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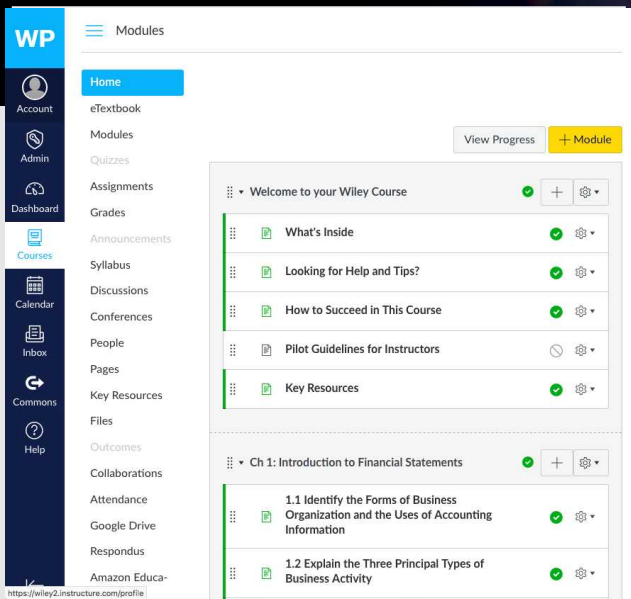
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Third Canadian Edition



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Contemporary Business

Third Canadian Edition

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Third Canadian Edition

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Canadian college and university students have questions about business and the role business people play. Some questions relate to their personal experiences, and others concern 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?
- How are Canadian companies participating in North American and global business opportunities?
- 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, Third Canadian Edition, is a comprehensive introductory textbook. Rooted in the basics of business, this course provides students with some answers to these questions and a foundation upon which to build a greater understanding of current business practices and issues that affect their lives.

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

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

Student-focused

We present Canadian content that speaks directly to students about the world of business. Many examples included here were inspired by student peers. From companies such as West-Jet to lesser-known success stories across Canada, this course brings Canadian businesses and business people face to face with students so that the roles played by business people in our economy can be better understood, questioned, and debated. A case featuring the Canadian company Beau’s All Natural Brewing Company is presented in six parts, corresponding to the major themes of the course, and is found in Appendix F. 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. Students said they wanted to understand business beyond the simple concepts of profit as a goal of for-profit companies or maximizing the provision of services as a goal of non-profit organizations. We believe we have produced a product that meets these needs.

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

Acknowledgements

Contemporary Business, Third 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 Daleara Hirjikaka, for her support throughout the writing effort. We thank Laurel Hyatt for an excellent job on the copy edit, and Ward Jardin for his accurate proofreading. We also wish to thank the compositor team at Lumina as well as Valerie Brandenburg and Rachel Conrad for their guidance and support throughout the production process. We wish to

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We especially want to thank our academic colleagues for their suggestions and constructive criticism throughout the development of the various editions of this book. We know we could not have produced a product of this quality and calibre without their contributions.

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Left to right: Angad Bhatia, Dadi Zhou, Maria Grajdinoiu, Khadija Waseem, Olexandr Yeremeyev, Isabella O'Hara. Absent: Mouri Khan, Tanya Stojovic

This book is lovingly dedicated to my family: my wife Carole, my son Matthew; my daughter Sarah, her husband James Wiseman, and my granddaughter Norah.

BRAHM CANZER

This book is dedicated to my parents, my wife, my children Khadijah and Zakariyah, and my family, friends, and students who have supported me in all of my endeavours.

MICHAEL KHAN

About the Authors

DAVE KURTZ did his undergraduate studies at Davis & Elkins College in Elkins, West Virginia. He was then 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*. 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 and a sportsman with a golf handicap too high to mention. Dave, his wife, Diane, and four demanding canine companions live in Rogers, Arkansas. Dave holds a distinguished professorship at the Sam M. Walton College of Business in nearby Fayetteville.

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She returned to academia and campus life to eventually become a full-time professor at City College of San Francisco in 2005, where she teaches courses in introduction to business, management, and entrepreneurship—and where her father, also a textbook author, taught business for over five decades. Here Susan feels incredibly lucky mentoring her students, whether as a faculty advisor to various student-led clubs, or as a member of the Academic Senate Executive Council and Board of Directors of the bookstore. For Susan, bringing ideas to life inside and outside of the classroom and creating a personalized and collaborative student experience with the Next Generation of WileyPLUS is simply the icing on the cake.



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New and Continuing Features

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.

“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.

- **Industry Insider**, a new opening vignette for each chapter, highlights business leaders within growth industries. Each opener lays the groundwork for discussing chapter topics, with the goal of drawing the student’s attention to a professional within a company or organization while highlighting an industry ripe with career opportunities for business majors. Examples include Sundar Pichai of Google; Apple’s Angela Ahrendts; and Pharrell Williams, producer, musician, philanthropist, and entrepreneur.
- The **Business Model** feature provides students with success stories that focus on traditional and startup companies, business leaders, and entrepreneurs. Specific topics include the growth and popularity of Shake Shack restaurants, the rise of “athleisure” apparel, CBC’s popular Dragons’ Den program, and Dollar Shave Club’s e-commerce success.
- The **EcoBiz** feature highlights new and insightful ways companies are conducting business in a sustainable and socially responsible manner in an effort to protect the environment. Specific topics include IKEA’s “forest-positive” commitment, transforming trash into fashion, how some Canadian businesses are eliminating single-use plastics, TD Bank’s green initiatives, and how Starbucks uses crowdsourcing for energy-saving ideas.
- New to this edition, the **Business & Technology** feature highlights the intersection between business and technology for companies across many industries. Topics include Amazon’s “Dash” button, how some CEOs are using Twitter, how technology helps UPS deliver, and L’Oréal’s virtual cosmetic counter.
- **Judgement Call** provides various business scenarios and ethical dilemmas where students are asked to consider what is appropriate. Examples include rewarding whistle-blowers, soaring drug prices despite falling demand, the rise of activist investors, and the ethics of surge pricing for car sharing services. Each Judgement Call feature includes questions for individual or group discussion.
- New to this edition is the **Job Description** feature that describes the responsibilities, requirements (including soft skills), and outlook for certain careers for business

majors. Examples include economic analyst, corporate communications specialist, marketing research analyst, accountant and auditor, franchise owner, brand manager, and investment banker.

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.

End-of-Chapter Questions and Exercises

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

“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.

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, Appendix E: Developing a Business Plan, Appendix F: Careers in Contemporary Business, and Appendix G: Launching Your Career.

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

Engaging Students Digitally

Contemporary Business, Third Canadian Edition, is completely integrated with *WileyPLUS*, featuring a suite of teaching and learning resources. *WileyPLUS* allows you to create

a personalized study plan, assess your progress along the way, and access the content and resources needed to master the material. *WileyPLUS* provides immediate insight into your strengths and problem areas with visual reports that highlight what's most important for both the instructor and student. Many dynamic resources are integrated into the course to help you build your knowledge and understanding, stay motivated, and prepare for decision making in a real-world context. *WileyPLUS* also includes integrated adaptive practice that helps you build proficiency and use your study time most effectively. Additional features of the *WileyPLUS* course include:

Data Analytics & Decision Making Module

With the emergence of Data Analytics transforming the business environment, Wiley has partnered with business leaders in the Business-Higher Education Forum (BHEF) to identify the competencies graduates need to be successful in their careers. As a result, this module has been created from industry-validated content to prepare business students with professional competencies needed for the changing workforce.

Bloomberg Video Activities This new feature in *WileyPLUS* offers a set of graded video activities to support cutting-edge video content from Bloomberg. The corresponding video activities challenge students to tie content directly to real-world business scenarios and offer them an applied, engaging learning experience to supplement their introductory business course.

CBC Videos Two sets of CBC videos are available for *Contemporary Business*, Third 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.

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

Lecture Overview Videos Each learning objective in the course is accompanied by a brief overview of its topic. The lecture overview is delivered by a Wiley author, who succinctly explains the highlights of the learning objective.

Interactive Graphics Several important and complex figures from the text are rendered as interactive graphics that break down concepts so students can more easily absorb the information.

Free Study Guide The *Study Guide to Accompany Contemporary Business*, Third 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*.

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

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

For Instructors

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, 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.

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.

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The Changing Face of Business

LEARNING OBJECTIVES

- LO 1.1 Define business.
- 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 current workforce trends in business.
- LO 1.6 Identify the skills and attributes needed for today's manager.
- LO 1.7 Outline the characteristics that make a company admired.

Industry Insider



Chesnot/Getty Images News/Getty Images

Sundar Pichai, Chief Executive Officer

Company: Google

Industry: Technology/Internet information providers

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

Larry Page, co-founder of Google, made a surprise move by appointing protege and product guru Sundar Pichai as his successor. Pichai, displayed in the photo, was most recently a senior vice president of products, overseeing Google's increasingly competitive business offerings such as search, advertising, Android,

and YouTube. The announcement came on the heels of a company-wide reorganization, which separated Google's profitable maps, search, and advertising businesses from its other projects.

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

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

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

Worldwide, there are now more Google searches on mobile devices than on desktops. As consumers have shifted from desktop to mobile, Pichai has a challenging role to keep up the company's

rate of growth amid strong competition. With a vote of confidence from Google's co-founders, Pichai has proven himself as the best person to take over the global company that dominates search.¹

Chapter 1 Overview

Google's CEO, Sundar Pichai, leads a company that has gone from clever startup to global powerhouse. Innovative companies like Google, and now Alphabet, contribute greatly to the global economy that Canada participates in. Business is a nation's engine for economic growth and prosperity. A growing economy is one that produces more goods and services over time. Growing economies are important because they yield more income for business owners, their employees, and governments in the form of tax payments. A country depends on the wealth its businesses generate, from large enterprises like Bell Canada Enterprises and powerhouses like the Royal Bank of Canada to new startups that are just beginning. 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 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.

To succeed, businesses 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 organize 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.

1.1

What is Business?

LEARNING OBJECTIVE 1.1

Define 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 job 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 smartphones; 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, accountants 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 provide financing for its future growth needs. 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. As we will see in the chapters that follow, managers develop strategies to achieve specific goals that will lead to profit. To reach targeted profits, management strategic thinking may focus on keeping business costs as low as possible to pass savings on to customers (Walmart's everyday low prices), providing a specialized product or service (Schwartz's Montreal smoked meat deli), or concentrating on only a part of the larger marketplace (IKEA's knock-down furniture).

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. Take Toronto's Hospital for Sick Children (SickKids) as an example. It is Canada's leading centre dedicated to children's health and one of the world's top health care institutions for children. It requires an overall operating budget approaching \$1 billion and is staffed by over 10,000 staff and volunteers. It is one of Canada's most research-intensive hospitals: Its more than 735 staff researchers operate within a \$193-million budget.³

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.

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



The Canadian Red Cross organizes efforts to respond to natural disasters such as the forest fires that threatened Fort McMurray, Alberta in 2016.

Other not-for-profits organize resources to respond to emergencies. For example, the Canadian Red Cross helped manage the largest fire evacuation in Alberta history in 2016 as raging forest fires forced more than 88,000 residents from the Fort McMurray area (see photo). The Red Cross collected over \$30 million in donations, which were matched by the Canadian government, along with donated materials from across the country.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 and university bookstores sell products with the school logo—everything from sweatshirts to coffee mugs. SickKids supports learning for families and health care providers by selling parenting books, many of which are Canadian 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.

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?

1.2 Factors of Production

LEARNING OBJECTIVE 1.2

Identify and describe the factors of 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.

An economic system requires certain inputs to operate successfully. An economy of a city, province, or country lacking or deficient in these inputs will be unable to reach its full potential. A primary responsibility of governments is to facilitate economic activity by encouraging the development of these inputs. 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 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

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 |

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* is 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 lithium battery-powered electric cars from Tesla and other global manufacturers. As a result, there is a growing demand for raw materials such as lithium hydroxide and lithium carbonate mined by Canadian companies like Nemaska Lithium Inc., primarily in northern Quebec.⁷

Technology often helps a company improve its own products. Netflix, once famous for its subscription-based DVD-by-mail service, now streams on-demand media. Netflix has exclusive rights to streaming movies and original TV shows like its globally popular blockbuster *Stranger Things* 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.⁸

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 internationally to more than 15 million members, and it is recognized as an industry leader in the emerging field of online marketing.⁹

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.

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.

Assessment Check

1.2.1 Identify the four basic inputs to an economic system.

1.2.2 List four types of capital.

1.3 The Private Enterprise System

LEARNING OBJECTIVE 1.3

Describe 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.

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**. The Scottish economist 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. See the “Business & Technology” feature to learn more about how Nordstrom sets itself apart from the competition.

Our discussion in this book focuses on the tools and methods that today's businesses use 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.

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.

Business & Technology

Combining Business and Tech in Fashion at Nordstrom

Canada's retail landscape has grown recently with the launch of the American fashion chain Nordstrom in Vancouver, Calgary, Ottawa, and Toronto, and plans for more to come. Many Canadian customers were already familiar with the brand through online shopping and while travelling in the United States, where Nordstrom is a well-established national retailer.

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

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

Perhaps Nordstrom's best-known competitive advantage is its commitment to outstanding customer service, which the company believes must be managed in part with technology. One example is

an unrivalled inventory system that allows salespeople to quickly find what customers want across the North American-wide retail chain.

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

Questions for Critical Thinking

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

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

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 sometimes limit the freedom of choice to accomplish government goals, such as by increasing industrial production of certain items or by military strength.

The private enterprise system also allows fair competition by allowing the public to set the rules for competitive activity. For this reason, the Canadian government has passed laws to prohibit excessively aggressive competitive practices designed to remove the competition. The Canadian government has established ground rules that make the following illegal: price discrimination, fraud in financial markets, and deceptive advertising and packaging.

However, regulating behaviour is not a simple matter where all parties can be satisfied with decisions made by government. For example, in recent years, the Canadian Radio-television and Telecommunications Commission (CRTC)

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.



FIGURE 1.1 Basic Rights within a Private Enterprise System

issued a decision that increased the costs charged to small Internet service providers (ISPs) that buy access to the larger ISP networks of Bell and Bell Aliant, mainly in Ontario and Quebec. The CRTC allowed the larger ISPs to control network traffic, especially high-volume traffic, to the smaller ISPs. The CRTC also began charging “usage-based billing.” The smaller ISPs, which sold popular unlimited packages before, were forced to introduce limits, charge more for bandwidth, and change their infrastructure strategy. These changes ended their competitive advantage over the bigger ISPs, which typically charge more for high-volume users. After much complaining from the smaller ISP customers, a compromise pricing model was introduced. The new pricing model limits usage but still allows the smaller ISPs to offer unlimited usage packages to those customers that demanded them. This marketplace is further complicated as demand for more and unlimited data from mobile users grows. Many Canadians wonder why costs have not fallen as much as in the United States and elsewhere. One research firm believed that the Canadian wireless data market would be worth more than \$16 billion by 2021—a very big pie that undoubtedly will be fought over only by Canadian suppliers, as foreign firms are prevented from competing by Canadian government regulations.¹⁰

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 university 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. 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. In a recent year almost 80,000 new businesses were started and about the same number failed. There are about 1.1 million small business in Canada—about 98 percent of all businesses. The Canadian economy depends on small businesses for its growth and strength. As one individual can rarely operate entirely alone, employees are hired to help the entrepreneur succeed. Over 8 million people representing over 70 percent of the labour force work for small businesses. Statistics Canada data suggest that 54 percent of all businesses have fewer than five employees, and 86 percent employ fewer than 20. The small-business sector creates 80 percent of all new jobs and generates 45 percent of Canada's economic output.¹¹

So where are the jobs in Canada? **Figure 1.2** shows that the most employment is in the wholesale and retail trade at 2,459,600 employees, followed by manufacturing at 1,641,000. Notice that small businesses are major employers in these and other segments.¹²

Entrepreneurship creates jobs and sells products. Entrepreneurship also leads to innovation. In contrast to more established firms, startup companies tend to innovate in fields of technology that are

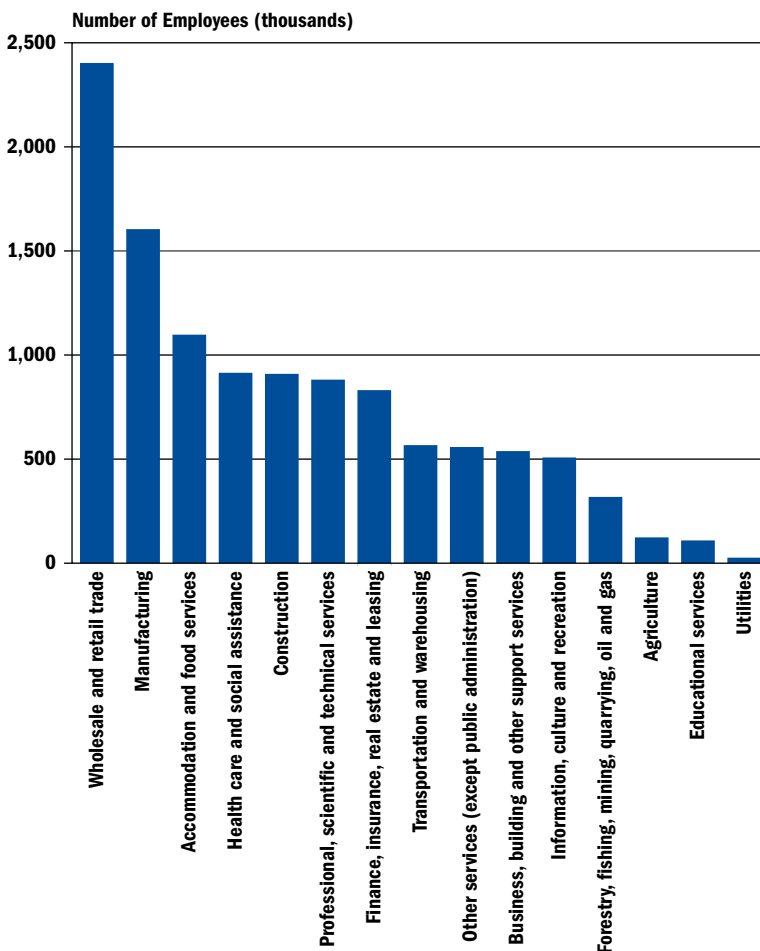


FIGURE 1.2 Total Private Employment by Industrial Sector and Establishment Size, 2015

Source: From Industry Canada, “Key Small Business Statistics—June 2016,” Table 2.1-2: Total Private Employment by Industrial Sector and Establishment Size, 2015,” http://www.ic.gc.ca/eic/site/061.nsf/eng/h_03018.html#table1-1-3, accessed January 29, 2019.

new and have few competitors. Because small companies are more flexible than large ones, they can change their products and processes more quickly. Entrepreneurs often find new ways to use natural resources, technology, and other factors of production. Often they find these new ways because they have to—they may not have enough money to build an expensive prototype or launch a nationwide ad campaign. Sometimes, entrepreneurs will locate near one another and form a hub of like-minded businesses that continues to attract newcomers. The Toronto-Waterloo corridor is Canada's largest technology hub, stretching about 100 kilometres. Within the corridor are more than 200,000 employees working for about 15,000 tech companies, 5,000 of which are recent startups.¹³

Entrepreneurship is also important to existing companies. More and more, large firms are realizing the value of entrepreneurial thinking among their employees. These companies hope to benefit from enhanced flexibility, improved innovation, and new market opportunities. Apple also reaches out to its customers by inviting entrepreneurs of all kinds to develop applications for the iPhone. If the new apps are successful, then Apple profits from those efforts. Already, the iPhone has more than a million different applications, including some developed by Apple. Together, all the apps have been downloaded billions of times.¹⁴ Introduction of the Apple Watch and other wearable technologies has generated a new wave of opportunities for app developers.

As the next section explains, entrepreneurs have played a vital role in the history of Canadian business. They have helped create new industries, developed successful new business methods, and improved Canadian standing in global competition.

Assessment Check

- 1.3.1 What is an alternative term for the private enterprise system?
- 1.3.2 What is the most basic freedom under the private enterprise system?
- 1.3.3 What is an entrepreneur?

1.4 Seven Eras in the History of Business

LEARNING OBJECTIVE 1.4

Identify the seven eras in the history of business.

In the 400 or so years since the first Europeans settled on the North American continent, amazing changes have occurred in the size, focus, and goals of Canadian businesses. North American business history is divided into seven distinct time periods: (1) the colonial period, (2) the Industrial Revolution, (3) the age of industrial entrepreneurs, (4) the production era, (5) the marketing era, (6) the relationship era, and (7) the social era. The next sections describe how events in each of these time periods have influenced business practices.

The Colonial Period

Colonial society featured rural and agricultural production. Colonial towns were small compared with European cities, and they functioned as marketplaces for farmers and craftspeople. The economic focus of North America centred on rural areas because success depended on the output of farms. The success or failure of crops influenced every aspect of the economy.

Colonists depended on Europe for manufactured items and for financial help for their infant industries. Surprising to some, even after the American Revolutionary War (1775–1783), the United States maintained close economic ties with England. The Canadian experience is more