of the *World Wide Web* has transformed not only business, but also people's lives. Anyone, anywhere, anytime can use the Web to send and receive images and data (as long as access is available). One result is the rise of *e-commerce* or online sales, which allow businesses to tap into a worldwide community of potential customers. In the wake of the global economic crisis, e-commerce has slowed from the breakneck 20%+ growth rates of the last five years, but even so, analysts predict that solid single-digit growth will continue. Business-to-business selling comprises the vast majority of total e-commerce sales (and an even larger share of the profits). A growing number of businesses have also connected their digital networks with suppliers and distributors to create a more seamless flow of goods and services.¹⁷
Alternative selling strategies thrive on the Internet, giving rise to a more individualized buying experience. If you've browsed seller reviews on eBay or received shopping recommendations from Amazon, you'll have a sense of how personal web marketing can feel. Online technology also allows leading-edge firms to offer customized products at prices that are comparable to standardized products. On the Scion website, for instance, customers can build their own car and “see it inside and out, with full rotation and zooming” while sitting at home in their pajamas.

As technology continues to evolve at breakneck speed, the scope of change—both in everyday life and business operations—is almost unimaginable. In this environment, companies that welcome change and manage it well will clearly be the winners.

The Social Environment

The social environment embodies the values, attitudes, customs, and beliefs shared by groups of people. It also covers demographics, or the measurable characteristics of a population. Demographic factors include population size and density and specific traits such as age, gender, race, education, and income. Clearly, given all these influences, the social environment changes dramatically from country to country. And a nation as diverse as the United States features a number of different social environments. Rather than cover the full spectrum, this section will focus on the broad social trends that have the strongest impact on American business. Understanding the various dimensions of the social environment is crucial, since successful businesses must offer goods and services that respond to it.

Diversity

While the American population has always included an array of different cultures, the United States has become more ethnically diverse in recent years. Caucasians continue to represent the largest chunk of the population at 66%, but the Hispanic and Asian populations are growing faster than any other ethnic groups. If current trends continue, according to the Pew Research Center, the overwhelming bulk of growth in the U.S. population in the coming decades will be due to immigration. In fact, by 2050, about 19% of Americans will be immigrants, compared with 12%
in 2005. The Latino population will triple in size, and the Caucasian population will drop to less than half the U.S. population.\textsuperscript{18} Exhibit 1.4 demonstrates the shifting population breakdown.

But the national statistics are somewhat misleading, since ethnic groups tend to cluster together. African Americans, for example, currently comprise about 38\% of the Mississippi population, Asians comprise about 58\% of the Hawaii population, and Hispanics comprise about 47\% of the New Mexico population.\textsuperscript{19}

So what does this mean for business? Growing ethnic populations offer robust profit potential for firms that pursue them. For instance, a number of major corporations such as AutoZone, Kellogg, Anheuser-Busch, PepsiCo, and

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{chart.png}
\caption{U.S. Population Estimates}
\end{figure}

\textbf{EXHIBIT 1.4 U.S. Population Estimates}


\section*{Green Jeans: A Fashion Statement that Really Matters}

Environmentalists have known for years that the greenest fashion statements they can make is to buy little, wash less, and keep stuff longer. Eager to head in a different direction, Levi Strauss introduced organic cotton blue jeans in 2007. This seemed to be an eco-friendly move, since cotton represents only a small fraction of the world's crops, yet uses about 25\% of the world's pesticides. But more recently, Levi's has taken a more comprehensive look at its production processes and realized that cotton use is only one small part of its overall impact on the environment. In fact, over the lifetime of its famous 501 jeans, from the cotton fields needed to make the fabric to consumers' tossing their dirty dungarees in the washing machine, each pair uses up 3,480 L of water, which is the equivalent of running a garden hose for 106 minutes. To help conserve water, a vital, increasingly scarce resource, Levi's revamped its production process and introduced Water<Less jeans, in early 2011. On average, the jeans, which cost the same as conventional ones, use 28\% less water in the finishing process. Multiply that by the more than 1.5 million pairs of Water<Less jeans Levi's expects to sell in the first few months on the market, and the savings add up to approximately 16 million L of water. While the Water<Less jeans come in several different colors, they can all safely be called green jeans.\textsuperscript{20}

Procter and Gamble have invested heavily in the Hispanic market over the past five years. A recent study shows that these heavy-hitters have realized an impressive $4 return on each $1 that they invested in Hispanic marketing. Targeting an ethnic market can also yield remarkable results for products that cross over into mainstream culture. Music mogul and entrepreneur Russell Simmons, for example, initially targeted his music and clothing to the African American market, but his success quickly spilled over to mainstream culture, helping him build a hip-hop empire.\textsuperscript{21}

Growing diversity also affects the workforce. A diverse staff—one that reflects an increasingly diverse marketplace
can yield a powerful competitive advantage in terms of both innovation and ability to reach a broad customer base. From global behemoths such as General Electric to local corner stores, companies have taken proactive steps to hire and nurture people from a broad range of backgrounds. And that doesn't just reflect racial or ethnic roots. True diversity also includes differences in gender, age, religion, and nationality, among other areas. Leading-edge firms have also taken proactive steps to train their entire workforce to manage diversity for top performance.22

Effectively managing diversity should only become easier as time goes by. Multiple studies demonstrate that young American adults are the most tolerant age group, and they are moving in a more tolerant direction than earlier generations regarding racial differences, immigrants, and homosexuality. As this generation gathers influence and experience in the workforce, they are likely to leverage diversity in their organizations to hone their edge in a fiercely competitive marketplace.23

**Aging Population**

As life spans increase and birthrates decrease, the American population is rapidly aging. Its current median age is 36.8 years, and it’s increasing month-by-month. If current trends continue, the nation’s elderly population will more than double between 2005 and 2050, and the number of working-age Americans will shrink from 63% to 58% of the population, dramatically increasing the number of people who are depending on each working American. And the United States isn’t alone in this trend. The population is aging across the developed world, from Western Europe to Japan. China faces the same issue, magnified by its huge population. Demographers estimate that by the middle of the twenty-first century, China will be home to more than 330 million people age 65 or older, who will comprise a whopping 24% of its total population.24

The rapidly aging population brings opportunities and threats for business. Companies in fields that cater to the elderly—such as healthcare, pharmaceuticals, travel, recreation, and financial management—will clearly boom. But creative companies in other fields will capitalize on the trend as well by reimagining their current products to serve older clients. Possibilities include books, movies—maybe even video games—with mature characters, low-impact fitness programs such as water aerobics, and cell phones and PDAs with more readable screens. Again, the potential payoff of age diversity is clear: companies with older employees are more likely to find innovative ways to reach the aging consumer market.

But the larger numbers of retired people also pose significant threats to overall business success. With a smaller labor pool, companies will need to compete even harder for top talent, driving up recruitment and payroll costs. As state and federal governments stretch to serve the aging population, taxes may increase, putting an additional burden on business. And as mid-career workers spend more on elder care, they may find themselves with less to spend on other goods and services, shrinking the size of the consumer market.

**Rising Worker Expectations**

Workers of all ages continue to seek flexibility from their employers. Moreover, following massive corporate layoffs in the early 2000s, employees are much less apt to be loyal to their firms. A recent survey shows that only 59% of employees say they are loyal to their companies, and only 26% believe that their companies are loyal to them. As young people today enter the workforce, they bring higher expectations for their employers in terms of salary, job responsibility, and flexibility—and less willingness to pay dues by working extra-long hours or doing a high volume of “grunt work.” Smart firms are responding to the change in worker expectations by forging a new partnership with their employees. The goal is a greater level of mutual respect through open communication, information sharing, and training. And the not-so-hidden agenda, of course, is stronger, long-term performance.25

**Ethics and Social Responsibility**

With high-profile ethical meltdowns dominating the headlines in the past few years, workers, consumers, and government alike have begun to hold businesses—and the people who run them—to a higher standard. Recent federal legislation, passed in the wake of the Enron fiasco, demands transparent financial management and more
accountability from senior executives. And recognizing their key role in business success, a growing number of consumers and workers have begun to insist that companies play a proactive role in making their communities—and often the world community—better places. Sustainability—doing business today without harming the ability of future generations to meet their needs—has become a core issue in the marketplace, driving business policies, investment decisions, and consumer purchases on an unprecedented scale.²⁶

There need not be any conflict between the environment and the economy.

—AL GORE, NOBEL PEACE PRIZE WINNER

The Global Environment

The U.S. economy operates within the context of the global environment, interacting continually with other economies. In fact, over the last two decades, technology and free trade have blurred the lines between individual economies around the world. Technology has forged unprecedented links among countries, making it cost effective—even efficient—to establish computer help centers in Bombay to service customers in Boston, or to hire programmers in Buenos Aires to make websites for companies in Stockholm. Not surprisingly, jobs have migrated to the lowest bidder with the highest quality—regardless of where that bidder is based.
Often, the lowest bidder is based in China or India. Both economies are growing at breakneck speed, largely because they attract enormous foreign investment. China has been a magnet for manufacturing jobs because of the high population and low wages—an average of 72 cents per hour versus $22.86 per hour in the United States. And India has been especially adept at attracting high-tech jobs, in part because of their world-class, English-speaking university graduates who are willing to work for less than their counterparts around the globe.³⁷

The migration of jobs relates closely to the global movement toward free trade. In 1995, a re-negotiation of the General Agreement on Tariffs and Trade (GATT)—signed by 125 countries—took bold steps to lower tariffs (taxes on imports) and to reduce trade restrictions worldwide. The result: goods move more freely than ever across international boundaries. Individual groups of countries have gone even further, creating blocs of nations with virtually unrestricted trade. Mexico, Canada, and the United States have laid the groundwork for a free-trade mega-market through the North American Free Trade Agreement (NAFTA), and 25 European countries have created a powerful free-trading bloc through the European Union. The free-trade movement has lowered prices and increased quality across virtually every product category, as competition becomes truly global. We'll discuss these issues and their implications in more depth in Chapter 3.

A Multi-Pronged Threat

In the past decade alone, war, terrorism, disease, and natural disasters have taken a horrific toll in human lives across the globe. The economic toll has been devastating as well, affecting businesses around the world. The 9/11 terrorist attacks in New York and Washington, D.C., decimated the travel industry and led to multibillion-dollar government outlays for Homeland Security. In 2002 a terrorist bombing at an Indonesian nightclub killed nearly two hundred people, destroying tourism on the holiday island of Bali. The 2003 deadly epidemic of the SARS flu dealt a powerful blow to the economies of Hong Kong, Beijing, and Toronto. Less than two years later, the Indian Ocean tsunami wiped out the fishing industry on long swaths of the Indian and Sri Lankan coastlines and crippled the booming Thai tourism industry. That same year, in 2005, Hurricane Katrina destroyed homes and businesses alike and brought the Gulf Coast oil industry to a virtual standstill. The war in Iraq—while a boon to the defense industry—has dampened the economic potential of the Middle East. With nationalism on the rise, and growing religious and ethnic tensions around the world, the global economy may continue to suffer collateral damage.³⁸

LO6 Business and You: Making It Personal

Whatever your career choice—from video game developer, to real estate agent, to web designer—business will affect your life. Both the broader economy and your own business skills will influence the level of your personal financial success. In light of these factors, making the right career choice can be a bit scary. But the good news is that experts advise graduating students to “Do what you love.” And this is a hardheaded strategy, not softhearted...
puffery. Following your passion makes dollars and sense in today's environment, which values less routine abilities such as creativity, communication, and caring. These abilities tend to be more rewarding for most people than routine, programmable skills that computers can easily emulate. Following your passion doesn't guarantee a fat paycheck, but it does boost your chances of both financial and personal success.²⁹

The Big Picture

Business today is complex, global, and faster-moving than ever before. Looking forward, the rate of change seems likely to accelerate yet further. While the full impact of the global economic crisis is still unclear, China and India seem poised to gain economic clout, raising worldwide competition to a whole new level. Technology will continue to change the business landscape. And a new focus on ethics and social responsibility will likely transform the role of business in society. This book will focus on the impact of change in every facet of business, from management to marketing to money, with an emphasis on how the elements of business relate to each other, and how business as a whole relates to you.

Careers in Business

Business offers a growing range of exciting career opportunities. The possibilities include: accounting, consulting, customer service, entrepreneurship, finance, human resources, marketing, real estate, retail, and sales. The specifics
of each job would clearly change, depending on the industry and the company, although the core skills in each area would probably be transferable among industries. Entry-level pay is typically fairly low, but top jobs in business command top dollar. Most positions require at least a college degree, although some demand an advanced degree such as an MBA (Master of Business Administration) or a CPA (Certified Public Accountant). As customers, technology, and the business environment continue to change, your job will likely change considerably over the course of your career, regardless of your specific field. To succeed, you must be a fierce competitor, willing and able to actively embrace change.

What else?

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Business Now: Change Is the Only Constant: Rip and Review 1

LO1 Define business and discuss the role of business in the economy

A business is any organization that provides goods and services in an effort to earn a profit. Profit is the money that a business earns in sales, minus expenses, such as the cost of goods and the cost of salaries. Profit potential provides a powerful incentive for people to start their own businesses, or to become entrepreneurs. Successful businesses create wealth, which increases the standard of living for virtually all members of a society.

LO2 Explain the evolution of modern business

Business historians typically divide the history of American business into five distinct eras, which overlap during the periods of transition.

- **Industrial Revolution:** From the mid-1700s to the mid-1800s, technology fueled a period of rapid industrialization. Factories sprang up in cities, leading to mass production and specialization of labor.
- **Entrepreneurship Era:** During the second half of the 1800s, large-scale entrepreneurs emerged, building business empires that created enormous wealth, but often at the expense of workers and consumers.
- **Production Era:** In the early 1900s, major businesses focused on further refining the production process, creating huge efficiencies. The assembly line, introduced in 1913, boosted productivity and lowered costs.
- **Marketing Era:** After WWII, consumers began to gain power. As goods and services flooded the market, the marketing concept emerged: a consumer-first orientation as a guide to business decision-making.
- **Relationship Era:** With the technology boom in the 1990s, businesses have begun to look beyond the immediate transaction, aiming to build a competitive edge through long-term customer relationships.

LO3 Discuss the role of nonprofit organizations in the economy

Nonprofit organizations often work hand in hand with business to improve the quality of life in our society. Nonprofits are business-like establishments that contribute to economic stability and growth. Similar to businesses, nonprofits generate revenue and incur expenses. Their goal is to use any revenue above and beyond expenses to advance the goals of the organization, rather than to make money for its owners. Some nonprofits—such as museums, schools, and theaters—can act as economic magnets for communities, attracting additional investment.
The Relationship Between Nonprofits and Businesses © Cengage Learning 2013

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

business Any organization 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.

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.

nonprofits Business-Wee 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.

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

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

business technology Any tools—especially computers, telecommunications, and other digital products—that businesses can use to become more efficient and effective.

World Wide Web The service that allows computer users to easily access and share information on the Internet in the form of text, graphics, video, apps, and animation.

e-commerce Business transactions conducted online, typically via the Internet.

demographics The measurable characteristics of a population. Demographic factors include population size and density and specific traits such as age, gender, and race.
free trade An international economic and political movement designed to help goods and services flow more freely across international boundaries.

General Agreement on Tariffs and Trade (GATT) An international trade agreement that has taken bold steps to lower tariffs and promote free trade worldwide.

LO4 Outline the core factors of production and how they affect the economy

The four factors of production are the fundamental resources that both businesses and nonprofits use to achieve their objectives.

1. **Natural resources**: All inputs that offer value in their natural state, such as land, fresh water, wind, and mineral deposits. The value of natural resources tends to rise with high demand, low supply, or both.
2. **Capital**: The manmade resources that an organization needs to produce goods or services. The elements of capital include machines, tools, buildings, and technology.
3. **Human resources**: The physical, intellectual, and creative contributions of everyone who works within an economy. Education and motivation have become increasingly important as technology replaces manual labor jobs.
4. **Entrepreneurship**: Entrepreneurs take the risk of launching and operating their own businesses. Entrepreneurial enterprises can create a tidal wave of opportunity by harnessing the other factors of production.

LO5 Describe today's business environment and discuss each key dimension

Accelerating change marks every dimension of today's business environment.

- **Economic environment**: In late 2008, the U.S. economy plunged into a deep financial crisis. The value of the stock market plummeted, companies collapsed, and the unemployment rate soared. The president, Congress, and the Federal Reserve took unprecedented steps—including a massive economic stimulus package—to encourage a turnaround.
- **Competitive environment**: As global competition intensifies, leading-edge companies have focused on long-term customer satisfaction as never before.
- **Technological environment**: The recent digital technology boom has transformed business, establishing new industries and burying others.
- **Social environment**: The U.S. population continues to diversify. Consumers are gaining power, and society has higher standards for business behavior. Sustainability has become a core marketplace issue.

![The Business Environment](image_url)
Global environment: The U.S. economy works within the context of the global environment. The worldwide recession has dampened short-term opportunities, but China and India continue their rapid economic development.

LO6 Explain how current business trends might affect your career choices

With automation picking up speed, many traditional career choices have become dead ends. But some things—including empathy, creativity, change management, and great communication—can't be digitized. Having these skills can provide you with personal and financial opportunity.

Footnotes


13. See note 12 above.


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