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Business **13e** Foundations

▶▶▶▶▶ A CHANGING WORLD

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O.C. Ferrell

Geoffrey A. Hirt

Linda Ferrell



Business Foundations

13e

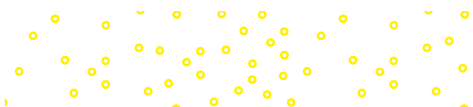
 **A CHANGING WORLD**

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BUSINESS FOUNDATIONS

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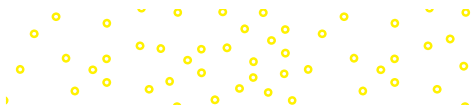
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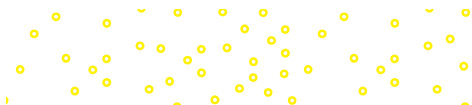


Dedication

To James Ferrell

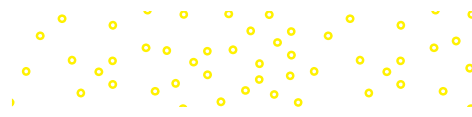
To Stan Block

To George Ferrell





Authors



O.C. FERRELL



Courtesy of the NASBA
Center for the Public Trust

O.C. Ferrell is the James T. Pursell Sr. Eminent Scholar in Ethics and Director of the Center for Ethical Organizational Cultures in the Raymond J. Harbert College of Business, Auburn University. He was

formerly Distinguished Professor of Leadership and Business Ethics at Belmont University and University Distinguished Professor at the University of New Mexico. He has also been on the faculties of the University of Wyoming, Colorado State University, University of Memphis, Texas A&M University, Illinois State University, and Southern Illinois University. He received his PhD in marketing from Louisiana State University.

Dr. Ferrell is past president of the Academy of Marketing Science. He is past president of the Academic Council of the American Marketing Association and chaired the American Marketing Association Ethics Committee. Under his leadership, the committee developed the AMA Code of Ethics and the AMA Code of Ethics for Marketing on the Internet. In addition, he is a former member of the Academy of Marketing Science Board of Governors and is a Society of Marketing Advances and Southwestern Marketing Association Fellow and an Academy of Marketing Science Distinguished Fellow. He served for nine years as the vice president of publications for the Academy of Marketing Science. He received a Lifetime Achievement Award from the Macromarketing Society and a special award for service to doctoral students from the

Southeast Doctoral Consortium. He received the Harold Berkman Lifetime Service Award from the Academy of Marketing Science and the Cutco Vector Distinguished Marketing Educator Award from the Academy of Marketing Science.

Dr. Ferrell has been involved in entrepreneurial engagements, co-founding Print Avenue in 1981, providing a solution-based printing company. He has been a consultant and served as an expert witness in legal cases related to marketing and business ethics litigation. He has conducted training for a number of global firms, including General Motors. His involvement with direct selling companies includes serving on the Academic Advisory Committee and as a fellow for the Direct Selling Education Foundation.

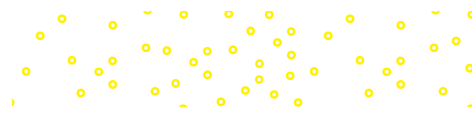
Dr. Ferrell is the co-author of 20 books and more than 100 published articles and papers. His articles have been published in the *Journal of Marketing Research*, *Journal of Marketing*, *Journal of Business Ethics*, *Journal of Business Research*, *Journal of the Academy of Marketing Science*, *AMS Review*, and *Journal of Public Policy & Marketing*, as well as other journals.

GEOFFREY A. HIRT



Courtesy of
Geoffrey A. Hirt

Geoffrey A. Hirt of DePaul University previously taught at Texas Christian University and Illinois State University, where he was chairman of the Department of Finance and Law. At DePaul, he was



chairman of the Finance Department from 1987 to 1997 and held the title of Mesirov Financial Fellow. He developed the MBA program in Hong Kong and served as director of international initiatives for the College of Business, supervising overseas programs in Hong Kong, Prague, and Bahrain, and was awarded the Spirit of St. Vincent DePaul award for his contributions to the university. Dr. Hirt directed the Chartered Financial Analysts (CFA) study program for the Investment Analysts Society of Chicago from 1987 to 2003. He has been a visiting professor at the University of Urbino in Italy, where he still maintains a relationship with the economics department. He received his PhD in finance from the University of Illinois at Champaign-Urbana, his MBA at Miami University of Ohio, and his BA from Ohio Wesleyan University.

Dr. Hirt is currently on the Dean's Advisory Board and Executive Committee of DePaul's School of Music. He served on the James C. Tyree Foundation Board and Grant Committee from 2012 to 2016. Dr. Hirt is past president and a current member of the Midwest Finance Association and a former editor of the *Journal of Financial Education*. He belongs to the Pacific Pension Institute, an organization of public pension funds, private equity firms, and international organizations such as the Asian Development Bank, the IMF, and the European Bank for Reconstruction and Development.

Dr. Hirt is widely known for his textbook *Foundations of Financial Management*, published by McGraw Hill. This book, in its eighteenth edition, has been used in more than 31 countries and translated into more than 14 different languages. Additionally, Dr. Hirt is well known for his textbook *Fundamentals of Investment Management*, also published by McGraw Hill and now in its tenth edition. Dr. Hirt enjoys golf, swimming, music, and traveling with his wife, who is a pianist and opera coach.

LINDA FERRELL



Courtesy of the NASBA
Center for the Public Trust

Linda Ferrell is the Roth Family Professor of Marketing and Business Ethics in the Raymond J. Harbert College of Business, Auburn University. She was formerly Distinguished Professor of Leadership and Business Ethics at Belmont University. She completed her PhD in business administration, with a concentration in management, at the University of Memphis. She has taught at the University of Tampa, Colorado State University, University of Northern Colorado, University of Memphis, University of Wyoming, and the University of New Mexico. She has also team-taught classes at Thammasat University in Bangkok, Thailand.

Her work experience as an account executive for McDonald's and Pizza Hut's advertising agencies supports her teaching of advertising, marketing strategy, marketing ethics, and marketing principles. She has published in the *Journal of Public Policy & Marketing*, *Journal of Business Research*, *Journal of the Academy of Marketing Science*, *Journal of Business Ethics*, *AMS Review*, *Journal of Academic Ethics*, *Journal of Marketing Education*, *Marketing Education Review*, *Journal of Teaching Business Ethics*, *Marketing Management Journal*, and *Case Research Journal*, and she is co-author of *Business Ethics: Ethical Decision Making and Cases* (thirteenth edition), *Management* (fourth edition), and *Business and Society* (seventh edition).

Dr. Ferrell is the past president of the Academy of Marketing Science and a past president for the Marketing Management Association. She is on the college advisory board for Cutco/Vector and previously served on a NASDAQ corporate board. She is also on the Board, Executive Committee, and Academic Advisory Committee of the Direct Selling Education Foundation. She has served as an expert witness in cases related to advertising, business ethics, and consumer protection.



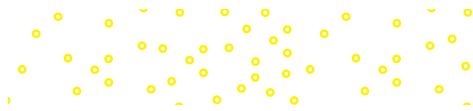
Welcome

Business Foundations: A Changing World, thirteenth edition, provides coverage of dynamic changes in the economy as they relate to business and business decisions. The contents of this book are integrated with current events and examples to illustrate the concepts discussed. We have listened to your feedback and incorporated needed changes in content, boxes, cases, exercises, support, online resources, and other features.

Digital marketing and social media, discussed in Chapter 13, are dynamic areas that continue to change the face of business. Entrepreneurs and small businesses can increase sales and reduce costs by using social networking to communicate and develop relationships with customers. The sharing, or “gig,” economy has transformed entrepreneurial opportunities for employees. For example, the number of independent contractors in our economy has increased to almost one-third of the workforce. The internet is providing opportunities for peer-to-peer relationships for companies such as Uber, Lyft, TaskRabbit, Airbnb, and Fiverr. Digital marketing has helped many entrepreneurs launch successful businesses.

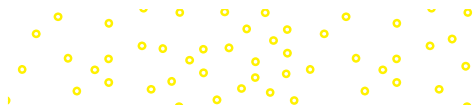
The foundational areas of introduction to business, entrepreneurship, small business management, marketing, accounting, and finance have all been revised. Examples have been provided to which students can easily relate in our “Enter the World of Business” opening vignette found in each chapter. Throughout the text, we highlight innovation and disruption in our boxed features. “Entrepreneurship in Action” demonstrates the importance of entrepreneurs; “Technology and the Economy” demonstrates how emerging technologies such as artificial intelligence, drones, and augmented reality influence business; “Business Disruption” provides real-world examples of the changing business landscape; and “Responding to Business Challenges” features companies that have overcome obstacles.

We have been careful to continue our coverage of global business, ethics and social responsibility, and information technology as they relate to the foundations important in an introduction to business course. Our co-author team has a diversity of expertise in these important areas. O.C. Ferrell and Linda Ferrell have been recognized as leaders in business ethics education, and their insights are reflected in every chapter and in the “Consider Ethics and Social Responsibility” boxes. Geoff Hirt has a strong background in global business development, especially world financial markets and trade relationships.



Our goal is to make sure that the content and teaching package for this book are of the highest quality possible. We wish to seize this opportunity to gain your trust, and we appreciate any feedback to help us continually improve these materials. We hope that the real beneficiary of all of our work will be well-informed students who appreciate the role of business in society and take advantage of the opportunity to play a significant role in improving our world. In this new edition, we have additional content to help our students understand how our free enterprise system operates and how we fit into the global competitive environment. This course is an opportunity for students to understand how they can create their own success and improve their quality of life.

O.C. Ferrell
Geoffrey A. Hirt
Linda Ferrell





Focused, Exciting, Applicable, Happening

Business Foundations: A Changing World, thirteenth edition, offers faculty and students a **focused** resource that is **exciting**, **applicable**, and **happening!** What sets this learning program apart from the competition? An unrivaled mixture of exciting content and resources blended with application-focused text and activities, and fresh topics and examples that show students what is happening in the world of business today!

Our product contains all of the essentials that most students should learn in a semester. *Business Foundations* has, since its inception, delivered a focused presentation of the essential material needed to teach introduction to business. An unrivaled mixture of exciting content and resources, application-focused content and activities, and fresh topics and examples that show students what is happening in the world of business today set this text apart!

Focused!

It's easy for students taking their first steps into business to become overwhelmed. Longer products try to solve this problem by chopping out examples or topics to make ad hoc shorter editions. *Business Foundations* carefully builds just the right mix of coverage and applications to give your students a firm grounding in business principles. Where other products have you sprinting through the semester to get everything in, Ferrell/Hirt/Ferrell allows you the breathing space to explore topics and incorporate other activities that are important to you and your students. The exceptional resources and the *Active Classroom Resource Manual* support you in this effort every step of the way.

Exciting!

It's exciting to see students succeed! It's exciting to see more As and Bs in a course without grade inflation. Ferrell/Hirt/Ferrell makes these results possible for your course with its integrated learning package that is proven effective, tailored to each individual student, and easy to use.

Applicable!

When students see how content applies to them, their life, their career, and the world around them, they are more engaged in the course. *Business Foundations* helps students maximize their learning efforts by setting clear objectives; delivering interesting cases and examples; focusing on core issues; and providing engaging activities to apply concepts, build skills, and solve problems.

Happening!

Everything in this edition reflects the very latest developments in the business world—such as the COVID-19 pandemic that resulted in high unemployment, stress on small businesses, and disruption in supply chains. In addition, ethics and social responsibility have become much more important as firms are being rewarded for having a social conscience and addressing unrest and conflicts in society.





New to This Edition

As always, when revising this material for the current edition, all examples, figures, and statistics have been updated to incorporate any recent developments that affect the world of business. Additionally, content was updated to ensure the most pertinent topical coverage is provided.

Here are the highlights for each chapter:

Chapter 1: The Dynamics of Business and Economics

- New boxed features describing real-world business issues
- Updated unemployment and GDP data
- New stats on inflation
- New stats on women in the workforce
- New section on technology and the economy
- New examples related to the COVID-19 pandemic
- New figure depicting artificial intelligence in relation to its enablers
- New *See for Yourself Case* featuring Tesla

Chapter 2: Business Ethics and Social Responsibility

- New boxed features describing issues in business ethics and social responsibility
- New data on global trust in different industries
- New examples about ethical issues in the sharing economy
- New content about aggressive financial or business objectives
- New example of a bribery scandal
- Expanded timeline of ethical and socially responsible activities
- New content on diversity, equity, and inclusion
- New table of the divisions of the Federal Trade Commission
- New *See for Yourself Case* featuring Hershey

Chapter 3: Business in a Borderless World

- New boxed features describing issues in international business
- Updated list of top 10 countries with which the United States has trade deficits/surpluses
- New content on the United States–China trade war
- Updated Euro Zone details
- New details on the EU’s General Data Protection Regulation (GDPR)
- New content about the United States–Mexico–Canada Agreement (USMCA)
- New table of U.S. top trading partners
- Updated table of common hand gestures that are rude in other countries
- New *See for Yourself Case* featuring McDonald’s

Chapter 4: Options for Organizing Business

- New boxed features describing real-world business issues
- New table of world's biggest dividend payers
- Updated table of America's largest private companies
- New *See for Yourself Case* featuring Casper

Chapter 5: Small Business, Entrepreneurship, and Franchising

- New boxed features describing current business issues
- Examples of innovative small businesses
- New information on artificial intelligence
- Updated table of the fastest growing franchises
- Updated table of the most business-friendly states
- New stats on small business
- New data on Gen Z in the workforce
- New data on minority-owned businesses
- New *See for Yourself Case* discussing the impact of COVID-19 on small business

Chapter 6: The Nature of Management

- New boxed features describing current business issues
- New content about business models
- New table of compensation packages of CEOs
- New content on gender equality
- New *See for Yourself Case* featuring Everlane

Chapter 7: Organization, Teamwork, and Communication

- New boxed features describing current business issues
- New examples of organizational culture
- New content on artificial intelligence
- New content on email and videoconferencing usage in the workplace
- New *See for Yourself Case* featuring Coca-Cola

Chapter 8: Managing Operations and Supply Chains

- New boxed features describing current business operational issues
- New content on marketing research and artificial intelligence
- New section on blockchain technology
- New content on drone technology
- Extensive overhaul of Managing the Supply Chain section
- Updated airline scorecard table
- New examples related to the COVID-19 pandemic and supply chains
- New *See for Yourself Case* featuring Scentsy



Chapter 9: Motivating the Workforce

- New boxed features describing current business issues
- New examples of organizational culture
- New table of best places for businesses and careers
- New *See for Yourself Case* featuring Google

Chapter 10: Managing Human Resources

- New boxed features describing current HR issues
- Updated common job interview questions
- New content on wage gap
- New example of how soft benefits inspire loyalty
- New section on employee relations and sexual harassment
- New content on diversity, equity, and inclusion
- New *See for Yourself Case* featuring Apple

Chapter 11: Customer-Driven Marketing

- New boxed features describing current marketing issues
- New content on marketing orientation
- New content on supply chain management
- New content on marketing analytics dashboards
- New data on the buying power by race/ethnicity
- New table of companies with the best customer service
- New *See for Yourself Case* featuring Dollar General

Chapter 12: Dimensions of Marketing Strategy

- New boxed features describing current marketing issues
- Logistics added as key term
- New definition for physical distribution key term
- Updated figure depicting a company's product mix
- Updated personal care and cleaning products customer satisfaction ratings
- New examples related to the impact of the COVID-19 pandemic on marketing strategy
- New *See for Yourself Case* featuring Dr. Martens

Chapter 13: Digital Marketing and Social Media

- New boxed features describing current digital marketing issues
- New stats on social media use by platform
- New stats on mobile app activities
- New data on the main sources of identity theft
- New section on TikTok
- New *See for Yourself Case* featuring Facebook and Instagram



Chapter 14: Accounting and Financial Statements

- New boxed features describing current accounting issues
- Updated rankings of accounting firms in the United States
- New financial information for NVIDIA
- New content on net income and corporate tax rate
- New *See for Yourself Case* featuring Tesla

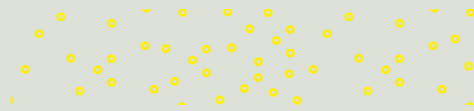
Chapter 15: Money and the Financial System

- New boxed features describing current financial issues
- Updated life expectancy of money
- Updated cost to produce coins
- New content on cryptocurrency
- New content on interest rates
- New content on exchange-traded funds (ETFs)
- New *See for Yourself Case* discussing the Big Mac Index

Chapter 16: Financial Management and Securities Markets

- New boxed features describing current financial issues
- Updated short-term investment possibilities
- Updated U.S. corporate bond quotes
- New content on electronic markets
- Updated estimated common stock price-earnings, ratios, and dividends for selected companies
- New table of S&P 500 corrections
- New content on the impacts of the COVID-19 pandemic on financial management
- New *See for Yourself Case* featuring the Dow Jones Industrial Average



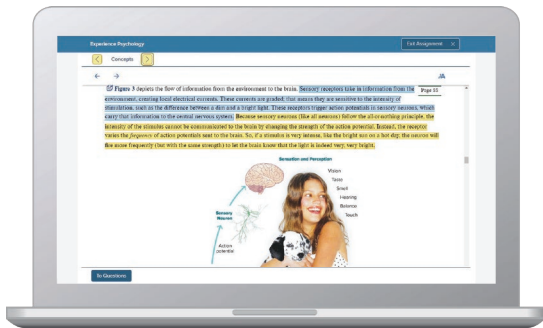


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Solutions for your challenges



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"I really liked this app—it made it easy to study when you don't have your textbook in front of you."

- Jordan Cunningham,
Eastern Washington University



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Learning for everyone

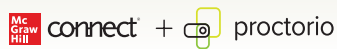
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Proctorio: Remote Proctoring & Browser-Locking Capabilities



Remote proctoring and browser-locking capabilities, hosted by Proctorio within Connect, provide control of the assessment environment by enabling security options and verifying the identity of the student.

Seamlessly integrated within Connect, these services allow instructors to control students' assessment experience by restricting browser activity, recording students' activity, and verifying students are doing their own work.

Instant and detailed reporting gives instructors an at-a-glance view of potential academic integrity concerns, thereby avoiding personal bias and supporting evidence-based claims.



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OLC-Aligned Courses: Implementing High-Quality Online Instruction and Assessment through Preconfigured Courseware

In consultation with the Online Learning Consortium (OLC) and our certified Faculty Consultants, McGraw Hill has created preconfigured courseware using OLC's quality scorecard to align with best practices in online course delivery. This turnkey courseware contains a combination of formative assessments, summative assessments, homework, and application activities, and can easily be customized to meet an individual's needs and course outcomes. For more information, visit <https://www.mheducation.com/highered/olc>.

Tegrity: Lectures 24/7

Tegrity in Connect is a tool that makes class time available 24/7 by automatically capturing every lecture. With a simple one-click start-and-stop process, you capture all computer screens and corresponding audio in a format that is easy to search, frame by frame. Students can replay any part of any class with easy-to-use, browser-based viewing on a PC, Mac, iPod, or other mobile device.

Educators know that the more students can see, hear, and experience class resources, the better they learn. In fact, studies prove it. Tegrity's unique search feature helps students efficiently find what they need, when they need it, across an entire semester of class recordings. Help turn your students' study time into learning moments immediately supported by your lecture. With Tegrity, you also increase intent listening and class participation by easing students' concerns about note-taking. Using Tegrity in Connect will make it more likely you will see students' faces, not the tops of their heads.





Test Builder in Connect

Available within Connect, Test Builder is a cloud-based tool that enables instructors to format tests that can be printed, administered within a Learning Management System, or exported as a Word document of the test bank. Test Builder offers a modern, streamlined interface for easy content configuration that matches course needs, without requiring a download.

Test Builder allows you to:

- Access all test bank content from a particular title.
- Easily pinpoint the most relevant content through robust filtering options.
- Manipulate the order of questions or scramble questions and/or answers.
- Pin questions to a specific location within a test.
- Determine your preferred treatment of algorithmic questions.
- Choose the layout and spacing.
- Add instructions and configure default settings.

Test Builder provides a secure interface for better protection of content and allows for just-in-time updates to flow directly into assessments.

Writing Assignment

Available within Connect and Connect Master, the Writing Assignment tool delivers a learning experience to help students improve their written communication skills and conceptual understanding. As an instructor, you can assign, monitor, grade, and provide feedback on writing more efficiently and effectively.

Application-Based Activities in Connect

Application-Based Activities in Connect are highly interactive, assignable exercises that provide students a safe space to apply the concepts they have learned to real-world, course-specific problems. Each Application-Based Activity involves the application of multiple concepts, allowing students to synthesize information and use critical thinking skills to solve realistic scenarios.



Create: Your Book, Your Way

McGraw Hill's Content Collections Powered by Create[®] is a self-service website that enables instructors to create custom course materials—print and eBooks—by drawing upon McGraw Hill's comprehensive, cross-disciplinary content. Choose what you want from our high-quality textbooks, articles, and cases. Combine it with your own content quickly and easily, and tap into other rights-secured, third-party content such as readings, cases, and articles. Content can be arranged in a way that makes the most sense for your course and you can include the course name and information as well. Choose the best format for your course: color print, black-and-white print, or eBook. The eBook can be included in your Connect course and is available on the free ReadAnywhere app for smartphone or tablet access as well. When you are finished customizing, you will receive a free digital copy to review in just minutes! Visit McGraw Hill Create[®]—www.mcgrawhillcreate.com—today and begin building!





Acknowledgments



The thirteenth edition of *Business Foundations: A Changing World* would not have been possible without the commitment, dedication, and patience of Kelsey Reddick. Kelsey Reddick provided oversight for editing text content and developed the cases, boxes, and supplements. Meredith Fossel, Executive Portfolio Manager, provided leadership and creativity in planning and implementing all aspects of this edition. Anne Leung, Senior Product Developer, did an outstanding job of coordinating all aspects of the development and production process. Kathryn Wright was the Content Project Manager. Bruce Gin managed the technical aspects of Connect. Also important in this edition was Nicole Young, Executive Marketing Manager. Michael Hartline developed the Personal Career Plan in Appendix B. Vickie Bajtelsmit developed Bonus Chapter B on personal financial planning. Eric Sandberg of Interactive Learning assisted in developing the interactive exercises. Rhonda Thomas and Amanda Stoecklein helped with the exercises and Helen Davis with the instructor's manual. Many others have assisted us with their helpful comments, recommendations, and support throughout this and previous editions. Thank you for all of your insight and feedback. We'd like to express our sincere thanks to the reviewers who helped us shape this edition. Your time and thoughtful feedback have helped us greatly make this another great revision:

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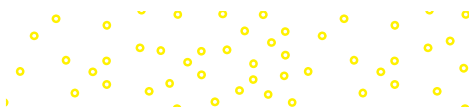
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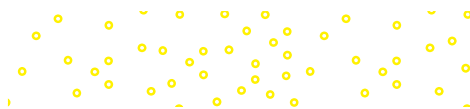
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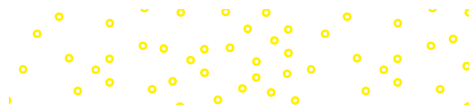


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A. Guidelines for the Development of the Business Plan

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PART 1

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Business in a Changing World

Chapter 1 The Dynamics of Business and Economics

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1

The Dynamics of Business and Economics



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Chapter Outline

- ▶ Introduction
- ▶ The Nature of Business
 - The Goal of Business*
 - The People and Activities of Business*
 - Why Study Business?*
- ▶ The Economic Foundations of Business
 - Economic Systems*
 - The Free-Enterprise System*
 - The Forces of Supply and Demand*
 - The Nature of Competition*
 - Economic Cycles and Productivity*
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 - Technology and the Economy*
 - The Role of the Entrepreneur*
 - The Role of Government in the American Economy*
 - The Role of Ethics and Social Responsibility in Business*
- ▶ Can You Learn Business in a Classroom?

Learning Objectives

After reading this chapter, you will be able to:

- ▶ **LO 1-1** Define basic concepts such as business, product, profit, and economics.
- ▶ **LO 1-2** Identify the main participants and activities of business.
- ▶ **LO 1-3** Explain why studying business is important.
- ▶ **LO 1-4** Compare the four types of economic systems.
- ▶ **LO 1-5** Describe the role of supply, demand, and competition in a free-enterprise system.
- ▶ **LO 1-6** Specify why and how the health of the economy is measured.
- ▶ **LO 1-7** Outline the evolution of the American economy.
- ▶ **LO 1-8** Explain the role of the entrepreneur in the economy.
- ▶ **LO 1-9** Evaluate a small-business owner's situation and propose a course of action.

Enter the World of Business

Inside the Zoom Boom

Zoom, a video communications company, is a household name, but it wasn't always that way. Founded in 2011, Zoom entered the video conference technology market at a time when consumer and business demand was just starting to ramp up. It wasn't until the COVID-19 pandemic struck nearly a decade later that Zoom experienced an unprecedented surge in demand and became widely recognized as an industry leader.

Zoom enjoyed steady growth for years, with a \$9.2 billion valuation at the time of its 2019 initial public offering (IPO). Social distancing and isolation in 2020 fueled the demand for video communication and dramatically increased new Zoom user registrations. Zoom's user-friendly nature is one of the primary reasons the company emerged from the pandemic as one of the biggest corporate success stories. The platform is now worth close to \$100 billion.

The software company attracts many users to its free Basic account and attempts to convert these users into paying customers, a pricing model known as freemium pricing. Freemium pricing can be expensive for companies because it costs money to acquire new customers and to offer free access, making it especially painful when customers discontinue service after a free trial. Zoom, however, has experienced record profits and has signed on big-name clients.

Founder and CEO Eric Yuan set out to build a high-quality, easy-to-use video conferencing tool with modern features that would operate on slow internet connections. Yuan created a superior product that caters to the needs and wants of its customers, providing value and benefits. Zoom continues to be the video communications platform of choice for millions of users.^a

Critical Thinking Questions

1. How did the COVID-19 pandemic contribute to Zoom's success?
2. What value and benefits does Zoom offer?
3. What are the advantages of a freemium pricing model? Disadvantages?

Introduction

We begin our study of business in this chapter by examining the fundamentals of business and economics. First, we introduce the nature of business, including its goals, activities, and participants. Next, we describe the basics of economics and apply them to the U.S. economy. Finally, we establish a framework for studying business in this text.

LO 1-1

Define basic concepts such as business, product, profit, and economics.

business

individuals or organizations who try to earn a profit by providing products that satisfy people's needs.

product

a good or service with tangible and intangible characteristics that provide satisfaction and benefits.

profit

the difference between what it costs to make and sell a product and what a customer pays for it.

nonprofit organizations

organizations that may provide goods or services but do not have the fundamental purpose of earning profits.

The Nature of Business

A **business** produces products that satisfy people's needs to earn a profit. The outcomes of its efforts are **products** that have both tangible and intangible characteristics that provide value and benefits. When you purchase a product, you are buying the value and benefits you think the product will provide. A Subway sandwich, for example, may be purchased to satisfy hunger, while a Ford F-150 may be purchased to satisfy the need for transportation and the desire to present a certain image.

Most people associate the word *product* with tangible goods—an automobile, smartphone, jeans, or some other tangible item. However, a product can also be a service, which occurs when people or machines provide or process something of value to customers. Dry cleaning, a telemedicine visit, a movie or sports event—these are examples of services. An Uber ride satisfies the need for transportation and is, therefore, a service. A product can also be an idea. Accountants and attorneys, for example, provide ideas for solving problems.

The Goal of Business

The goal of business is to earn a **profit** while maintaining social responsibility. A profit is the difference between what it costs to make and sell a product and what a customer pays for it. In addition, a business has to pay for all expenses necessary to operate. If a company spends \$8 to produce, finance, promote, and distribute a product that it sells for \$10, the business earns a profit of \$2 on each product sold. Businesses have the right to keep and use their profits as they choose—within legal limits—because profit is the reward for their efforts and for the risks they take in providing products. Earning profits contributes to society by creating resources that support our social institutions and government. Businesses that create profits, pay taxes, and create jobs are the foundation of our economy. In addition, profits must be earned in an ethically and socially responsible manner. Most businesses give back to the community to support social and economic causes. Not all organizations are businesses, however. **Nonprofit organizations**—such as National Public Radio (NPR), Habitat for Humanity, and other charities and social causes—do not have the fundamental purpose of earning profits, although they may provide goods or services and engage in fund-raising. They also utilize skills related to management, marketing, and finance.

To earn a profit requires management skills to plan, organize, and control the activities of the business and to find and develop employees so that it can make products consumers will buy. A business also needs marketing expertise to learn what products consumers need and want and to develop, manufacture, price, promote, and distribute those products. Additionally, a business needs financial resources and skills

to fund, maintain, and expand its operations. A business must cover the cost of labor, operate facilities, pay taxes, and provide management. Other challenges for businesspeople include abiding by laws and government regulations and adapting to economic, technological, political, and social changes. Even nonprofit organizations engage in management, marketing, and finance activities to help reach their goals. Nonprofits also need employees with the same skills as businesses.

To achieve and maintain profitability, businesses have found that they must produce quality products, operate efficiently, and be socially responsible and ethical in dealing with customers, employees, investors, government regulators, and the community. Because these groups have a stake in the success and outcomes of a business, they are sometimes called **stakeholders**.

Many businesses, for example, are concerned about how the production and distribution of their products affect the environment. Automakers, for example, are working toward taking a bigger slice of the electric vehicle (EV) market. Other businesses are concerned with promoting science, engineering, and mathematics careers among women. Traditionally, these careers have been male-dominated. According to Bloomberg, when the number of men and women on a team are evenly matched, the companies have a higher return on equity.¹

The People and Activities of Business

Figure 1.1 shows the people and activities involved in business. At the center of the figure are owners, employees, and customers; the outer circle includes the primary business activities—management, marketing, and finance. Owners have to put up resources, time, and effort, as well as financial and human resources, to start a business. Employees are responsible for the work that goes on within a business. Owners can manage the business themselves or hire employees to accomplish this task. The president and chief executive officer (CEO) of Procter & Gamble, David S. Taylor, does not own P&G but is an employee who is responsible for managing all the other employees in a way that earns a profit for investors, who are the real owners. Finally, and most importantly, a business's major role is to satisfy the customers who buy its goods or services. Note also that forces beyond an organization's control—such as legal and regulatory forces, the economy, competition, technology, the political environment, and ethical and social concerns—all have an impact on the daily operations of businesses. You will learn more about these participants in business activities throughout this book. Next, we will examine the major activities of business.

Management Notice that in Figure 1.1, management and employees are in the same segment of the circle. This is because management involves developing plans, coordinating employees' actions to achieve the firm's goals, organizing people to work efficiently, and motivating them to achieve the business's goals. Management



Alex's Lemonade Stand Foundation is a nonprofit organization that raises funds and awareness for childhood cancer.

Rebecca Sapp/Getty Images for L.A. Loves Alex's Lemonade

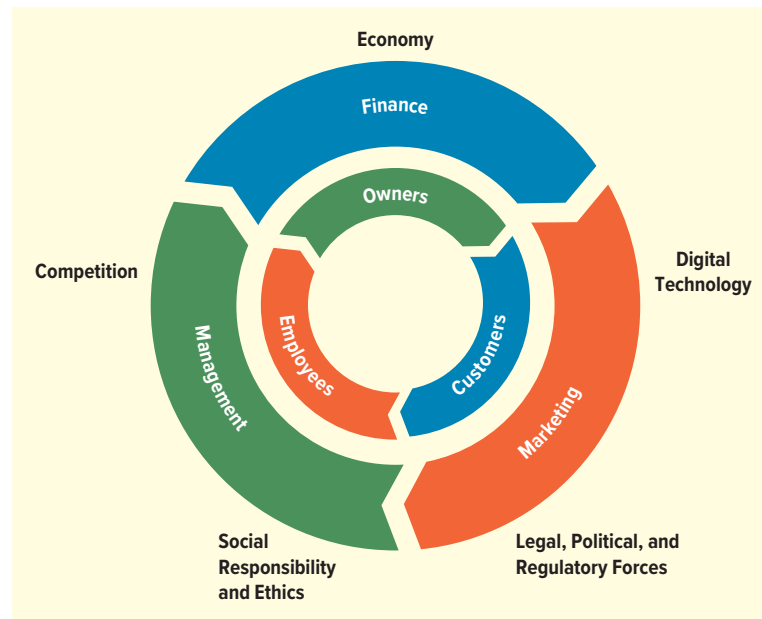
stakeholders

groups that have a stake in the success and outcomes of a business.

LO 1-2

Identify the main participants and activities of business.

FIGURE 1.1
Overview of the Business
World



involves the functions of planning, organizing, leading, and controlling. Effective managers who are skilled in these functions display effective leadership, decision making, and delegation of work tasks. According to Jeff Bezos, founder and former CEO of Amazon, a key to effective management is to make a small number of high-quality decisions and delegate day-to-day business operations decisions.² Management is also concerned with acquiring, developing, and using resources (including people) effectively and efficiently.

Management involves organization, teamwork, and communication. Operations and supply chain management are also important. Motivating the workforce and managing human resources are necessary for success. Managers at the Ritz-Carlton, for instance, are concerned with transforming resources such as employee actions and hotel amenities into a quality customer service experience. In essence, managers plan, organize, staff, and control the tasks required to carry out the work of the company or nonprofit organization. We take a closer look at management activities in Parts 3 and 4 of this text.

Marketing Marketing and customers are in the same segment of Figure 1.1 because the focus of all marketing activities is satisfying customers. Marketing includes all the activities designed to provide goods and services that satisfy consumers' needs and wants. Marketers gather information and conduct research to determine what customers want. Using information gathered from marketing research, marketers plan and develop products and make decisions about how much to charge for their products and when and where to make them available. They also analyze the marketing environment to understand changes in competition and consumers. The retail environment is changing based on competition from online retailing. This has caused many retail stores and malls to close.³ Marketing focuses on the four P's—product, price, place (or distribution), and promotion—also known as the marketing mix. Product management involves key management decisions such as product adoption, development, branding, and product positioning. Selecting the right price for the product is essential

to the organization as it relates directly to profitability. Distribution (or place) is an important management concern because it involves making sure products are available to consumers in the right place at the right time. Marketers use promotion—advertising, personal selling, sales promotion (coupons, games, sweepstakes, movie tie-ins), and publicity—to communicate the benefits and advantages of their products to consumers and to increase sales. For example, Stevia in the Raw uses advertising as part of its promotion mix to appeal to consumers who enjoy sweets but want a healthier alternative to sugar. In the advertisement, Stevia in the Raw communicates that its product, a zero-calorie sweetener, reduces sugar and calories for a more healthful recipe. We will examine marketing activities in Part 5 of this text.

Finance Owners and finance are adjacent in Figure 1.1 because, although management and marketing have to deal with financial considerations, it is the primary responsibility of the owners to provide financial resources for the operation of the business. Accounting, money, and the financial system, as well as understanding the securities market, are important for business success. People who work as accountants, financial analysts, investment advisors, or bankers are all part of the financial world. Owners have to rely on investors and loans from financial institutions and often issue stocks or bonds to have financial resources. Owners of small businesses in particular often rely on bank loans for funding. Part 6 of this text discusses financial management.

Why Study Business?

Studying business can help you develop skills and acquire knowledge to prepare for your future career, regardless of whether you plan to work for a large corporation, start your own business, work for a government agency, or manage or volunteer at a nonprofit organization. The field of business offers a variety of interesting and challenging career opportunities throughout the world, such as marketing, human resources management, information technology, finance, production, accounting, data analytics, and many more.

Studying business can also help you better understand the many business activities that are necessary to provide satisfying goods and services. Most businesses charge a reasonable price for their products to ensure that they cover their production costs, pay their employees, provide their owners with a return on their investment, and perhaps give something back to their local communities and societies. The Home Depot Foundation has provided grants to remodel and renovate homes of U.S. military veterans.⁴ Thus, learning about business can help you become a well-informed consumer and member of society.



Cut the sugar calories in *half* and keep the whole cake.

NO CONVERSION
 1 Cup Sugar = 1 Cup Stevia In The Raw®

Reduce sugar, calories and confusion from your recipes by swapping out half the sugar for Stevia In The Raw®. Why only half? Keeping half the sugar is important for moisture, browning and rising. One cup of Stevia In The Raw has the same sweetness as one cup of sugar and pairs well with bold flavors like in this **Mocha Cake with Peanut Butter Frosting**. Get this sweet recipe and more at InTheRaw.com

Advertising is one method for marketers to promote the benefits and advantages of their products. This advertisement features Stevia in the Raw, a sugar alternative, and instructs consumers on how to make cake with half the sugar and calories.

Source: Stevia in the Raw

LO 1-3

Explain why studying business is important.



The Home Depot Foundation's Veteran Housing Grants Program awards grants to assist in the construction of housing and facilities for veterans.

Jill Braaten/McGraw Hill Education

LO 1-4

Compare the four types of economic systems.

economics

the study of how resources are distributed for the production of goods and services within a social system.

natural resources

land, forests, minerals, water, and other things that are not made by people.

human resources (labor)

the physical and mental abilities that people use to produce goods and services.

financial resources (capital)

the funds used to acquire the natural and human resources needed to provide products.

economic system

a description of how a particular society distributes its resources to produce goods and services.

services within a social system. You are already familiar with the types of resources available. Land, forests, minerals, water, and other things that are not made by people are **natural resources**. **Human resources**, or **labor**, refer to the physical and mental abilities that people use to produce goods and services. **Financial resources**, or **capital**, are the funds used to acquire the natural and human resources needed to provide products. These resources are related to the *factors of production*, consisting of land, labor, capital, and enterprise used to produce goods and services. The firm can also have intangible resources such as a good reputation for quality products or being socially responsible. The goal is to turn the factors of production and intangible resources into a competitive advantage.

Economic Systems

An **economic system** describes how a particular society distributes its resources to produce goods and services. A central issue of economics is how to fulfill an unlimited demand for goods and services in a world with a limited supply of resources. Different economic systems attempt to resolve this central issue in numerous ways.

Although economic systems handle the distribution of resources in different ways, all economic systems must address three important issues:

1. What goods and services, and how much of each, will satisfy consumer needs?
2. How will goods and services be produced, who will produce them, and with what resources will they be produced?
3. How are the goods and services to be distributed to consumers?

Communism, socialism, and capitalism, the basic economic systems found in the world today (Table 1.1), have fundamental differences in the way they address these issues. The factors of production in command economies are controlled by government planning. In many cases, the government owns or controls the production of goods and services. Communism and socialism are, therefore, considered command economies.

Business activities help generate not only the profits that are essential to individual businesses and local economies, but also the products that provide quality of life for the public. Understanding how our free-enterprise economic system allocates resources and provides incentives for industry and the workplace is important to everyone.

The Economic Foundations of Business

It is useful to explore the economic environment in which business is conducted. In this section, we examine economic systems, the free-enterprise system, the concepts of supply and demand, and the role of competition. These concepts play important roles in determining how businesses operate in a particular society.

Economics is the study of how resources are distributed for the production of goods and

TABLE 1.1 Comparison of Communism, Socialism, and Capitalism

	Communism	Socialism	Capitalism
Business ownership	Most businesses are owned and operated by the government.	The government owns and operates some basic industries; individuals also own businesses.	Individuals own and operate all businesses.
Competition	Government controls competition and the economy.	Restricted in basic industries; encouraged in other businesses.	Encouraged by market forces and government regulations.
Profits	Excess income goes to the government. The government supports social and economic institutions.	Profits earned by businesses may be reinvested in the business; profits from government-owned industries go to the government.	Individuals and businesses are free to keep profits after paying taxes.
Product availability and price	Consumers have a limited choice of goods and services; prices are usually high.	Consumers have a choice of goods and services; prices are determined by supply and demand.	Consumers have a wide choice of goods and services; prices are determined by supply and demand.
Employment options	Little choice in choosing a career; most people work for government-owned industries or farms.	More choice of careers; many people work in government jobs.	Unlimited choice of careers.

Communism Karl Marx (1818–1883) first described **communism** as a society in which the people, without regard to class, own all the nation’s resources. In his ideal political-economic system, everyone contributes according to ability and receives benefits according to need. In a communist economy, the people (through the government) own and operate all businesses and factors of production. Central government planning determines what goods and services satisfy citizens’ needs, how the goods and services are produced, and how they are distributed. However, no true communist economy exists today that satisfies Marx’s ideal.

On paper, communism appears to be efficient and equitable, producing less of a gap between rich and poor. In practice, however, communist economies have been marked by low standards of living, critical shortages of consumer goods, high prices, corruption, and little freedom. Russia, Poland, Hungary, and other eastern European nations have turned away from communism and toward economic systems governed by supply and demand rather than by central planning. However, their experiments with alternative economic systems have been fraught with difficulty and hardship. Countries such as Venezuela have tried to incorporate communist economic principles without success. Even Cuba is experiencing changes to its predominately communist system. Similarly, China was the first communist country to make strong economic gains by adopting capitalist approaches to business. Economic prosperity has advanced in China with the government claiming to ensure market openness, equality, and fairness through state capitalism.⁵ As a result of economic challenges, communism is declining and its future as an economic system is uncertain.

Socialism **Socialism** is an economic system in which the government owns and operates basic industries—postal service, telephone, utilities, transportation, health care, banking, and some manufacturing—but individuals own most businesses. For example, in France the postal service industry La Poste is 74 percent owned by the French government and makes a profit. Central planning determines what basic goods

communism first described by Karl Marx as a society in which the people, without regard to class, own all the nation’s resources.

socialism an economic system in which the government owns and operates basic industries, but individuals own most businesses.