

CONTEMPORARY BUSINESS

17TH EDITION



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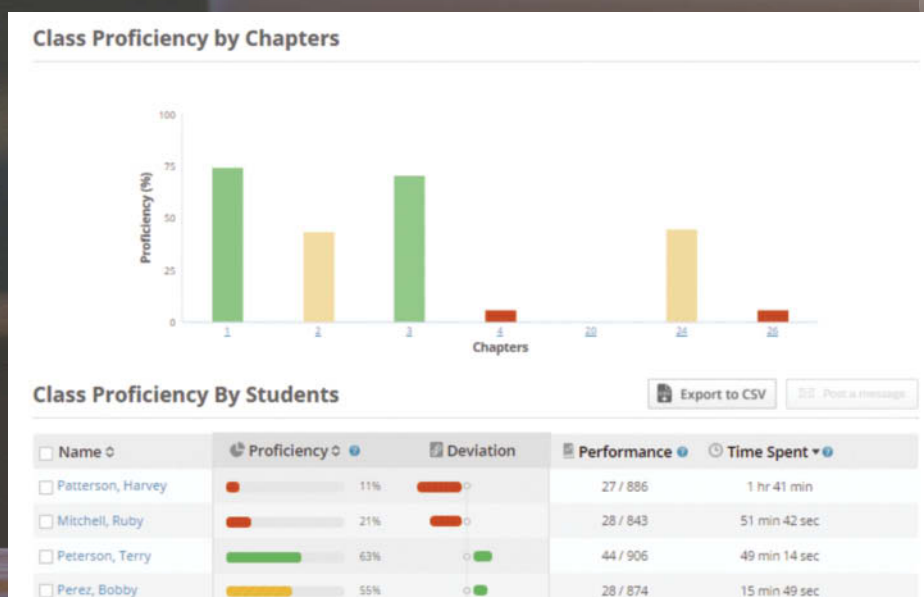


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Contemporary Business

17th Edition

DAVID L. KURTZ

University of Arkansas

SUSAN BERSTON

City College of San Francisco

WILEY

The 17th edition of *Contemporary Business* is dedicated to my wife, Diane. She is the best thing that ever happened to me.

—Dave Kurtz

To my personal Board of Directors: my son Samuel, as you embark upon your own college journey, please know that you are my dream come true; and to my mom and dad—I love you both so much.

—Susan Berston

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This book was set in Source Sans Pro-Regular 9.5/12.5 by Aptara, Inc. India and printed and bound by Quad/Graphics-Versailles. The cover was printed by Quad/Graphics-Versailles.

This book is printed on acid free paper. ∞

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ISBN-13 978-1-119-32038-8 (Epub)

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

About the Authors

During **DAVE KURTZ'S** high school days, no one in Salisbury, Maryland, would have mistaken him for a scholar. In fact, he was a mediocre student, so bad that his father steered him toward higher education by finding him a succession of back-breaking summer jobs. Thankfully, most of them have been erased from his memory, but a few linger, including picking peaches, loading watermelons on trucks headed for market, and working as a pipefitter's helper. Unfortunately, these jobs had zero impact on his academic standing. Worse yet for Dave's ego, he was no better than average as a high school athlete in football and track.

But four years at Davis & Elkins College in Elkins, West Virginia, turned him around. Excellent instructors helped get Dave on sound academic footing. His grade-point average soared—enough to get him accepted by the graduate business school at the University of Arkansas, where he met Gene Boone. Gene and Dave became longtime co-authors; together they produced more than 50 books. In addition to writing, Dave and Gene were involved in various entrepreneurial ventures.

This decades-long partnership ended with Gene's death in 2005, but *Contemporary Business* will always be the result of the diligent efforts of Boone and Kurtz.

During **SUSAN BERSTON'S** college years as a campus tour guide at the University of California, Berkeley, despite enduring hundreds of crammed elevator rides with visitors eager to reach the Campanile's observation deck 200 feet above, the excitement of being immersed in an academic environment never waned.

After completing an MBA at the University of San Francisco, Susan worked in the corporate banking division of a Japanese bank. Soon bit by the sales bug, she joined the sales force of printer R.R. Donnelley & Sons Company, which is where she realized her passion for satisfying customers, outsmarting competitors, providing creative solutions and building relationships.

She returned to academia and campus life to eventually become a full-time professor at City College of San Francisco in 2005, where she teaches courses in introduction to business, management, and entrepreneurship—and where her father, also a textbook author, taught business for 45 years. Here Susan feels incredibly lucky mentoring her students, whether as a faculty advisor to Alpha Beta Gamma Business Honors Society, Net Impact, Kiva Microfinance Club, or as a member of the Academic Senate Executive Council and Board of Directors of the bookstore. For Susan, bringing ideas to life inside and outside of the classroom and creating a personalized and collaborative student experience with WileyPLUS Learning Space is simply the icing on the cake.

Proud to continue the legacy of two of the industry's most prolific textbook authors—David L. Kurtz and the late Louis (Gene) Boone, Susan welcomes the opportunity to hear from you with questions, comments, or feedback about the 17th edition of *Contemporary Business* at sberston@ccsf.edu.

Preface

Driverless cars, mobile commerce, the Internet of Things, cloud computing, crowdsourcing—with such revolutionary innovations, the business environment continues to transform as information explodes and physical, virtual, and electronic environments blend. As traditional companies and start-ups continue to innovate, ongoing change is causing a radical transformation in today's business environment, where new industries, business models, and technologies are continually being discovered. The result is exciting new opportunities and growth-oriented career prospects for business students. Now more than ever, business moves at an unimaginable pace. With this edition of *Contemporary Business*, we hope to take you on a journey filled with prospects for your own exciting growth and change.

The first edition of *Contemporary Business*, published in 1976, states, “Contemporary Business is a student’s textbook. It is designed to enlighten and enchant the reader as he or she is introduced to the fascinating world of business.” We remain committed to enlightening the reader; thus the 17th edition of *Contemporary Business* contains cutting-edge and timely business topics. You’ll find this newly revised edition provides context for what the global business environment holds in store for today’s students.

A wide variety of global issues, ideas, industries, technologies, and career insights are presented in a straightforward, application-based format. The goal of *Contemporary Business* is to improve a student’s ability to evaluate and provide solutions to today’s global business challenges and ultimately to thrive in today’s fast-paced business environment.

Pedagogical Features

The 17th edition is filled with new pedagogy in each chapter, along with updates and revisions to key features:

- Each chapter begins with **Learning Objectives** that provide students with an overview of the major concepts covered in the chapter. Key terms are highlighted and defined in chapter margins.
- **Industry Insider**, a new opening vignette for each chapter, highlights business leaders within growth industries. Each opener lays the groundwork for discussing chapter topics, with the goal of drawing the student’s attention to a professional within a company or organization while highlighting an industry ripe with career opportunities for business majors. Examples include Sundar Pichai of Google; Charles Best of Donorschoose.org; Apple’s Angela Ahrendts; Pharrell Williams, producer, musician, philanthropist, and entrepreneur; Chicago Cubs manager Joe Maddon; and Deloitte CEO Cathy Engelbert.
- The **Business Model** feature provides students with success stories that focus on traditional and start-up companies,

business leaders, and entrepreneurs. Specific topics include the growth and popularity of Shake Shack restaurants; the rise of “athleisure” apparel; the use of advertising on NBA jerseys; how start-up Casper Mattress keeps the mattress industry awake; Under Armour’s resilient stock price, Disney’s first female CFO; and Dollar Shave Club’s e-commerce success.

- The **EcoBiz** feature highlights new and insightful ways companies are conducting business in a sustainable and socially responsible manner in an effort to protect the environment. Specific topics include Cheerio’s “No GMO” policy, transforming trash into fashion, and how Starbucks uses crowdsourcing for energy-saving ideas.
- New to this edition, the **Business & Information Technology** feature highlights the intersection between business and technology for companies across many industries. Topics include Nordstrom’s technology overhaul, the ALS Social Media Ice Bucket Challenge, United Airlines’ use of iPhones to mobilize agents, how technology helps UPS deliver, and L’Oréal’s virtual cosmetic counter.
- **Judgment Call** provides various business scenarios and ethical dilemmas where students are asked to decide what is appropriate. Examples include VW’s failed emissions test, soaring drug prices despite falling demand, the rise of activist investors, and the ethics of surge pricing for car sharing services. Each Judgment Call feature includes questions for individual or group discussion.
- New to this edition is the **Job DNA** feature that describes the responsibilities, requirements (including soft skills), and outlook for certain careers for business majors. Examples include fundraiser/development director, economic analyst, corporate communication specialist, marketing research analyst, accountant and auditor business operations associate, and investment banker.
- **End-of-Chapter Cases**, the majority of which are new, enhance learning and fine-tune decision-making skills. Companies and topics discussed include Shinola, Yelp, SoFi (Social Finance), the Heinz–Kraft merger, and tax implications for the Internet of Things.
- To help understand introductory business concepts, **Video Cases** in 17 of the chapters highlight a range of companies and industries. Examples include Necco, Zipcar, Timberland, and TripAdvisor.

Also New to the 17th Edition

This edition of *Contemporary Business* has been thoroughly revised to reflect the major trends influencing business today. In recent years, nothing has had a greater impact on business

than technology, and in some shape or form every business is a technology business. Throughout the textbook, new material, updates, and overviews of new, global business trends have been added. Some of these include:

- Understanding the knowledge economy to compete in global markets
- Career readiness, soft skills, and career opportunities throughout sectors
- Best industries for starting a new business
- B corporations as a force for good
- Impact of activist shareholders on business strategies
- Employee collaboration and increased engagement via the cloud
- Workplace diversity and inclusion efforts
- Nonprofits combining goods and services with a cause
- Environmental scanning as part of marketing research
- Managing big data for business decisions
- Information technology trends, mobility, and the Internet of Things ecosystem
- How investment goals and strategies change over a lifetime

Teaching and Learning Program

With decades of experience teaching introduction to business courses, and an overwhelming amount of student feedback, the authors have updated each chapter of the 17th edition to include relevant, intriguing, and up-to-date examples designed to provide a greater understanding of the content presented. Diverse business sectors are highlighted throughout the chapters, including nonprofits, music, consumer products, hospitality, electronics, health and fitness, e-commerce, apparel, retail, manufacturing, financial services, and automobiles.

Topics, examples, and exercises have been carefully chosen to reflect the diverse range of interests and experiences of students who may be studying in the United States or abroad in a variety of educational settings. Along with those students who may be interested in simply learning more about what “business” really entails, *Contemporary Business* is written to appeal to students interested in or contemplating business as a major.

Designed to engage students and to enliven traditional and online classroom discussion and debate, the 17th edition has been written in a friendly and conversational manner. To further enhance the learning process with WileyPLUS Learning Space, instructors and students receive 24/7 access to adaptive learning and a variety of resources proven to promote positive learning outcomes.

The interactive **Learning Styles Survey**, an especially useful tool, helps students identify how they learn best and provides useful study tips for each type of learner. Resources throughout the learning program have been mapped for learning styles as well.

For Instructors A robust set of resources helps instructors easily navigate a traditional or online classroom learning environment. Designed to provide a “turnkey” solution for instructors working within diverse learning environments, materials engage students who possess different learning styles, and they are designed to aid in comprehension, critical thinking, and application of text concepts. All major teaching materials are contained within *WileyPLUS Learning Space* and include the Instructor’s Manual, PowerPoint Presentations, a comprehensive Test Bank, Weekly Updates, and the Wiley Business Video Series. Most resources also can be found on the book’s companion site at www.wiley.com/college/boone.

WileyPLUS Learning Space with ORION

WileyPLUS Learning Space is an innovative, research-based, online environment for effective teaching and learning. It’s a place where students can learn, collaborate, and grow. *WileyPLUS Learning Space* transforms any Introduction to Business course into a vibrant, collaborative online learning community. Through a personalized experience, students create their own study guide while interacting with course content and learning activities.

WileyPLUS Learning Space combines adaptive learning with a dynamic e-textbook for your introduction to business course—ready-to-use tools for instructors to effectively and quickly organize learning activities, manage and encourage student collaboration, and customize your course to include any and all of your own content.

Instructor benefits and capabilities:

- Assign activities
- Add your own customized materials and handouts in a single go-to location
- Create collaborative learning groups
- Evaluate and encourage student engagement
- Gain an edge from sophisticated reporting and diagnostic tools that provide greater detail and immediate insight into student learning earlier in the course

Within *WileyPLUS Learning Space* is ORION, an interactive learning module, provided for each chapter. Based on the latest findings in cognitive science, ORION provides students with a personal and adaptive learning experience, whereby the material is adapted to specific learning needs. The feedback is immediate and the learning program is individualized, so that with immediate feedback students can build upon areas of strength and improve and overcome areas of weaknesses. This allows today’s busy students to maximize their study time most effectively and efficiently.

ORION can be used as:

- A pre-lecture assessment tool to evaluate conceptual knowledge so that students can arrive to class better prepared.
- A personalized study guide that helps students evaluate strengths and weaknesses as well as areas where more time should be invested. This is particularly helpful when it comes to preparing for quizzes and exams.

Additional Instructor Resources available with WileyPLUS Learning Space

WileyPLUS Learning Space provides students with a 24/7 customizable online platform with multiple resources that reinforces goals both inside and outside the classroom. Students have instant access to adaptive learning and feedback on their individual progress, while instructors can quickly analyze class results to assess areas of weakness in which students might need further assistance. The following resources are included and can be used for classroom presentations.

Ready-to-go teaching materials and assessments to help instructors maximize their time:

- Instructor's Manual with teaching suggestions, lecture starters, ideas for classroom exercises, discussions, and questions by chapter.

- Lecture PowerPoint presentations
- Test bank
- Gradebook through *WileyPLUS*
- *Wiley Contemporary Business* Weekly Updates

Additional Student Resources available within WileyPLUS Learning Space:

- Digital version of the complete textbook
- Interactive flash cards
- Practice exams
- Career-focused student case videos
- Interactive case studies
- Business hot topics (ethics, project management, sustainability, business plan, financial crisis)
- End-of-chapter videos
- Learning styles survey
- Crossword puzzles
- Study guide
- PowerPoint presentations
- Virtual Career Center, including career coaching videos, *CareerShift*, *InsideTrack*, and ePortfolio assistance

Acknowledgments

Contemporary Business has long benefited from the instructors who have offered their time as reviewers. Feedback for the 17th edition and ancillary materials was provided by the following colleagues: Richard Jaeckel, Metropolitan Community College; Paul Londrigan, Mott Community College; Christopher Osuanah, Reynolds Community College; Kevin Raiford, College of Southern Nevada; Thomas Rankin, Anne Arundel Community College; Alexander Sepulveda, Monroe College; and Stephen Sutterlein, Northern Virginia Community College.

Contemporary Business has clearly evolved since the first edition was published in 1976—the same year Steve Jobs and Steve Wozniak created a company called Apple, to sell small, easy-to-use computers. The 17th edition would not have been possible without the dedicated team of editorial, production, and marketing professionals from John Wiley and Sons. Many thanks to Jennifer Manias, Sponsoring Editor, who not only possesses a calm, no-nonsense approach to executing effectively, efficiently, and on time but is also a pleasure to work with; Lisé Johnson, Executive Editor, who makes herself available on an almost 24/7 basis with the positivity, technical

knowledge, and can-do attitude that is an anomaly and unsurpassed in the publishing industry; Christopher DeJohn, Executive Marketing Manager, who brings top-notch marketing creativity, energy, and insight; Rebecca Costantini, Product Design Associate, who has great vision, an A+ attitude, and lightning-fast follow-through; George Hoffman, Vice President and Director; Emma Townsend-Merino, Assistant Development Editor; Valerie Vargas, Senior Production Editor; Harry Nolan, Creative Director; Wendy Lai, Senior Designer; Mary Ann Price, Senior Photo Editor; and Jackie Henry, Project Manager at Aptara.

In addition, we have been very fortunate to work with Cate Rzasza, a knowledgeable problem solver with impeccable attention to detail, insight, and foresight. Her editorial and production efforts, perseverance, humor, and ability to execute seamlessly are immensely appreciated.

The publishing representatives of John Wiley and Sons deserve our utmost respect and gratitude for their tireless efforts when it comes to traversing the country to differentiate *Contemporary Business* with professors in a competitive marketplace.

Personal Appreciation from Susan Berston: Much gratitude to a special friend, Ken Hershbell, who also happens to be one of the most knowledgeable and steadfast publishing representatives in the business. John Wiley and Sons is truly lucky to have you, and it's always such a nice surprise when I see you waiting outside my classroom door. Thank you for bringing me

to John Wiley and Sons. And to Dave Kurtz—from the first time I met you, Diane, and the canine kids—Lucy, Molly, and Daisy—I knew right away that I would be humbled and honored to have the opportunity to continue the lasting legacy created by you and Gene. Thank you.

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Contemporary Business

The Changing Face of Business

LEARNING OBJECTIVES

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

Industry Insider



Sundar Pichai, Chief Executive Officer

Company: Google

Industry: Technology/Internet Information Providers

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

Larry Page, co-founder of Google, made a surprise move by appointing protégé and product guru Sundar Pichai as his successor. Pichai, displayed in the above photo, was most recently a senior vice president of products, overseeing Google's increasingly competitive business offerings such as search, advertising, Android, and YouTube. The announcement comes on the heels of a companywide reorganization, which separates Google's profitable maps, search, and advertising businesses from its other projects.

Pichai's appointment as Google's CEO frees up Page and co-founder Sergey Brin to spend more time on technology-related projects. The restructuring places Google into part of a collection of companies with the new name, Alphabet, Inc., in which Page assumed the role of CEO.

Who is Sundar Pichai, and how has he ascended through the Google ranks so quickly? After earning an advanced business degree, Pichai worked for a semiconductor manufacturing company and a management consulting firm. When Pichai arrived at Google in 2004, he was charged with creating and managing some of the company's strongest client software products, including Google Chrome, the Chrome OS, and cloud file-storage service Google Drive.

Pichai, who grew up in Chennai, India, is known for his unassuming management style, which has allowed him to build strong relationships throughout the organization. He is described as humble, smart, and very low key. With training as an engineer and businessperson, Pichai, who is in his early 40s, is uniquely positioned to take the lead in product development at Google.

Worldwide, there are now more Google searches on mobile devices than on desktops. As consumers have shifted from desktop to mobile, Pichai has a challenging role to keep up the company's rate of growth amid strong competition. With a vote of confidence from Google's co-founders, Pichai has proven himself as the best person to take over the global company that dominates search.¹

Overview

Google's CEO, Sundar Pichai leads a company that has gone from clever startup to global powerhouse. Innovative companies like Google, and now Alphabet, contribute greatly to the nation's economy. A growing economy, one with increased production of goods and services over time, yields income for its business owners, their employees, and stockholders. A country depends on the wealth its businesses generate, from large enterprises such as the Walt Disney Company to tiny online start-ups, and from respected companies such as jeans maker Levi Strauss & Company to powerhouses such as Google. What all these companies and many others share is a creative approach to meeting society's needs and wants.

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

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

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

In short, business is at the forefront of our economy—and *Contemporary Business* is right there with it. This book explores the strategies that allow companies to grow and compete in today's interactive and hyper-competitive marketplace, along with the skills that you will need to turn ideas into action for your own success in business. This chapter sets the stage for the entire text by defining business and revealing its role in society. The chapter's discussion illustrates the skills required for success in today's business environment and how the private enterprise system encourages competition and innovation.

1 What Is Business?

What comes to mind when you hear the word *business*? Do you think of big corporations like ExxonMobil or The Coca-Cola Company? Or does the local deli or shoe store pop into your mind? Maybe you recall your first summer job. *Business* is a broad, all-inclusive term that can be applied to many kinds of enterprises. Businesses provide the bulk of employment opportunities, as well as the products and services that people enjoy.

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

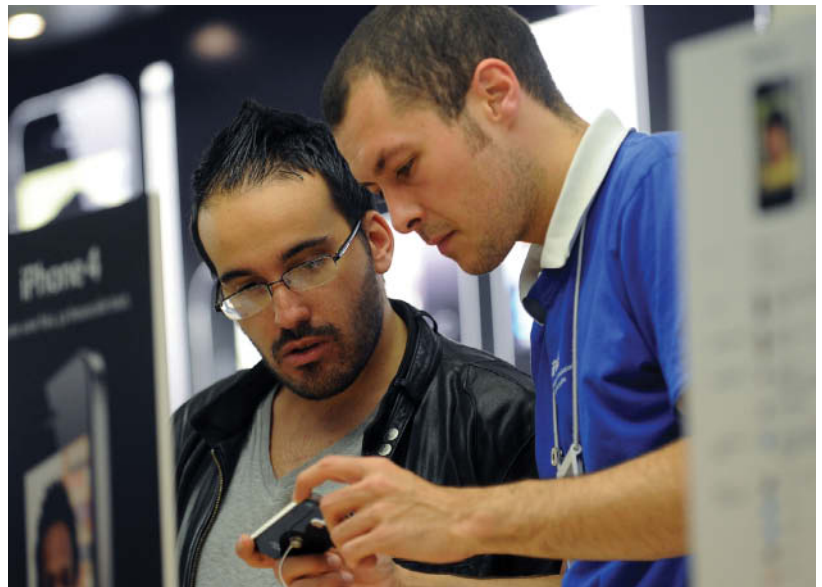
Business drives the economic pulse of a nation. It provides the means through which its citizens' standard of living improves. At the heart of every business endeavor is an exchange between a buyer and a seller. An example of this exchange is shown in the accompanying photo.

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

A buyer recognizes a need for a good or service and trades money with a seller to obtain that product. The seller participates in the process in hopes of gaining profits—a requirement in accomplishing the goals necessary for continuous improvement in the standard of living.

Profits represent rewards earned by businesspeople who take the risks involved in blending people, technology, and information to create and market want-satisfying goods and services. In contrast, accountants think of profits as the difference between a company's revenues and the expenses it incurs in generating those revenues. More generally, however, profits serve as incentives for people to start companies, grow them, and provide consistently high-quality competitive goods and services.

The quest for profits is a central focus of business because without profits, a company could not survive. But businesspeople also recognize their social and ethical responsibilities. To succeed in the long run, companies must deal responsibly with employees, customers, suppliers, investors, creditors, competitors, government, and the general public.



Antoine Antonio/Bloomberg/Getty Images, Inc.

A business, such as this cell phone store, survives through the exchange between a buyer and a seller.

Not-for-Profit Organizations

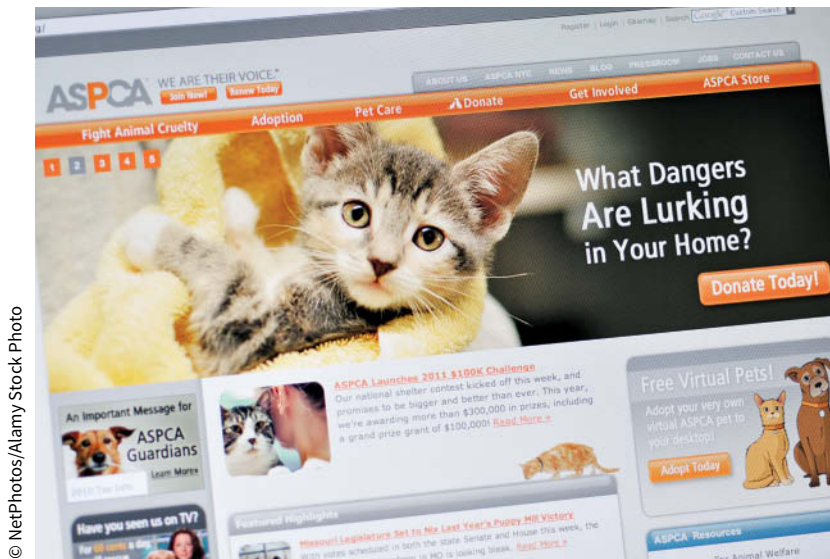
What do Purdue University's athletic department, the U.S. Postal Service, the American Heart Association, and your local library have in common? They all are classified as **not-for-profit organizations**, businesslike establishments that have primary objectives other than returning profits to their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

Not-for-profit organizations are a substantial part of the U.S. economy, contributing more than \$900 billion in a recent year. Currently, more than 1.4 million nonprofit organizations are registered with the Internal Revenue Service in the United States, in categories ranging from arts and culture to science and technology.² These organizations control more than \$3 trillion in assets and employ over 11 million people—more people than the federal government and all 50 state governments combined.³ In addition, millions of volunteers work for them in unpaid positions. Not-for-profits secure funding from private sources, including individual donations, and from government sources. They are commonly exempt from federal, state, and local taxes.

Although they focus on goals other than generating profits, managers of not-for-profit organizations face many of the same challenges as executives of profit-seeking businesses. Without funding, they cannot do research, obtain raw materials, or provide services. St. Jude Children's Research Hospital's pediatric treatment and research facility in Memphis treats nearly 7,800 children a year for catastrophic diseases, mainly cancer, immune system problems, and infectious and genetic disorders. Patients come from all 50 states and all over the world and are accepted without regard to the family's ability to pay. To provide top-quality care and to support its research in gene therapy, chemotherapy, bone marrow transplantation, and the psychological effects of illness, among many other critical areas, St. Jude relies on contributions, with some assistance from federal grants.⁴

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

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



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

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

Some not-for-profits sell merchandise or set up profit-generating arms to provide goods and services for which people are willing and able to pay. College bookstores sell everything from sweatshirts to coffee mugs with school logos imprinted on them, while the Sierra Club and the Appalachian Mountain Club both have full-fledged publishing programs. Founded in 1912, The Girl Scouts of the USA are known for their mouth-watering cookies. The organization has created a cookie empire valued at close to \$800 million through sales by local scout troops.⁶ Handling merchandising programs like these, as well as launching other fund-raising campaigns,

requires managers of not-for-profit organizations to possess effective business skills and experience. Consequently, many of the concepts discussed in this book (such as management, marketing, and finance) apply to not-for-profit organizations as well as to profit-oriented firms.

Assessment Check

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

2 Factors of Production

factors of production four basic inputs: natural resources, capital, human resources, and entrepreneurship.

natural resources all production inputs that are useful in their natural states, including agricultural land, building sites, forests, and mineral deposits.

An economic system requires certain inputs for successful operation. Economists use the term **factors of production** to refer to the four basic inputs: natural resources, capital, human resources, and entrepreneurship. **Table 1.1** identifies each of these inputs and the type of payment received by companies and individuals who supply them.

Natural resources include all production inputs that are useful in their natural states, including land, building sites, forests, and mineral deposits. The demand for timber has increased as a result of a recent housing market recovery and new home construction. With more than 13 million acres of timberland, Seattle, WA-based Plum Creek Timber was recently

TABLE 1.1 Factors of Production and Their Factor Payments

FACTOR OF PRODUCTION	CORRESPONDING FACTOR PAYMENT
Natural resources	Rent
Capital	Interest
Human resources	Wages
Entrepreneurship	Profit

purchased by Weyerhaeuser Company to form the world's largest timber and forest products company.⁷

Capital, another key resource, includes technology, tools, information, and physical facilities. *Technology* is a broad term that refers to such machinery and equipment as computers and software, telecommunications, and inventions designed to improve production. Information, frequently improved by technological innovations, is another critical factor because both managers and operating employees require accurate, timely information for effective performance of their assigned tasks. Technology plays an important role in the success of many businesses. Sometimes technology results in a new product. Bill Gates is quoted as saying, "Information technology and business are becoming inextricably interwoven. I don't think anyone can talk meaningfully about one without talking about the other." Sometimes technology results in a new product, such as the Google self-driving car, which is able to navigate without human input.⁸

Technology often helps a company improve its own products. Netflix, once famous for its subscription-based DVD-by-mail service, offers on-demand Internet streaming media and original content streaming TV service. Netflix has exclusive rights to streaming movies and original TV shows, like "Orange Is the New Black."⁹

Firms increasingly rely on technology to move and deliver their products more efficiently. Retail giant Walmart recently asked federal regulators for permission to test drones to oversee warehouse and inventory distribution and to potentially make curbside and residential deliveries.¹⁰

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

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

Hiring and keeping the right people matters, as we'll see later in the case at the end of this chapter. Employees at Mars, Inc. feel they have a great place to work, partly because of the opportunities for advancement and generous pay the company provides.¹¹

Entrepreneurship is the willingness to take risks to create and operate a business. An entrepreneur is someone with an idea who sees a potentially profitable opportunity and then devises a plan to achieve success in the marketplace. Convoy, a business start-up founded by ex-Amazon executive Dan Lewis, will help disrupt the way things are handled in the trucking industry. Convoy provides freight companies with an online service that quickly generates quotes for things they need to ship—like pallets of steel or other bulk shipments. Unlike traditional trucking companies, Convoy allows shippers to bypass brokers, who typically charge hefty fees, and provides pricing and tracking in real time.¹²

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

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

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

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

Assessment Check

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

3 The Private Enterprise System

No business operates in a vacuum. All operate within a larger economic system that determines how goods and services are produced, distributed, and consumed in a society. The type of economic system employed in a society also determines patterns of resource use. Some economic systems, such as communism, feature strict controls on business ownership, profits, and resources to accomplish government goals.

private enterprise system

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

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

competition a natural force that guides free market capitalism.

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

In the United States, businesses function within the **private enterprise system**, an economic system that rewards companies for their ability to identify and serve the needs and demands of customers. The private enterprise system minimizes government interference in economic activity. Businesses that are adept at satisfying customers gain access to necessary factors of production and earn profits.

Another name for the private enterprise system is **capitalism**. Adam Smith, often identified as the father of capitalism, first described the concept in his book, *The Wealth of Nations*, published in 1776. Smith believed that an economy is best regulated by the “invisible hand” of **competition**, a natural force that guides free market capitalism. Smith thought that competition among companies would lead to consumers’ receiving the best possible products and prices because less efficient producers would gradually be driven from the marketplace.

The invisible hand concept is a basic premise of the private enterprise system. In the United States, competition regulates much of economic life. To compete successfully, each company must find a basis for **competitive differentiation**, the unique combination of organizational abilities, products, and approaches that sets a company apart from competitors in the minds of customers. Businesses operating in a private enterprise system face a critical task of keeping up with changing marketplace conditions. Companies that fail to adjust to shifts in consumer preferences or ignore the actions of competitors leave themselves open to failure. See the

Business & Technology Intersection

Combining Business and Tech in Fashion at Nordstrom

Despite the company’s aversion to price markdowns, Seattle, WA–based Nordstrom, the family-owned high-end fashion retailer, continues to be on a roll as recent annual sales reached a record \$13.1 billion. That figure includes sales of \$2 billion—more than double that of three years ago—for the company’s e-commerce site, Nordstrom.com.

Initially, with a dozen IT professionals, Nordstrom set up a tech lab, aimed at coming up with innovative ideas to deal with the changing ways that customers shop. To continue its fanatic approach to creating a great service experience for customers, the IT professionals developed new products, new business models, and new ways of dealing with its many retail competitors. For example, using TextStyle, a messaging app developed by the company, a Nordstrom salesperson can use technology to further cultivate a relationship by texting, chatting, and sharing product images with customers, who choose to opt in to the service.

Perhaps Nordstrom’s best-known competitive advantage is its commitment to outstanding customer service, which the company believes must be managed in part with technology. One example is an unrivaled inventory system that allows salespeople to quickly find what customers want across the nationwide retail chain.

As part of its strategy to create new and innovative service experiences for customers, the company recently moved some of its IT technologists directly into its business groups. The integration has been effective because there is a broader range of new ideas coming from both the business and technology teams. The result: More immediate customer input to quickly spot gaps in service by involving sales associates in idea generation.

Questions for Critical Thinking

1. How does Nordstrom differentiate itself from other clothing retailers when it comes to communicating with customers using digital technology? Would you want to receive a text message from a sales associate while shopping at your favorite retailer? Why or why not?
2. What are some other ways Nordstrom can use technology to cultivate customer relationships? Do you think integrating information technology specialists directly into business groups will help increase business and customer loyalty?

Sources: Company website, “About Us,” <http://shop.nordstrom.com>, accessed January 20, 2016; Kim S. Nash, “Nordstrom’s Innovation Revamp Leads to E-commerce Texting App,” *Wall Street Journal*, <http://blogs.wsj.com>, accessed January 20, 2016; Walter Loeb, “Nordstrom: How to Remain Relevant in a Tech Savvy World,” *Forbes*, www.forbes.com, accessed January 20, 2016.

“Business & Technology Intersection” feature to learn more about how Nordstrom sets itself apart from the competition.

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

Basic Rights in the Private Enterprise System

For capitalism to operate effectively, people living in a private enterprise economy must have certain rights. As shown in **Figure 1.1**, these include the rights to private property, profits, freedom of choice, and competition.

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

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

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

The private enterprise system also permits fair competition by allowing the public to set rules for competitive activity. For this reason, the U.S. government has passed laws to prohibit “cutthroat” competition—excessively aggressive competitive practices designed to eliminate competition. It also has established ground rules that outlaw price discrimination, fraud in financial markets, and deceptive advertising and packaging.¹³

The Entrepreneurship Alternative

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

By almost any measure, the entrepreneurial spirit fuels growth in the U.S. economy. Of all the businesses operating in the United States, about one in seven companies started operations during the past year. These newly formed businesses are also the source of many of the nation’s new jobs. These companies are a significant source of employment or self-employment. Of the 28 million U.S. small businesses currently in operation, more than 22 million consist of self-employed people without any employees. Almost 8.5 million U.S. employees currently work for a business with fewer than 20 employees.¹⁴ Does starting a business require higher education? Not necessarily, although it can help. Many students choose to launch a business before they finish college. **Table 1.2** lists some of the well-known start-ups that had their humble beginnings in a college dorm room. Today, the venture capital fund DormRoomFund.com provides funding for student entrepreneurs and is run by college students. Entrepreneurs and business startups are discussed in detail in Chapter 6.

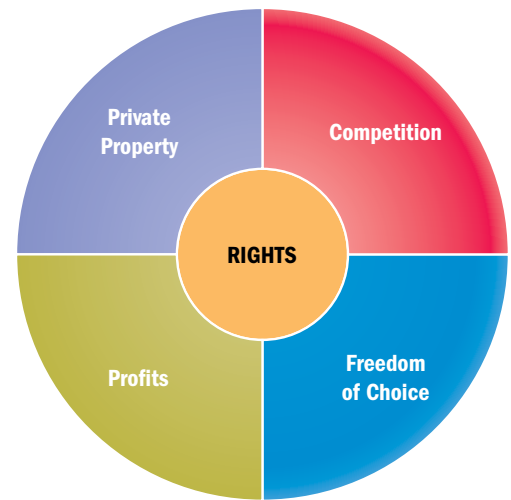


FIGURE 1.1 Basic Rights within a Private Enterprise System

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

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

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

Sometimes an entrepreneur may innovate by simply tweaking an existing idea. For back-country campers, hikers, and other outdoor enthusiasts, freeze-dried “just-add-water-and-serve” meals-in-a-pouch are traditionally lightweight with an extensive shelf life. However, exceptional taste is unlikely to come out of a freeze-dried pouch. Avid backpacker, chef, and former restaurateur, Jennifer Scism, began experimenting by cooking and dehydrating her own meals prior to heading out on long expeditions. The result is Good To-Go, a Maine-based company that sells gourmet freeze-dried foods free of preservatives and additives. Now in 200 stores nationwide, the meals-in-a-pouch are a real benefit to fellow hikers.¹⁵

Entrepreneurship is also important to existing companies in a private enterprise system. More and more, large companies are recognizing the value of entrepreneurial thinking among their employees, hoping to benefit from enhanced flexibility, improved innovation, and new market opportunities. For example, Nike’s mobile app called SNKRS is another way to give “sneakerheads” (people who collect and trade sneakers as a hobby) a one-stop shop for everything Nike, in addition to a heads-up about the release of new models and the ability to purchase new Nike sneakers quickly from a mobile device.¹⁶

TABLE 1.2 Dorm Room Entrepreneurs

COMPANY	FOUNDERS	IDEA	WEBSITE
Dropbox	Arash Ferdowski and Drew Houston	Frustrated by the inability to receive and send large files over e-mail, Ferdowski and Houston created an online file storage solution, now the leader in file sharing with millions of users worldwide.	http://www.dropbox.com
Facebook	Mark Zuckerberg, Dustin Moscovitz, Eduardo Saverin, Andrew McCollum, and Chris Hughes	Facebook was created by a group of Harvard students in search of a way to interact with other students. Zuckerberg dropped out of school and continues to run the company today.	http://www.facebook.com
Google	Sergey Brin and Larry Page	Brin and Page began brainstorming while in school about creating the world’s largest search engine. They suspended their PhD studies, and both run Alphabet today (see the chapter opening story).	http://www.google.com
Insomnia Cookies	Seth Berkowitz	Insomnia Cookies, now in 70 locations, specializes in feeding the insatiable hunger of college students, companies, and anyone else with warm, delicious cookies delivered right to your door.	http://www.insomniacookies.com
ModCloth	Susan Gregg Koger and Eric Koger	ModCloth offers styles from hundreds of independent designers in a full range of sizes. They also design and sell an exclusive line of their own apparel.	http://www.modcloth.com
SnapChat	Evan Spiegel and Robert Murphy	Approached by a friend who wasn’t sure about whether to send a certain photo, Spiegel and Murphy figured out a way to magically send pictures that soon disappear after being viewed by the recipient.	http://www.snapchat.com
WordPress	Matt Mullenweg and Mike Little	As freshmen, Mullenweg and Little came up with the idea of a free blogging platform that anyone could use. The worldwide site now includes website capabilities and great reads.	http://www.wordpress.com

Sources: Rachel Knuttel, “The 12 Coolest Dorm Room Startups,” <http://thelala.com>, accessed January 21, 2016; Ken Yeung, “Mark Zuckerberg on the Real Beginnings of Facebook,” *The Next Web*, <http://thenextweb.com>, accessed January 21, 2016; company website, “About Us,” <https://insomniacookies.com>, accessed January 21, 2016; company website, “About Us,” <http://modcloth.com>, accessed January 21, 2016; company website, www.snapchat.com, accessed January 21, 2016; company website, “Create Your Website for Free,” <https://wordpress.com>, accessed January 21, 2016.

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

Assessment Check

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

4 Seven Eras in the History of Business

In the more than 500 years since the first European settlements appeared on the North American continent, amazing changes have occurred in the size, focus, and goals of U.S. businesses. As **Figure 1.2** indicates, U.S. business history is divided into seven distinct time periods: (1) the Colonial period, (2) the Industrial Revolution, (3) the age of industrial entrepreneurs, (4) the production era, (5) the marketing era, (6) the relationship era, and (7) the social era. The next sections describe how events in each of these time periods have influenced U.S. business practices.

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

FIGURE 1.2 Seven Eras in Business History