

SECOND CANADIAN  EDITION



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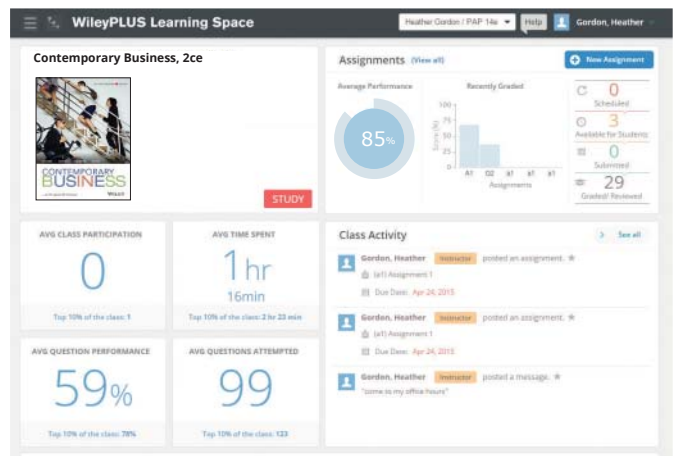
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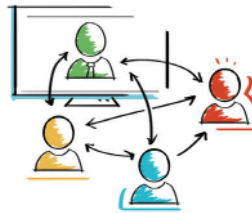
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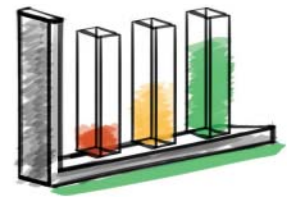
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SECOND CANADIAN EDITION

CONTEMPORARY BUSINESS

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PREFACE

Canadian college and university students have questions about business and the role businesspeople play. Some questions relate to their personal experiences, and others concern understanding issues we all face as Canadians living in an increasingly global society. Students want answers to these questions and more:

- What products are “made in Canada” and why can’t we make more?
- Why do Canadian consumers pay more than Americans for many products and services?
- Why did BlackBerry lose its global leadership role in smartphone technology?
- Why are some countries wealthy and others not?
- Which Canadian businesses will provide job opportunities for me when I graduate?
- Should I start my own business?

Contemporary Business, Second Canadian Edition, is a comprehensive introductory textbook. Rooted in the basics of business, this textbook provides students with a foundation upon which to build a greater understanding of current business practices and issues that affect their lives.

Chapter 1 opens with a close-up look at the role of the Internet and social media in launching Drake’s and Justin Bieber’s career. The changes brought on by Internet and other technologies are illustrated throughout the textbook. As regular users of the Internet, students understand first-hand how the Internet has changed their behaviour—starting with communications and digital media. We use this familiarity to build an understanding of businesses that have been affected by the Internet, such as BlackBerry, discussed in Chapter 7. We also examine Canadian businesses that have succeeded in large part due to the marketing power of the Internet, such as StockTrak in Chapter 14.

Another theme throughout the textbook is globalization and the growing challenges facing Canadian businesses as they compete not only against American and Mexican firms in North America but against firms everywhere in the world. We look at changes in production of tangibles and intangibles, the use of automation, and outsourcing to lower-cost countries, such as China and India. Chapter 8 opens with a closer examination of the decline of the Canadian apparel industry and how some apparel companies have managed to succeed by focusing on niche markets.

Responsible Business

A current topic of major interest is the use of business ethics and corporate social responsibility (CSR). Chapter 2 is rich in content related to CSR. It opens with a look at Canada’s world-renowned Cirque du Soleil and its model of global CSR. Throughout the textbook, and particularly in each chapter’s “*Solving an Ethical Controversy*” feature, we focus on ethical issues and CSR. Similarly,

each chapter's "Going Green" feature looks at green issues, including conservation, pollution, recycling, and reusing. The "Hit & Miss" feature shines a spotlight on companies, business leaders, and entrepreneurs.

Student-Focused

We present Canadian content that speaks directly to students about the world of business. Many examples included in this textbook were inspired by student peers. From companies such as Cirque du Soleil to lesser-known success stories across Canada, this textbook brings Canadian business and businesspeople face-to-face with students so that the roles played by businesspeople in our economy can be better understood, questioned, and debated. New to this edition is a running case featuring the Canadian company Beau's All Natural Brewing Company. The case is presented in six parts, corresponding to the six parts of the textbook, and is located following the last chapter of each part. Beau's takes students through the decision-making that resulted in the establishment of a successful family-run micro-brewery based in Vankleek Hill, in the Ottawa region. Instructors may choose to use some or all of the parts in sequence or as one longer case assignment. As well, the "Career Kickstart" feature provides useful tips and information for students who will embark on a business career. Students said they wanted to understand business beyond the simple concepts of profit as a goal or maximizing the provision of services for not-for profit organizations. We believe we have produced a textbook that meets these needs.

Contemporary Business, Second Canadian Edition, is written in a conversational style that has been thoroughly edited for plain language to ensure readability for all students, including students for whom English is their second language.

ACKNOWLEDGEMENTS

Contemporary Business, Second Canadian Edition, is the result of the efforts of many people who rightfully need acknowledgement. We would first like to thank our publishing team, beginning with our developmental editor, Gail Brown, for her suggestions on style and content throughout the writing effort. We thank Leanne Rancourt for an excellent job on the copy edit, Leslie Saffrey for her accurate proofreading, Hadi Ahmad for providing editorial insight, and Martin Eichler for his dedicated work as a research coordinator on the project.

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We thank the faculty members who contributed to the development of the textbook's resources and ancillaries, specifically Cheryl Dowell, Algonquin College (instructor's manual), Philip Eng, George Brown College (quizzes), Joyce Manu, George Brown College (test bank), and Wendy Tarrel, Nova Scotia Community College (quizzes and clicker questions), and a special thank you to Deanna Durnford for coordinating these ancillaries..

We especially want to thank our academic colleagues for their suggestions and constructive criticisms—both for the previous Canadian edition and this second Canadian edition. We know we could not have produced a textbook of this quality and calibre without their contributions.

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Finally, we extend special thanks to the following group of University of Toronto students for their insightful and invaluable contributions to the text.



From the left: Mouri Khan, Martin Eichler, Zachary Bunting, Elliot Spicer, Daouii Abouchere. Absent: Pascal Elliott Chong

This book is lovingly dedicated to my growing family: my wife Carole; my son Matthew and his wife Leslie Grenier; and my daughter Sarah and her husband James Wiseman.

Brahm Canzer

This book is dedicated to my parents, for providing my foundation; my wife Asma, who encourages me in all of my endeavours; my children, Khadijah and Zakariyah, who can always bring a smile to my face; and finally, all of my friends, family, and students who have supported me throughout the years.

Michael Khan

ABOUT THE AUTHORS

Dave Kurtz

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 backbreaking 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 a 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 several entrepreneurial ventures.

This long-term partnership ended with Gene's death in 2005. But, this book will always be Boone & Kurtz's *Contemporary Business*.

Today, Dave is back teaching at the University of Arkansas, after tours of duty in Ypsilanti, Michigan; Seattle, Washington; and Melbourne, Australia. He is the proud grandfather of six “perfect” kids and a sportsman with a golf handicap too high to mention. Dave, his wife, Diane, and four demanding canine companions (Daisy, Lucy, Molly, and Sally) live in Rogers, Arkansas. Dave holds a distinguished professorship at the Sam M. Walton College of Business in nearby Fayetteville, home of the Arkansas Razorbacks.



Michael Khan

Michael Khan is an Associate Professor, Teaching Stream at the Rotman School of Management at the University of Toronto. He teaches in both the MBA and Commerce programs and has won awards for excellence in teaching at both the graduate and undergraduate levels. His involvement in professional accounting training includes teaching for the Chartered Professional Accountants of Ontario. Michael is a Chartered Professional Accountant (CPA, CA) and holds an MBA from the Schulich School of Business, York University. He also has specialized professional designations in the field of Information Technology Audit and Governance (CISA— Certified Information Systems Auditor; CGEIT—Certified in the Governance of Enterprise Information Technology; and CITP—Certified Information Technology Professional). His

professional experience includes internal and external audit, accounting, and consulting positions at Ernst & Young (EY), Deloitte, Rogers Communications, and George Weston Limited. In his spare time, he enjoys travelling and scuba diving.



Brahm Canzer

Brahm Canzer currently teaches business management courses to John Abbott College students in Montreal. He is also an adjunct lecturer at McGill University and Concordia University. During his teaching career, he has also taught undergraduate courses in a corporate learning program under the auspices of the University of Toronto. Brahm received his PhD (1995) and MBA (1976) from Concordia University in

Montreal. His strong interest in the use of the Internet technology in education led him to be among the first pioneers to design and teach online MBA courses for Simon Fraser University. He is a contributing author to several business textbooks and author of *eBusiness: Strategic Thinking and Practice*. He has helped create a variety of web-based supplemental learning materials in academic and corporate learning settings. Brahm also provides consulting services to businesses seeking assistance as they explore web-based opportunities and solutions for improving their operations.

FEATURES OF THIS BOOK

Numbered “Learning Objectives” at the opening of each chapter guide student learning. These are repeated in the margin at the start of each major chapter section and appear again in the “Summary of Learning Objectives” at the end of the chapter.

LO Distinguish between business and not-for-profit organizations.
 1.1

WHAT IS BUSINESS?

What do you think of when you hear the word *business*? Do you think of big corporations like Rogers Communications or TD Bank? Or do you think about your local bakery or shoe store? 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 most of our employment opportunities and most of the products that we enjoy every day.

SUMMARY OF LEARNING OBJECTIVES

LO 1.1 Distinguish between business and not-for-profit organizations.
Business consists of all profit-seeking activities that provide goods and services necessary to an economic system. Not-for-profit organizations are business-like establishments whose primary objectives involve social, political, governmental, educational, or similar functions instead of profits.

✓ **ASSESSMENT CHECK ANSWERS**

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

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

LO 1.2 Identify and describe the factors of production.

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

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

LO 1.4 Identify the seven eras in the history of business.
The seven historical eras are the colonial period, the Industrial Revolution, the age of industrial entrepreneurs, the production era, the marketing era, the relationship era, and the social era. In the colonial period, businesses were small and rural, emphasizing agricultural production. The Industrial Revolution brought factories and mass production to business. The age of industrial entrepreneurs built on the Industrial Revolution through an expansion in the number and size of firms. The production era focused on the growth of factory operations through assembly lines and other efficient internal processes. During and following the Great Depression, businesses concentrated on finding markets for their products through advertising and selling, giving

“Assessment Check” questions correspond to each of the numbered “Learning Objectives” and appear at the end of each major section in the chapter. “Assessment Check Answers” can be found in the “Summary of Learning Objectives” at the end of the chapter.

1

THE CHANGING FACE OF BUSINESS

LEARNING OBJECTIVES

LO 1.1 Distinguish between business and not-for-profit organizations.

LO 1.2 Identify and describe the factors of production.

LO 1.3 Describe the private enterprise system.

LO 1.4 Identify the seven eras in the history of business.

LO 1.5 Explain how today’s business workforce and the nature of work itself are changing.

LO 1.6 Identify the skills and attributes needed to lead businesses in the twenty-first century.

LO 1.7 Outline the characteristics that make a company admired.

✓

ASSESSMENT CHECK

1.1.1 What activity lies at the heart of every business endeavour?

1.1.2 What are the primary objectives of a not-for-profit organization?

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INSIDE BUSINESS

Canadian Entertainers Are Cultivating Global Audiences Online

Since its commercial debut in the mid-1990s, the Internet has evolved into an integral communications tool for the entertainment industry. Artists and audiences can easily experience two-way communication through software tools designed to create a sense of familiarity and relationship. Besides websites where samples of music can be tested out with audiences, artists can ask for feedback and create a dialogue through YouTube, Facebook, Twitter, and other social media. The Internet has democratized the industry by allowing any artist to develop a relationship with audiences online. Bypassing the traditional barriers to entry has meant many artists have been discovered who perhaps might have followed a different path to success if the Internet were not available to them.

Aubrey Drake Graham is better known to his fans by his stage name—Drake. The Toronto native was a child actor on the television series *Degrassi: The Next Generation*, but he always loved music. He released a mixtape that eventually found its way into rap star Lil Wayne's hands, who became Drake's mentor. Drake signed with Lil Wayne's record label, Young Money Entertainment, in 2009, but it was his 2004 YouTube postings that provided him with a tool to develop his music career. By the age of 25 he had made over \$25 million as a rapper—far more than the \$40,000 annual salary he earned starring on *Degrassi*. Like many in his industry, Drake regularly uses social media to connect with fans and keep them up to date on his career.

Similarly, Justin Bieber, whose public image some might think of as “good boy turned bad by turning good boy again,” has made good use of the Internet as a means to interact with his fans. Love him or hate him, no one can deny that his rise to fame was meteoric. In 2007 he had a modest fan base who watched him on YouTube. Eventually these “Mom-produced” videos came to the attention of talent agent Scooter Braun, who became Bieber's agent and intro-

duced him to the many industry insiders who would make his dream of a music career a reality.

It is an understatement to say that YouTube and social media led to Bieber's discovery and career development. Social media have made it easier for talented young artists such as Bieber and Drake to get recognized and have their chance at stardom. Agents like Scooter Braun use the Internet regularly to search for new talent. Online popularity and an online fan base can be early signs of likely success.

The Internet also plays a major role in linking the various players in the music industry. A close connection with fans is made easier by posting personal comments, articles, interviews, television shows, music videos, and other content. Such posts help to build “buzz,” which is critical to drawing the attention of agents like Scooter Braun.

The Internet has become a showplace for musical entertainment and a disruptor of the old ways of doing business. As a result, the Internet has dramatically drawn advertising dollars away from traditional media such as radio, television, and magazines. These traditional media depend on large audiences to justify their high advertising costs. Social media sites succeed by providing content to much smaller niche markets. For example, when viewers want to see Drake or Justin Bieber perform, they can log on to their dedicated YouTube channels, which are also available on mobile devices. And, unlike television or radio, YouTube allows customers to not only listen to songs but also purchase the songs through sites such as Apple's iTunes store or subscribe to Apple Music.

Today, the Internet delivers samples of an artist's work to fans. It also delivers related content to help develop a relationship with fans and provides a direct channel for customers to purchase products. The Internet's promotional power speaks to the new world of music and entertainment today.¹

A vignette that looks “Inside Business” opens each chapter and is revisited at the end of the chapter in “Return to Inside Business.” “Questions for Critical Thinking” help students apply concepts discussed in the chapter to this real business case.

RETURN TO INSIDE BUSINESS

Canadian Entertainers Are Cultivating Global Audiences Online

The Internet has changed the way many artists like Drake and Justin Bieber communicate and develop their relationships with their fan base using social media. Drake and Justin Bieber use a variety of tools such as blogs, tweets, and videos to develop and maintain their relationship with fans.

QUESTIONS FOR CRITICAL THINKING

1. How would you improve Drake's or Justin Bieber's web presence?
2. What is another type of business that could use the Internet to improve communications between participants?

“Solving an Ethical Controversy” feature boxes discuss an ethical issue in debate format. Students are presented with pro and con arguments and then a summary of the controversial subject.

SOLVING AN ETHICAL CONTROVERSY

To What Extent Should a CEO Be Held Responsible?

In September 2015, Volkswagen was accused of installing software in its vehicles that would “trick” emissions tests. This software would recognize that an emissions test was being performed and put the vehicle in a mode to temporarily reduce the emissions for the duration of the test. After the test was completed, the emissions would return to as high as 40 times the legal limit. Engineers later admitted to installing this software for as far back as seven years in as many as 11 million cars. The scandal led to Volkswagen shares dropping by 40 percent and expected costs of over 39 billion euros in fines and recalls. CEO Martin Winterkorn resigned shortly after the scandal started.

Should CEOs be replaced for scandals such as the one at Volkswagen in 2015?

PRO

1. Holding the CEO responsible demonstrates to the public that the head of the company is willing to accept responsibility for the actions of all of the company's employees.
2. Current and prospective customers may renew their trust in the company if they feel that someone at a high level is held accountable and that significant measures have been taken to “repair” the problem.


CON

1. Holding the CEO responsible punishes the CEO for something he or she may not have been aware of, as the problem may not have made its way all the way up the corporate ladder.
2. Replacing the CEO creates a clear admission of guilt, which could cause irreparable damage to the company and its brand.

Summary

While in this case the CEO voluntarily stepped down from his position, a company forcing the replacement of a CEO would draw further attention to the situation and portray an admission of guilt. In the case of Volkswagen, several jobs were put at risk since one in seven jobs in Germany are linked to the auto sector, as is 14 percent of the country's GDP. On the other hand, not holding the CEO responsible could have been perceived as the company as a whole not taking responsibility for the impact of its employees' actions.

Sources: CBC News, “Volkswagen Fudging Emissions Rules for 7 Years, Report,” October 5, 2015, www.cbc.ca/news/business/volkswagen-fudging-emissions-rules-for-7-years-report-1.3227294; CTV News, “Data from Emissions Scandal Piling on for Volkswagen,” October 5, 2015, www.ctvnews.ca/business/story.html?id=1256642&title=Volkswagen-1.2566442; Kolke Sethi, “Volkswagen Diesel Scandal: Engineers Reportedly Admit to Installing Software,” *Car and Bike*, October 5, 2015, <http://auto.ndtv.com/story/volkswagen-engineers-admit-to-installing-software-1256642>; Thomson Reuters, “Volkswagen CEO Matthias Mueller Warns of ‘Massive’ Cost Cutting,” *CBC News*, October 6, 2015, www.cbc.ca/news/business/volkswagen-ceo-warns-of-massive-cost-cutting-1.3228428; Brooke Lord, “3 Things You Need to Know about the Volkswagen Scandal,” *CNN Money*, <http://money.cnn.com/video/news/2015/09/22/volkswagen-emissions-checking-scandal-explained.cnnmoney/16-41.kalyana.makurati/>; “What You Need to Know about the Volkswagen Scandal,” *CNBC*, September 22, 2015, www.cnbc.com/2015/09/22/what-you-need-to-know-about-the-volkswagen-scandal.html; “Volkswagen Hit by Cheating Allegations,” *CNN Money*, <http://money.cnn.com/video/news/2015/09/21/volkswagen-checking-allegations.cnnmoney>.



CAREER KICKSTART

How to Ask for a Raise

Have you ever thought about asking for a raise? Just thinking about it might make your hands sweat. You fear rejection—being turned down—or worse, retaliation, such as anger or criticism. But if you know that you are doing a superior job—such as taking the initiative when it's not required—or if it's been more than a year since your last pay increase, then maybe it's time to build a case for a raise. You should be able to at least open the conversation with your boss. Here are a few tips for being successful:

- **Be prepared.** Find out whether your company has a policy for raises. For example, some companies have a pay range or sliding pay scale for each position. If your company has a pay scale, learn where your pay fits on the scale.
- **Gather important data about yourself.** Keep track of your work accomplishments, including extra projects or tasks you've done well. Keep a log of positive feedback from co-workers, other supervisors, and customers. If the praise is already in writing, that's even better.
- **Think through exactly what you want.** Do you want a percentage increase, or a dollar amount? Or maybe you want more vacation time or time off for career education? Make sure your request is reasonable. When you meet with your supervisor, be as specific as possible about what you want.
- **Don't be pushy or hasty in your conversation.** At the same time, state your argument with confidence. Your goal is to get your supervisor to open up to thinking about the possibility of meeting your request.
- **If your supervisor turns down your request, ask for specifics about what you need to do to qualify for the raise—and when.** If possible, ask for a follow-up meeting within a certain period of time, such as two months.
- **When you return to your desk or office, send your supervisor an email thanking him or her for meeting with you.** You can also politely state the results of the conversation. If your request has been granted, make sure your performance lives up to your raise in pay. If your supervisor has put off making a decision, don't give up. Get back to work, document everything, and earn that raise.

Sources: Samantha Marisz Christmann, “Asking for More: Don't Be Afraid to Ask for a Raise,” *Buffalo News*, March 15, 2010, www.buffalonews.com/How-to-Negotiate-for-a-Raise-Even-in-a-Bad-Economy/; *EntrepreneurMag.com*, March 4, 2010; Mary Sewinsky, “Is a Raise in Your Future for 2010?” *CareerRealism.com*, January 15, 2010.

“Career Kickstart” feature provides useful insight, tips, and information for students to succeed in their business careers.

Two “Hit & Miss” feature boxes in each chapter profile the successes and failures of a wide variety Canadian and international businesses. Students are asked to evaluate each case by answering “Questions for Critical Thinking.”

The growing importance and influence of environmental issues on contemporary business decisions is examined in the “Going Green” feature boxes.


HIT

& MISS

Beyoncé Thrills Fans and Surprises Marketers

Grammy Award-winning entertainer Beyoncé recently took the music industry—and marketing strategists—by storm. Without any advance warning, she released a new self-titled album by simply posting a trailer on her Instagram account with the caption “Surprise!” Beyoncé announced her latest release exclusively on iTunes. And in its first three days, consumers downloaded the album with its 14 songs and 17 videos more than 828,000 times.

Stunned by this approach, some executives believe that Beyoncé has changed music marketing forever. Others think her strategy worked because the singer’s superstar brand allowed her to bypass traditional marketing channels. Some marketing experts have compared Beyoncé’s album release to a form of relationship marketing. Beyoncé’s surprise announcement about her new album catapulted its release to the top of iTunes’s all-time down-




loads list because she has a very loyal fan base with whom she has built a rock-solid relationship.

Questions for Critical Thinking

1. How will Beyoncé’s move to bypass traditional marketing channels impact future projects?
2. What is the downside to Beyoncé’s marketing strategy?

Sources: “Did Beyoncé’s Album Just Prove Marketing Is Dead?” *CNBC*, December 17, 2013, accessed July 3, 2015, www.cnbc.com/id/101277017; Lynska Little, “Target Doesn’t Plan on Carrying New Beyoncé Album,” *Wall Street Journal*, December 17, 2013, accessed July 3, 2015, <http://blogs.wsj.com/speakeasy/2013/12/17/target-doesnt-plan-on-carrying-new-beyonce-album/>; Abigail Tracy, “Beyoncé Shows How Social Media Is Changing Marketing,” *Inc.*, December 16, 2013, accessed July 3, 2015, www.inc.com/abigail-tracy/beyonce-shows-the-true-power-of-social-media.html; Lynska Little, “Beyoncé Surprises Fans with Sudden Release of New ‘Visual Album,’” *Wall Street Journal*, December 13, 2013, accessed July 3, 2015, <http://blogs.wsj.com/speakeasy/2013/12/13/beyonce-surprises-fans-with-sudden-release-of-new-visual-album>.



DRILLING FOR NATURAL GAS—CLEAN ALTERNATIVES

Drilling for natural gas doesn’t usually lead to images of an undisturbed landscape. In fact, studies by the government and by private environmental groups show that the main method for extracting natural gas from the earth—hydraulic fracturing—can result in contaminated water supplies. Hydraulic fracturing involves injecting millions of litres of water, sand, and chemicals deep into the ground to crack open the beds of shale that contain natural gas. Then, the gas can rise to the surface. Environmental scientists and the people who live near the drilling sites are concerned about two things: the amount of water being used and the possible contamination of their water supplies by the chemicals used in the process. These concerns have been voiced in many communities across Canada. In Quebec, the provincial government decided to go ahead with its planned natural gas development. The Quebec government’s handling of the decision and how it dealt with public opinion led to much criticism.

But many energy companies are paying attention to these concerns—including those that drill for oil and natural gas. Environmental Technologies Ltd. makes a nontoxic alternative to the toxic chemicals. This firm says that its product kills bacteria just as effectively as the toxic chemicals. Ecosphere Technologies Inc. claims antibacterial chemicals aren’t needed because its product can completely kill the bacteria at the surface before water is injected into the gas wells. Ecosphere also reduces water use and

water waste by helping energy producers to reuse the water used in hydraulic fracturing. That means companies no longer need to pay to ship millions of litres of waste water to treatment plants or disposal sites.

None of these firms suggests that the drilling should stop. Instead, the firms are researching and developing greener technologies. New companies—and divisions or subsidiaries of the larger energy firms—are forming rapidly to take advantage of this business opportunity.

Questions for Critical Thinking

1. What type of production system is used by natural gas drilling companies? Explain your answer.
2. Do you predict that the firms that are investing in greener processes will ultimately be successful? Why or why not?

Sources: Marianne White, “Quebec Moved Too Fast on Shale Gas: Watchdog,” *Montreal Gazette*, March 31, 2011, accessed April 14, 2011, <http://www.montrealgazette.com/news/decision-canada/quebec+moved+fast+shale+watchdog/4532660/story.html#ixzz1JW9k1zL>; “Hydraulic Fracturing,” EPA website, accessed April 29, 2010, www.epa.gov/; “Sustainable Technology,” Baker Hughes website, accessed April 29, 2010, www.bakerhughes.com/company/corporate-social-responsibility/sustainable-technology/; Ben Casselman, “Firms See ‘Green’ in Natural-Gas Production,” *The Wall Street Journal*, March 30, 2010, www.wsj.com/articles/SB10001424052748704094104575143771963721284; “EPA Launches Hydraulic Fracturing Study,” *Environmental Leader*, March 19, 2010, www.environmentalleader.com/2010/03/19/epa-launches-hydraulic-fracturing-study/.

BUSINESS TERMS YOU NEED TO KNOW

brand 13	creativity 21	nearshoring 19	relationship management 15
branding 13	critical thinking 20	not-for-profit organizations 5	social era 15
business 4	diversity 18	offshoring 19	strategic alliance 15
capital 7	entrepreneur 10	outsourcing 19	transaction management 14
capitalism 8	entrepreneurship 7	private enterprise system 8	vision 20
competition 8	factors of production 6	private property 9	
competitive differentiation 8	human resources 7	profits 4	

Key terms are bolded in the chapter and appear in the adjacent margin with their definitions. Key terms are also listed in “Business Terms You Need to Know” at the end of the chapter with page references.

The Entrepreneurship Alternative

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

The entrepreneurial spirit beats at the heart of private enterprise. An **entrepreneur** is a risk taker in the private enterprise system. You hear about entrepreneurs all the time—two college students starting a software business in their dorm room, or a mom who invents a better baby carrier. Many times their success is modest, but once in a while the risk pays off in huge profits, as it did for Justin Bieber. People who can see marketplace opportunities are able to use their capital, time, and talents to pursue those opportunities for profit. The willingness of people to start new ventures leads to economic growth and keeps pressure on existing companies to continue to satisfy customers. If no one were willing to take economic risks, the private enterprise system wouldn’t exist.

The entrepreneurial spirit leads to growth in the Canadian economy. Of all new businesses created in Canada, 99 percent are small businesses. Thousands of new businesses start each year. The Canadian economy depends on small businesses for their growth and strength. Statistics Canada data suggest that 5 percent of all businesses employ fewer than five employees, and 95 percent employ fewer than 50. The small-business sector creates 80 percent of all new jobs and generates 45 percent of Canada’s economic output. Thus, Canada’s small businesses are the majority of all Canadian businesses.¹⁰

End-of-Chapter Questions and Exercises

“Review Questions” encourage students to review their understanding of the chapter content.

PROJECTS AND TEAMWORK APPLICATIONS

- In 1997, Britain transferred Hong Kong to China. China agreed to grant Hong Kong a high degree of autonomy as a capitalist economy for 50 years. Do you think this agreement is holding up? Why or why not? Consider China's economy, population, infrastructure, and other factors in your answer.
- The huge growth of online business has introduced new legal concerns for international business. Patents, brand names, copyrights, and trademarks are difficult to monitor because the Internet has no boundaries. What steps can businesses take to protect their trademarks and brands online? Come up with at least five suggestions. Compare your list with your classmates' lists.
- The WTO monitors GATT agreements, mediates disputes, and continues the effort to reduce trade barriers all over world. But many are concerned that the WTO's focus on lowering trade barriers encourages businesses to keep costs down by using methods that may lead to pollution and human rights abuses. Others argue that human rights should not be linked to international business. Do you think environmental and human rights issues should be linked to trade? Why or why not?
- Describe briefly the EU and its goals. What are the pros and cons of the EU? Do you think the European alliance will hold up over the next 20 years? Why or why not?
- Find the most recent edition of “The Fortune Global 500.” It is usually published in *Fortune* magazine in late July or early August. You can also go to *Fortune*'s online version at <http://fortune.com/global500>. Use the Global 500 to answer the following questions.
 - On what is the Global 500 ranking based (e.g., profits, number of employees, revenues)?
 - List the home countries of the world's 10 largest corporations.
 - For the following industry classifications, identify the top-ranked company, its Global 500 ranking, and country: food and drug stores; industrial and farm equipment; petroleum refining; utilities: gas and electric; telecommunications; pharmaceuticals.

WEB ASSIGNMENTS

- WTO.** Visit the website of the World Trade Organization (www.wto.org). Research two current trade disputes. Which countries and products are involved? Do the two disputes have anything in common? What steps does the WTO follow to resolve trade disputes between member countries?
- EU.** europa.eu is the Web portal for the European Union. Go to the http://europa.eu/index_en.htm and answer the following questions:
 - What steps must a country take to become a member of the EU?
 - How many EU members have adopted the euro? Which countries will be adopting the euro over the next few years?
 - What is the combined GDP of EU members? Which EU member has the largest GDP? Which has the smallest GDP?
- Nestlé.** Nestlé is one of the world's largest global corporations. Visit the firm's website (www.nestle.com). Where is the company headquartered? What are some of its best-known brands? Are these brands sold in specific countries, or are they sold worldwide? List three or four issues Nestlé faces as a global corporation.

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

REVIEW QUESTIONS

- How does a business decide whether to trade with a foreign country? What are the key factors for participating in the information economy on a global basis?
- Why are developing countries such as China and India becoming important international markets?
- What is the difference between absolute advantage and comparative advantage? Give an example of each.
- Can a nation have a favourable balance of trade and an unfavourable balance of payments? Why or why not?
- Identify several potential barriers to communication when a company attempts to do business in another country. How might these be overcome?
- Identify and describe briefly the three dimensions of the legal environment for global business.
- What are the major nontariff restrictions affecting international business? Describe the difference between tariff and nontariff restrictions.
- What is NAFTA? How does it work?
- How has the EU helped trade among European businesses?
- What are the key choices a company must make before reaching the final decision to go global?

“Projects and Teamwork Applications” encourage active learning and give students the chance to work in groups. Projects can be used either in or out of the classroom.

“Web Assignments” ask students to research chapter topics using resources on the Internet.

“Launching Your . . . Career” at the end of each part of the book explores resources and opportunities available for careers in contemporary business including: Global Business and Economics, Entrepreneurial Pursuits, Marketing, Management, Technology and Information, and Finance.

1 LAUNCHING YOUR . . .

GLOBAL BUSINESS AND ECONOMICS CAREER

In Part 1, “Business in a Global Environment,” you have learned about the role of contemporary business in today's society. You also learned about the major forces that shape contemporary business. The part includes four chapters that discuss the changing face of business, business ethics and social responsibility, economic challenges facing contemporary business, and competing in world markets. Business has always been an exciting career field. You can choose to start your own company, work at a local business, or take a position with a multinational corporation. Today's business opportunities are very attractive. Businesses are expanding to compete in a global economy—and they need loyal and talented people to help them reach their goals. Professional and business service jobs are found in some of the fastest-growing industries in the North American economy. These jobs are projected to grow by more than 23 percent over a decade.¹ Now is the time to learn about several career options that can lead you to your dream job. Each part in this text includes a profile of some of the many opportunities available in business. Here are a few opportunities related to Chapters 1 through 4.

PART 1: CASE STUDY Beau's All Natural Brewing Company

Building a Craft Brewery in a Competitive Canadian Industry



Meet Co-Founders Steve and Tim Beauchesne

Steve Beauchesne was familiar with the “hows and whys” of running a business. He grew up working at his father’s leather finishing plant in the small farming community of Vankleek Hill, about an hour drive south of Ottawa. The plant finished leather for use in the fashion industry, which was rapidly moving offshore to places like China and India. Business was in a gradual decline. Although Steve was never particularly enamoured with the business, his time spent at the plant was a worthwhile education on how things get done. In his words, “I learned how to work with people, how people should be treated and I gained the confidence to run things.” After studying business at Ryerson University in Toronto, he found himself working for a provincial government agency researching and writing business plans. At the same time he was devel-

creative tastes once spices, herbs, and other flavourings like fruit were introduced to the brew.

The concept is a familiar one found in other industries where customers seek out variety, especially food and beverages. And because of new technology that allows for smaller but economical production operations, craft brewers can start up small and gradually expanded as sales grow. Many craft brewers are also built around a pub or restaurant where beer is normally sold and then look to expand sales through other restaurants, pubs, and venues such as golf courses.

Today, about 10 million Canadians drink over \$5 billion worth of beer annually. Total beer consumption in Canada amounts to more than 2 billion litres, averaging 64 litres per capita. It is greatest in Newfoundland (79 litres), followed by Quebec (73 litres) and Alberta (69 litres) with the remaining provinces close to the national average. There are two large-scale brewers: Anheuser-Busch InBev, headquartered in Belgium, is the

A running “Case Study” featuring Beau’s All Natural Brewing Company is presented in the last chapter of each of the six parts of the textbook. The case study takes students through the decision making of a real Canadian company and provides further insight into the world of contemporary business.

Appendices

Additional Cases related to the concepts presented in the book are provided in Appendix A. Each case profiles a different company and asks students to apply what they have learned in answering Critical Thinking Questions about the case.

Other appendices at the end of the book include Appendix B Business Law, Appendix C Insurance and Risk Management, Appendix D Personal Financial Planning, and Appendix E Developing a Business Plan. Two additional appendices—Appendix F Video Cases, based on Wiley Business Video Series and Appendix G Careers in Contemporary Business—are available online at www.wiley.com/go/boonecanada.

APPENDIX A ADDITIONAL CASES

Part 1 Business in a Global Environment

Case Study 1 Vancity: On Top of Its Game

What makes a great organization? Well, if winning multiple national awards is a positive signal, Vancity Credit Union is definitely on the right path! Vancity was on Mediacorp Canada Inc.’s list of Canada’s Top 100 Employers for 2013, Canada’s top family-friendly employers, and British Columbia’s top employers for 2013, and it was one of Canada’s Top 30 Greenest Employers. In 2012, Vancity was also ranked number two on the Corporate Knights Best 50 Corporate Citizens in Canada. What does Vancity do right to deserve all this external recognition?

Keeping Employees Happy and Healthy

This Vancouver-based cooperative was founded in 1946; it began with only \$22 in total assets, aiming to lend money to those the banks ignored. Today it is Canada’s largest credit union, with over 2,565 employees and more than \$17.1 billion in assets. As a member-owned credit union, it provides a complete range of financial services to its 492,000 members. Vancity continues to be

SUPPLEMENTS

WileyPLUS Learning Space

WileyPLUS Learning Space

Learning experts have shown greater gains in outcomes and improved retention when students are able to read, interact with, discuss, and write about course content. Research also shows that when students collaborate with each other, they make deeper connections to the content. Typically, when students work together, they also feel part of a community. This sense of community helps them grow in areas beyond topics in the course—they are able to develop skills like critical thinking and teamwork that can be applied down the road in future careers and life.

WileyPLUS Learning Space will transform any course into a vibrant, collaborative, learning community. This exciting online platform invites students to experience learning activities, work through self-assessment, ask questions and share insights. As they interact with the course content, their peers, and their instructor, *WileyPLUS Learning Space* creates a personalized study guide for each student.

Through a flexible course design, you can quickly organize learning activities, manage student collaboration, and customize your course—having full control over content as well as the amount of interactivity between students.

WileyPLUS Learning Space lets you:

- Assign activities and add your own materials
- Guide your students through what's important in the interactive e-textbook by easily assigning specific content
- Set up and monitor group learning
- Assess student engagement
- Gain immediate insights to help inform teaching

Defining a clear path to action, the visual reports in *WileyPLUS Learning Space* help both you and your students gauge problem areas and act on what's most important.

With the visual reports, you can:

- See exactly where your students are struggling and intervene as needed
- Help students see what they don't know to better prepare for exams
- Give students insight into their strengths and weaknesses to succeed in the course

Integrated with *WileyPLUS Learning Space* is ORION. Based on cognitive science, ORION is a personalized, adaptive learning experience that helps students build proficiency on topics while using their study time most effectively.

Resources

Contemporary Business, Second Canadian Edition, is accompanied by a suite of instructor and student resources and ancillaries designed to facilitate teaching and learning.

Resources can be found within the *Contemporary Business*, Second Canadian Edition, WileyPLUS Learning Space course. Selected resources are available on the textbook's companion website, www.wiley.com/go/boonecanada. Consistent with the first edition of *Contemporary Business*, the instructor resources are designed to propel the instructor into the classroom with all the materials needed to engage students and help them understand concepts.

For Instructors

CBC Videos. Two sets of CBC Videos are available for *Contemporary Business*, Second Canadian Edition—short clips with discussion questions to generate interest and initiate discussion into relevant business topics and longer video cases with discussion questions that take an in-depth look at key subjects of interest to students, such as entrepreneurship and sustainability.

Test Bank. The Test Bank contains a variety of question types—matching, essay/short answer, multiple choice, and true/false. The Test Bank is available in a Word® document format, as well as a Computerized Test Bank. Instructors can generate multiple test versions, rearrange question order, or customize tests for specific content.

Instructor's Manual. This Instructor's Manual is designed to help instructors maximize student learning and encourage critical thinking. It presents a lecture outline for each section and objective in each chapter, and includes answers to review questions and suggested responses to the Project and Teamwork Applications in the textbook. The instructor's manual also includes collaborative learning exercises.

PowerPoint® Presentations. PowerPoint® Presentations are provided for each chapter and include an outline of key points (with accompanying lecture notes), learning objectives, key terms, and figures and tables from the textbook.

Clicker Questions. This resource offers questions about key chapter concepts and can be used with a variety of personal response (or “clicker”) systems.

Wiley Contemporary Business Weekly Updates Site, <http://contemporarybusinessupdates.ca>. This weekly update site provides highlights of the very latest in business news and current affairs. Each week's update includes links to relevant business news articles and video clips, with discussion questions to help guide an understanding of the news item and to encourage classroom analysis and discussion. Instructors who wish to receive email alerts with each week's highlights can subscribe directly on the website. New to the Weekly Updates are Video Case Exercises that correspond to the six parts of the textbook.

For Students

Free Study Guide. The *Study Guide to Accompany Contemporary Business*, Second Canadian Edition, is available free to students and provides a solid review of the concepts covered in the textbook and in a contemporary business course. The study guide includes a variety of question material and application exercises and is available in WileyPLUS Learning Space.

Practice Quizzes. This resource allows students to test their knowledge and understanding of key chapter content. Practice quizzes are available in WileyPLUS Learning Space.

Video Summaries. This resource is an author-presented summary and overview of the key concepts and learning objectives in each chapter.

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PART 1

BUSINESS IN A GLOBAL ENVIRONMENT

Chapter 1 The Changing Face of Business

Chapter 2 Business Ethics and Social Responsibility

Chapter 3 Economic Challenges Facing Contemporary Business

Chapter 4 Competing in World Markets



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1 | THE CHANGING FACE OF BUSINESS

LEARNING OBJECTIVES

- LO 1.1** Distinguish between business and not-for-profit organizations.
- LO 1.2** Identify and describe the factors of production.
- LO 1.3** Describe the private enterprise system.
- LO 1.4** Identify the seven eras in the history of business.
- LO 1.5** Explain how today's business workforce and the nature of work itself are changing.
- LO 1.6** Identify the skills and attributes needed to lead businesses in the twenty-first century.
- LO 1.7** Outline the characteristics that make a company admired.

INSIDE BUSINESS

Canadian Entertainers Are Cultivating Global Audiences Online

Since its commercial debut in the mid-1990s, the Internet has evolved into an integral communications tool for the entertainment industry. Artists and audiences can easily experience two-way communication through software tools designed to create a sense of familiarity and relationship. Besides websites where samples of music can be tested out with audiences, artists can ask for feedback and create a dialogue through YouTube, Facebook, Twitter, and other social media. The Internet has democratized the industry by allowing any artist to develop a relationship with audiences online. Bypassing the traditional barriers to entry has meant many artists have been discovered who perhaps might have followed a different path to success if the Internet were not available to them.

Aubrey Drake Graham is better known to his fans by his stage name—Drake. The Toronto native was a child actor on the television series *Degrassi: The Next Generation*, but he always loved music. He released a mixtape that eventually found its way into rap-star Lil Wayne's hands, who became Drake's mentor. Drake signed with Lil Wayne's record label, Young Money Entertainment, in 2009, but it was his 2004 YouTube postings that provided him with a tool to develop his music career. By the age of 25 he had made over \$25 million as a rapper—far more than the \$40,000 annual salary he earned starring on *Degrassi*! Like many in his industry, Drake regularly uses social media to connect with fans and keep them up to date on his career.

Similarly, Justin Bieber, whose public image some might think of as “good boy turned bad boy turning good boy again,” has made good use of the Internet as a means to interact with his fans. Love him or hate him, no one can deny that his rise to fame was meteoric. In 2007 he had a modest fan base who watched him on YouTube. Eventually these “Mom-produced” videos came to the attention of talent agent Scooter Braun, who became Bieber's agent and intro-

duced him to the many industry insiders who would make his dream of a music career a reality.

It is an understatement to say that YouTube and social media led to Bieber's discovery and career development. Social media have made it easier for talented young artists such as Bieber and Drake to get recognized and have their chance at stardom. Agents like Scooter Braun use the Internet regularly to search for new talent. Online popularity and an online fan base can be early signs of likely success.

The Internet also plays a major role in linking the various players in the music industry. A close connection with fans is made easier by posting personal comments, articles, interviews, television shows, music videos, and other content. Such posts help to build “buzz,” which is critical to drawing the attention of agents like Scooter Braun.

The Internet has become a showplace for musical entertainment and a disruptor of the old ways of doing business. As a result, the Internet has dramatically drawn advertising dollars away from traditional media such as radio, television, and magazines. These traditional media depend on large audiences to justify their high advertising costs. Social media sites succeed by providing content to much smaller niche markets. For example, when viewers want to see Drake or Justin Bieber perform, they can log on to their dedicated YouTube channels, which are also available on mobile devices. And, unlike television or radio, YouTube allows customers to not only listen to songs but also purchase the songs through sites such as Apple's iTunes store or subscribe to Apple Music.

Today, the Internet delivers samples of an artist's work to fans. It also delivers related content to help develop a relationship with fans and provides a direct channel for customers to purchase products. The Internet's promotional power speaks to the new world of music and entertainment today.¹

CHAPTER 1 OVERVIEW

Business is the nation's engine for growth. A growing economy is an economy that produces more goods and services but uses fewer resources over time. Growing economies are important because they yield more income for business owners, their employees, and shareholders. A country depends on the wealth its businesses generate, from large enterprises like BlackBerry to startups like Justin Bieber, and from venerable firms like Bell Canada Enterprises to powerhouses like the Royal Bank of Canada. These companies and many others share a creative approach to meeting society's needs and wants while generating the wealth we enjoy.

Businesses solve our transportation problems by marketing cars, 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. Hundreds of firms work at entertaining us during our leisure hours. They create, produce, and distribute films, television shows, video games, books, and music downloads.

To succeed, business firms must know what their customers want, and they must supply it quickly and efficiently. The products that firms produce often reflect changes in consumer tastes, such as the growing preference for sports drinks and vitamin-fortified water. But firms can also *lead* by promoting technology and other changes. Firms have the resources, the know-how, and the financial incentive to bring about real innovations, such as smartphones, new cancer treatments, and alternative energy sources like wind power. Thus, when businesses succeed, everybody wins.

You'll see throughout this book that businesses require physical inputs such as auto parts, chemicals, sugar, thread, and electricity. They also need the accumulated knowledge and experience of their managers and employees. Businesses also rely heavily on their own ability to change with the times and with the marketplace. Flexibility is a key to long-term success—and to growth.

Business is a leading force in 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 marketplace. This book also explores the skills 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 what business is and describing its role in society. The chapter's discussion illustrates how the private enterprise system encourages competition and innovation while preserving business ethics.

LO Distinguish between
1.1 business and not-for-profit organizations.

WHAT IS BUSINESS?

What do you think of when you hear the word *business*? Do you think of big corporations like Rogers Communications or TD Bank? Or do you think about your local bakery or shoe store? 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 most of our employment opportunities and most of the products that we enjoy every day.

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 digital music players; others provide services, such as insurance, hair styling, and entertainment, ranging from theme parks and sports events to concerts.

Business drives the economic pulse of a nation. It provides the means for improving a nation's standard of living. At the heart of every business is an exchange between a buyer and a seller. A buyer has a need for a good or service and trades money with a seller to receive that product or service. The seller hopes to gain a profit—a main indicator of business success and what continuously improves society's standard of living.

Profits are rewards for businesspeople who take the risks involved in blending people, technology, and information to create and market want-satisfying goods and services. In contrast,

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

profits rewards for businesspeople who take the risks involved in offering goods and services to customers.

accountants only think of profits as the difference between a firm's revenues and the expenses it incurs in generating these revenues. More generally, however, profits serve as incentives for people to start companies, expand them, and provide consistently high-quality competitive goods and services. Profits are also a primary source of funds needed to expand operations.

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

Not-for-Profit Organizations

What is a common feature of Simon Fraser University's athletic department, the Canadian Society for the Prevention of Cruelty to Animals, the Canadian Red Cross, and your local library? They are all **not-for-profit organizations**, business-like establishments that have primary goals other than returning profits to their owners. These organizations play important roles in society by placing public service above profits. It is important to understand that these organizations need to raise money to operate and to achieve their social goals. Not-for-profit organizations 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 labour unions are not-for-profit organizations that are part of the public sector.

Not-for-profit organizations form a large part of the Canadian economy. The not-for-profit field is an industry just like any other industry: Revenues are raised and employees earn incomes by providing services. Canada has more than 160,000 registered not-for-profit organizations in categories ranging from arts and culture to science and technology. Most are local organizations that provide sports and recreational activities. Not-for-profits receive funding from both government sources and private sources, including donations. These organizations are commonly exempt from federal, provincial, and local taxes. Not-for-profits raise more than \$112 billion in revenues each year and employ more than 2 million people. Approximately one-third of these jobs are in hospitals, universities, and colleges. About half of all revenue comes from government grants, mostly provincial. These organizations also receive more than \$8 billion in donations from individuals and require more than 2 billion volunteer hours, the equivalent of more than 1 million full-time jobs.²

Managers of not-for-profit organizations focus on goals other than making profits, but they face many of the same challenges as executives of for-profit businesses. Without funding, organizations cannot do research, obtain raw materials, or provide services. Toronto's Hospital for Sick Children (SickKids) is one of the world's top healthcare institutions for children. It is Canada's leading centre dedicated to children's health and succeeds by uniting patient care, research, and education. SickKids was founded in 1875 and is affiliated with the University of Toronto. It is one of Canada's most research-intensive hospitals: Its more than 600 staff researchers operate within a \$140 million budget.³

Other not-for-profits organize their resources to respond to emergencies. For example, the Red Cross and Doctors Without Borders (also known as Médecins Sans Frontières, or MSF) acted quickly when the earthquake in Nepal in 2015 left hundreds of thousands of people homeless. Relief agencies around the world worked hard to supply enough tents and tarpaulins for immediate shelter. These agencies then turned their attention to constructing more permanent living spaces.⁴

Some not-for-profits sell merchandise or set up profit-making side businesses to sell goods and services that people are willing and able to pay for. For example, college bookstores sell products with the school logo—everything from sweatshirts to coffee mugs. SickKids supports learning for families and healthcare providers by selling parenting books, many of which are Canadian



A business survives because of the exchange between buyer and seller. In this hair salon, the exchange occurs between the customer and the stylist.

not-for-profit organizations organizations whose primary aims are public service, not returning a profit to their owners.



Roberto Schmidt/Getty Images

The Red Cross organizes its efforts to respond to natural disasters around the world, such as setting up medical clinics in the aftermath of the earthquake in Nepal.

✓ ASSESSMENT CHECK

- 1.1.1** What activity lies at the heart of every business endeavour?
- 1.1.2** What are the primary objectives of a not-for-profit organization?

bestsellers.⁵ The Livestrong Foundation, formerly the Lance Armstrong Foundation, has sold more than 40 million yellow Livestrong wristbands. It also sells sports gear and accessories for men, women, and children. All funds raised through these sales are used to fight cancer and support patients and their families.⁶

Merchandising programs and fundraising campaigns need managers who have effective business skills and experience. As a result, many of the concepts discussed in this book apply both to not-for-profit organizations and to for-profit firms.

LO Identify and describe the factors of production.

1.2 production.

factors of production four basic inputs for effective economic operation: 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.

FACTORS OF PRODUCTION

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 gives examples of the types of payment received by firms and individuals who supply them.

Natural resources include all production inputs that are useful in their natural states. Examples are agricultural land, building sites, forests, water, and mineral deposits. Calgary-based Encana Corporation is a leading Canadian developer of natural gas supply in North America. Toronto-based Barrick Gold Corporation is the global gold industry leader. Its 25 operating mines

Table 1.1 Factors of Production and Their Factor Payments

FACTOR OF PRODUCTION	CORRESPONDING FACTOR PAYMENT
Natural resources	Rent for land leased for operations
Capital	Interest for money used to acquire capital items
Human resources	Wages for employees
Entrepreneurship	Profit for starting and managing operations

and projects are located on five continents and include African Barrick Gold. Mining companies generally pay landowners for the right to extract minerals. Farmers expand their operations by paying rent for the right to grow more crops on a neighbour's land. Natural resources are the basic inputs required in any economic system and are the genesis of wealth creation. Places in the world with valuable natural resources have an economic advantage in developing more wealth, whereas those without natural resources will have to acquire them.

Capital, another key resource, includes technology, tools, information, and physical facilities. *Technology* refers to such machinery and equipment as computers and software, telecommunications, and inventions designed to improve production. Information, which is frequently improved by technological innovations, is another critical factor. Both managers and employees require accurate, timely information to effectively perform their assigned tasks. Technology plays an important role in the success of many businesses. Technology can lead to a new product, such as hybrid cars that run on a combination of gasoline and electricity. In recent years, most major car companies have introduced hybrid versions of their bestselling models.

Technology often helps a company improve its own products. Netflix, once famous for its subscription-based DVD-by-mail service, now offers on-demand Internet streaming media and original content streaming over their TV service. Netflix has exclusive rights to streaming movies and original TV shows like *Orange Is the New Black* and pays for the rights to distribute content produced by others to its subscribers. Like YouTube, Netflix is a company disrupting the old business method of distributing digital entertainment.⁷

Technology can also help a company operate more smoothly by tracking deliveries, providing more efficient communication, analyzing data, or training employees. Canada Post cut costs by expanding the electronic side of its business. Customers can now track their own registered mail online.

To remain competitive, a firm needs to continually acquire, maintain, and upgrade its capital. All these activities need money. A company's funds may come from the owner's investments, profits that are turned back into the business, or loans from others. Money is used to build factories; purchase raw materials and component parts; and to hire, train, and pay employees. People and firms that supply (lend) capital receive factor payments in the form of interest.

Human resources represent another important 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 editor. Their input includes both physical labour and intellectual effort. Companies rely on their employees' ideas, innovation, and physical effort. Some companies ask for employee ideas through traditional means, such as through staff meetings and by setting up an online "suggestion box." Others encourage creative thinking during company-sponsored events, such as hiking or rafting trips, or during social gatherings. Effective, well-trained human resources can provide firms with a significant competitive edge. Competitors cannot easily match another company's talented, motivated employees in the same way they can buy the same computer system or purchase the same grade of natural resources.

Hiring and keeping the right people matters. Competent, effective human resources can be a company's best asset. Providing perks to those employees to keep them is often in a company's best interest.

Entrepreneurship is the willingness to take risks to create and operate a business. An entrepreneur is someone who sees an opportunity to make a profit and creates a plan to earn those profits and achieve success. Montreal-based Beyond the Rack is a private online shopping club for women and men. Authentic designer merchandise is offered at deeply discounted sale prices to members through limited-time events. Each event starts at a specific time and typically lasts only 48 hours. After each event ends, the merchandise is no longer available. Members are notified by email in advance of each event that matches their preferences. Beyond the Rack's customer base has grown to more than 2.5 million members, and it is recognized as an industry leader in the emerging field of online marketing.⁸

Canadian 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 production inputs consisting of technology, tools, information, and physical facilities.

human resources production inputs consisting of anyone who works, including both the physical labour and the intellectual inputs contributed by workers.

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

ASSESSMENT CHECK

- 1.2.1 Identify the four basic inputs to an economic system.
- 1.2.2 List four types of capital.

LO Describe the private enterprise system.
1.3

THE PRIVATE ENTERPRISE SYSTEM

No business operates completely freely and on its own. All businesses operate within a larger economic system of rules and constraints that directs how goods and services are produced, distributed, and consumed. The type of economic system used in a society also affects the patterns of resource use. Some economic systems enforce strict controls on business ownership, profits, and resources whereas others, like Canada's, offer more freedoms to individuals.

private enterprise system an economic system that rewards firms for their ability to identify and serve the needs and demands of customers.

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

competition the battle among businesses for consumer acceptance.

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

In Canada, businesses function within the **private enterprise system**, an economic system that rewards firms for their ability to identify and serve the needs and demands of customers. The private enterprise system minimizes government interference in business activity. Businesses that are skillful at satisfying customers are able to gain access to the necessary factors of production and earn profits. Success primarily depends on the businesspeople involved.

Another name for the private enterprise system is **capitalism**. Adam Smith, often called the father of capitalism, first described the concept of capitalism in his book *The Wealth of Nations*, published in 1776. Smith believed that an economy is best regulated by the “invisible hand” of **competition**, which is the battle among businesses for consumer acceptance. Smith thought that competition among firms would lead to consumers receiving the best possible products and prices because less efficient producers would gradually be driven from the marketplace.

The idea of the “invisible hand” is a basic principle of the private enterprise system. In Canada, competition shapes much of economic life. To compete successfully, each firm must find a basis for its **competitive differentiation**, the unique combination of organizational abilities, products, and approaches that sets one company apart from its competitors in the minds of customers. Businesses in a private enterprise system must keep up with changing marketplace conditions. Firms that fail to adjust to shifts in consumer preferences and firms that ignore their competitors risk failure. Live Nation Entertainment connects millions of concert-goers with their favourite artists at venues worldwide; see the “Hit & Miss” feature for keys to the company's success.

Our discussion in this book focuses on the tools and methods that twenty-first-century businesses apply to compete and differentiate their goods and services. We also discuss many of the ways that 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, the citizens of 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.

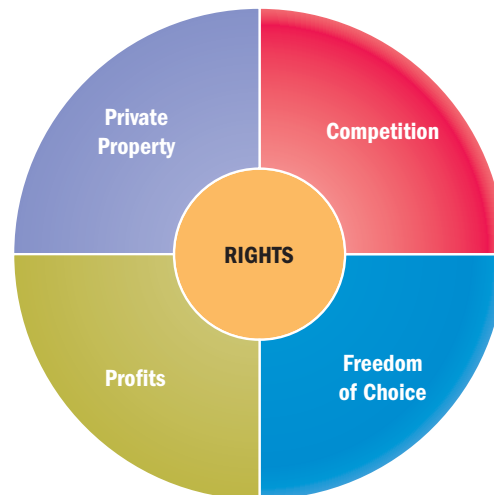


FIGURE 1.1 Basic Rights within a Private Enterprise System

HIT & MISS

Live Nation Connects Superstar Artists and Fans

Chances are, the last concert you attended may have been produced by Live Nation Entertainment of Beverly Hills, California. Michael Rapino, a Canadian-born music mogul, has guided the firm since he became CEO and president in 2005 and is credited with its rapid growth and diversification of services. The largest producer of live music concerts worldwide, Live Nation sells millions of tickets each year for events that range from folk to electronic dance music and that feature entertainers from new artists to music legends. A few years ago, Live Nation merged with ticket-selling giant Ticketmaster Entertainment to create Live Nation Entertainment.

Over 250 million fans access various entertainment platforms each year, attending more than 180,000 events in 47 countries. While more than 65 percent of the company's revenues come from its concert segment, other distinct business units include venue operations, ticketing services, and artist management and services. In an interview, Michael Rapino talked about the 2015 deal Live Nation made with Vice to "launch a full 24-hour, live, choice music channel with original programming and ongoing concerts. We think it's going to find a sweet spot with consumers who are looking for some high-quality, editorial original program and access to that magical live moment."

If you've ever thought about a career as a concert promoter, consider the "accidental trajectory" of then-college student Jodi Goodman. After urging a failing jazz club owner in Boston to allow her to book a few rock music events, Goodman not only turned the club around, but word soon got out about her knack for managing both artists and fans. It was not long before other venues sought her talent, and her career took her to San Francisco. Jodi Goodman is now president of Live Nation Entertainment for Northern California. With



skill and market expertise, Goodman continues to bring artists and fans together in one of the top music markets in the country.

Concert revenues continue to rise and the future looks bright. Some of this success can be attributed to the Boston college kid who read the local music market by bringing some good old rock 'n' roll to a jazz club on the brink of closure, and creative thinkers like Michael Rapino.

Questions for Critical Thinking

1. Ticketmaster, now part of Live Nation Entertainment, responded to the threat of the secondary ticket resale market (by firms like Craigslist and StubHub) by launching its own ticket marketplace. How will Ticketmaster's marketplace impact secondary market competitors?
2. Live Nation anticipates double-digit growth in the number of concert-goers worldwide over the next several years. What factors could contribute to such a healthy increase in attendance?

Sources: Katie Richards, "Live Nation CEO Michael Rapino Discusses Why Rock Stars Are the Greatest Marketers in the World," *Adweek*, March 18, 2015, accessed March 20, 2015, www.adweek.com/news/advertising-branding/live-nation-ceo-michael-rapino-discusses-why-rock-stars-are-best-marketers-world-163430; Tim Adams, "Shane Smith: 'I Want to Build the Next CNN with Vice—It's within My Grasp,'" *The Guardian*, March 24, 2013, accessed March 20, 2015, www.theguardian.com/media/2013/mar/23/shane-smith-vice-interview; Live Nation, 2013 *Annual Report*, accessed January 9, 2014, <http://livenation.com>; "Live Nation's New Groove: Electronic Dance Music and Scalped Tickets," *Bloomberg Businessweek*, August 9, 2013, accessed January 9, 2014, www.bloomberg.com/bw/articles/2013-08-09/live-nation-jumps-on-electronic-dance-music-scalped-tickets; Glenn Peoples, "Live Nation Revenue Hits a Record \$2.26 Billion in Third Quarter," *Billboard Biz*, November 5, 2013, accessed January 9, 2014, www.billboard.com/biz/articles/news/touring/5778225/live-nation-revenue-hits-a-record-226-billion-in-third-quarter; Christine Ryan, "Hot 20: The Music Woman, Jodi Goodman," *7x7 Magazine*, October 14, 2013, accessed January 9, 2014, www.7x7.com/music-nightlife/hot-20-music-woman-jodi-goodman; Ina Fried, "Live Nation Aims to Unify Ticketmaster, Ticket Resale Businesses," *All Things Digital*, February 12, 2013, accessed January 9, 2014, <http://allthingsd.com/20130212/live-nation-aims-to-unify-ticketmaster-ticket-resale-businesses>.

The right to **private property** is the most basic freedom in the private enterprise system. Every participant has the right to own, use, buy, sell, and hand down 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 after-tax profits 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 makes that is greater than its costs.

Freedom of choice means that a private enterprise system relies on citizens to choose their own employment, purchases, and investments. They can change jobs, discuss and agree on wages, join labour unions, and choose among many different brands of goods and services. People living in the capitalist nations of North America, Europe, and other parts of the world are so conditioned to having this freedom of choice that they sometimes forget how important it is. A private enterprise economy maximizes individual wealth by providing options. Other economic systems

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