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understanding Business

THIRTEENTH EDITION

Mc Graw Hill

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THIRTEENTH EDITION

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DEDICATION

To our families—Marsha, Joel, Carrie, Claire, Casey, Dan, Molly, Michael, Patrick, and Quinn. Thank you for making everything worth doing and giving us the support to do it well!

AND

To the team that made this edition possible, especially the instructors and students who gave us such valuable guidance as we developed the text and package.

ABOUT THE AUTHORS

Bill Nickels is emeritus professor of business at the University of Maryland, College Park. He has over 30 years' experience teaching graduate and undergraduate business courses, including introduction to business, marketing, and promotion. He has won the Outstanding Teacher on Campus Award four times and was nominated for the award many other times. He received his MBA degree from Western Reserve University and his PhD from Ohio State University. Bill has written a marketing communications text and two marketing principles texts in addition to many articles in business publications. He has taught many seminars to businesspeople on subjects such as power communications, marketing, nonbusiness marketing, and stress and life management. His son, Joel, is a professor of English at the University of Miami (Florida).

Jim McHugh holds an MBA degree from Lindenwood University and has had broad experience in education, business, and government. As chair of the Business and Economics Department of St. Louis Community College–Forest Park, Jim coordinated and directed the development of the business curriculum. In addition to teaching several sections of Introduction to Business each semester for nearly 30 years, Jim taught in the marketing and management areas at both the undergraduate and graduate levels. Jim enjoys conducting business seminars and consulting with small and large businesses. He is actively involved in the public-service sector and served as chief of staff to the St. Louis County Executive.

Photos: McGraw Hill

Susan McHugh is a learning specialist with extensive training and experience in adult learning and curriculum development. She holds an MEd degree from the University of Missouri and completed her coursework for a PhD in education administration with a specialty in adult learning theory. As a professional curriculum developer, she has directed numerous curriculum projects and educator training programs. She has worked in the public and private sectors as a consultant in training and employee development. While Jim and Susan treasure their participation in writing projects, their greatest accomplishment is their collaboration on their three children. Casey is carrying on the family's teaching tradition as an adjunct professor at Washington University. Molly and Michael are carrying on the family writing tradition by contributing to the development of several supplementary materials for this text.

THE GOLD ★★★★ STANDARD

In Preparing Future-Ready Learners

Congratulations. You've made an excellent selection. Welcome to the preeminent teaching and learning experience ever created for Introduction to Business classes.

Our experienced and diverse authors and long-tenured editorial team have created a product that meets the needs of nearly all classrooms, no matter the size, teaching modality, or learning objectives. The content is unmatched in depth, breadth, currency, and relevancy, and is presented in an extremely readable format for students with all learning styles. A wealth of technology solutions engages students, enriches learning, furthers understanding, and simplifies instructors' assessment processes. Course supplements tightly align with chapter concepts and enhance retention, making instructors of all experience levels Grade-A rock stars. And unparalleled support from our digital faculty consultants helps ensure you and your students benefit from the full experience of what is now the gold standard in Introduction to Business classes. Nickels/McHugh/McHugh, *Understanding Business,* 13th Edition does more than teach—it prepares students to create real impact on the world.

1. The Gold Standard in Relevancy and Currency

Real-world case studies—across nearly all industries and company sizes—ensure your students are apprised of the most current challenges businesspeople face today. From COVID-19 and unemployment to USMCA and artificial intelligence, you have access to numerous relevant samples that tie directly into chapter lessons. Plus with the option to take advantage of the ***From the News to the Classroom*** **blog**, understandingbiz.com, you can enrich the learning experience with content that is updated multiple times each week and includes abstracts of relevant news stories, videos tied to chapter topics, and critical thinking questions that streamline your prep time and help create an ultra-current course.

2. The Gold Standard in Results-Driven Technology

Interactive learning tools increase teaching effectiveness and learning efficiency by facilitating a stronger connection between the course material and the modern student.

Where the Science of Learning Meets the Art of Teaching *McGraw-Hill Connect* is the leading online assignment and assessment solution that connects students with the tools and resources they need to achieve success. It also allows instructors to quickly and easily choose the content and assignments that will best emphasize the learning objectives they prefer to cover. The result is a customized course, rich with engaging presentations and activities that prepare students for the business world.

The First and Only Adaptive Reading Experience *SmartBook 2.0* creates a dynamic reading experience and personalizes content for each student, helping students master and retain foundational concepts. Tracking each student's progress, it automatically assesses comprehension levels and delivers the content required to reinforce topics needing more attention. This continuously adaptive learning path is proven to accelerate learning and strengthen memory recall, all while providing instructors a turnkey tool that ensures students stay on track.

Bridging the Gap between Theory and Real Life Having knowledge is the first step—and understanding how to apply that knowledge is what determines a person's success in the working world. That's why we provide an array of application exercises that are as educational as they are engaging. *Click-and-Drag* exercises reinforce key models and processes, and demonstrate application-level knowledge. *Video Cases* allow students to observe and analyze key concepts as they are utilized by companies and organizations they know and recognize. *Case analyses* expose students to real-world scenarios and engage their critical-thinking and analysis skills. New to this edition, 15-minute *Application-Based Activities* put students in the role of business professionals, allowing them to make decisions and learn from the results.

3. The Gold Standard in Teaching Resources

Whether it's your first or fortieth year teaching, you can benefit from a wealth of assessments and class-tested resources that simplify your evaluation process and enrich the learning experience.

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- **NEW SmartBook 2.0** personalizes learning to individual student needs, continually adapting to pinpoint knowledge gaps and focus learning on topics that need the most attention. With SmartBook 2.0, learning is more productive and the guesswork is taken out of what to study in a no-fail environment. As a result, students are better prepared for class and coursework.
- **NEW Writing Assignment Premium** evaluates, scores, and gives feedback on student responses to provided prompts.
- **NEW Application-Based Activities** are highly interactive, automatically graded exercises that immerse students in a business environment, analyze the situation, and apply their knowledge to a real-world scenario.
- **Business Plan Prep Activities** guide students in creating a basic business plan.
- **Chapter quizzes** are pre-built to cover all chapter learning objectives.
- **Test bank** that is by far the largest and most accurate collection of questions on the market, including over 300 questions per chapter, makes testing student knowledge a simple and efficient process.
- **Application exercises** challenge students to demonstrate their knowledge of key concepts and terms by applying them to a variety of business-world scenarios.
- **Video assignments** help explain difficult concepts and show business concepts in action in companies large and small.
- **Instructor's Manual** includes tools to improve retention and engagement, while helping save the instructor's time.

		SmartBook® 2.0	iSeeit! Videos	Click and Drags	Video Cases/ Case Analyses	Manager's Hot Seat Videos	Application-Based Activities/ Mini Sims	Business Plan Prep Activities	Writing Assignment Premium
Higher Order Thinking Skills	CREATE							✓	✓
	EVALUATE						✓	✓	✓
	ANALYZE				✓	✓	✓	✓	✓
	APPLY			✓	✓	✓	✓	✓	✓
	UNDERSTAND	✓	✓	✓	✓	✓	✓	✓	✓
Lower Order Thinking Skills	REMEMBER	✓	✓	✓	✓	✓	✓	✓	✓

- ***From the News to the Classroom*** blog, understandingbiz.com, is updated multiple times each week, featuring abstracts of relevant news stories, video tied to chapter topics, and critical-thinking questions that streamline your prep time and help create an ultra-current course.
- **PowerPoint presentations** include integrated polling questions that improve student engagement.
- **Video library** with teaching guides includes:
  - **Company case videos** produced specifically to expound on chapter learning objectives via real-world business situations across a broad range of industries, sizes, and geographic locations, allowing students to contextualize the chapter's content.
  - **Manager's Hot Seat videos** offer short cases that show real business professionals confronting a variety of workplace challenges.
  - **iSeeit! animated video explanations** clarify some of the most important topics and can be accessed within the eBook.

4. The Gold Standard in Support, Service, and Solutions

We want you to get the most out of our products, and we do everything possible to help provide your students an exceptional learning experience. From the first to the last day of the semester, we support you with:

- Learning technology representatives
- Digital faculty consultants
- Student ambassadors
- Implementation consultants
- Technical support
- Integration with your learning management system

- Content your way/customizable content/a robust library of cross-disciplinary content
- Student progress-tracking
- Accreditation and assurance of learning ready
- Fully automated lecture capture via Tegrity®

Our team of digital faculty consultants and extensive toolbox of support programs ensure you receive the full value of all this product has to offer.

The Bottom Line

The business world is constantly changing, and your classroom needs to keep up. With Nickels/McHugh/McHugh, *Understanding Business,* 13th Edition, both you and your students can experience *the Gold Standard* in Introduction to Business classes.

Changes to the New Edition

Users of *Understanding Business* have always appreciated the currency of the material and the large number of examples from companies of all sizes and industries (e.g., service, manufacturing, nonprofit, and profit) in the United States and around the world. A glance at the Chapter Notes will show you that almost all of them are from 2019 or 2020. Accordingly, the latest business practices and other developments affecting business include:

- Equifax data breach
- Inclusion and creating a sense of *belonging* in the workplace
- The rise of Gen Z's economic influence
- Baby Boomer brain drain/retaining older workers
- US–Mexico–Canada Agreement (USMCA)
- Brexit
- Real unemployment rate (vs. standard unemployment rate)
- Effects of artificial intelligence on unemployment
- Tightening of Cuban trade and travel
- Right to Disconnect laws
- Business Roundtable Statement on the Purpose of a Corporation
- Cloud architects
- Small Business Reorganization Act of 2019 (SBRA)
- 5G
- Artificial intelligence
- Machine learning
- COVID-19
- Green bonds
- Negative interest rates
- LAN
- WAN
- Blockchain
- Web 3.0
- And much, much more

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Many dedicated educators and content experts made extraordinary contributions to the quality and utility of this teaching and learning package. For this edition, Diana Murphy and her team at Editors Inc. did a superb job of creating a useful and current Instructor's Manual, Test Bank, and PowerPoints. We also recognize the efforts of those who contributed to the creation of Connect materials: Stacy Martin at Southwestern Illinois College. We are grateful to our SmartBook team, in particular to Judy Bulin at Monroe Community College, who tirelessly worked to review and perfect the probes and feedback and respond to student queries, along with Kathleen Borbee. Thank you to Kelly Luchtman and team at Lightfellow for the fabulous new videos they produced. Thank you to the Digital Faculty Consultants who have helped train and support so many of their fellow instructors in the Introduction to Business course, as well as assist them in successfully implementing Connect into their courses: Chris Finnin, Drexel University; Tim Rogers, Ozarks Technical Community College; Allison Smith, West Kentucky Community and Technical College; and Ruth White, Bowling Green State University. We would like to give special thanks to Tim Rogers for his dedication to this project, including the hard work he did revising the student study guide.

Our outstanding marketing manager, Nicole Young, and marketing director, Natalie King, were up to the challenge of guiding the text to continued market leadership. With the assistance of the market's finest sales professionals, they led the text to record highs. We want to thank the many instructors who contributed to the development of *Understanding Business.*

Reviewers

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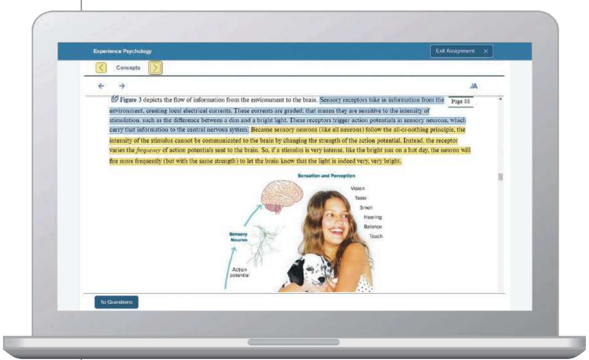

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BRIEF CONTENTS

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understanding Business

THIRTEENTH EDITION

Part 1 Business Trends: Cultivating a Business in Diverse, Global Environments

1

Taking Risks and Making Profits within the Dynamic Business Environment

LEARNING OBJECTIVES »

After you have read and studied this chapter, you should be able to

LO 1–1 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

LO 1–2 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

LO 1–3 Analyze the effects of the economic environment and taxes on businesses.

LO 1–4 Describe the effects of technology on businesses.

LO 1–5 Demonstrate how businesses can meet and beat competition.

LO 1–6 Analyze the social changes affecting businesses.

LO 1–7 Identify what businesses must do to meet global challenges, including war and terrorism.

LO 1–8 Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.

GETTING TO KNOW

Tristan Walker, Founder of Walker & Company

For entrepreneur Tristan Walker, one of the most frustrating parts of his daily life was finding the right razor for his coarse, curly facial hair. "The need here was really the fact that I could not shave," said Walker. "Why are there no products that really understood the fact that I have curly hair?"

Besides failing to find the razor he needed, Walker also couldn't believe that companies would ignore such a large portion of the market. "People of color spend more money on this stuff than anyone else," said Walker. "So I said, 'I'm going to respect those things before anybody else does, and really create a long-term view around celebrating this beautiful community and culture.'" That long-term view turned into Walker & Company, a lifestyle brand dedicated to providing black men with top-quality personal care products. When he first launched the company, Walker claimed he wanted to create the "Procter & Gamble for people of color." And after years of solid sales and growth, in 2018 Walker & Company grew large enough to attract the attention of the actual Procter & Gamble. Although the consumer goods conglomerate purchased the brand for millions of dollars, Walker remains in charge so he can continue the company's mission. "We want this company and its purpose to still be around 150 years from now," said Walker.

Of course, building a company with such lofty goals isn't easy. In order to realize his vision, Walker needed expertise and connections, and the willingness to do plenty of hard work. While Walker has always been motivated to work hard, he didn't have access to any high-level business connections when he was growing up. "I'm from Jamaica, Queens, New York, born and raised in the projects on welfare," said Walker. "And the necessity of not wanting to live that life really got me where I am today." After excelling at his studies as well as sports, a basketball coach advised Walker to apply to an elite boarding school. Walker took his advice and received a full scholarship to the prestigious Hotchkiss School. This led to his enrollment at Stony Brook University where he earned a degree in economics.

Walker's drive and impeccable educational background landed him a job on Wall Street after graduation. However, he quickly grew tired of the hectic pace of the financial industry and decided to look at business graduate schools far out of state. That's when he learned about Silicon Valley, the famed tech hub in California's San Francisco Bay Area. He enrolled in nearby Stanford University to take advantage of the region's abundance of tech-related resources. "I was 24 when I came to Stanford," said Walker. "The other 24-year-olds here were not only making millions of dollars but fundamentally changing the world. Why did I not have any idea this place existed?" After graduating in 2008, Walker joined the newly launched location-based search company Foursquare. Although Walker made only a $1,000 stipend for his first months as head of business development, he played a vital role in expanding the company through partnerships with other brands.

When he left Foursquare in 2012, he joined Andreessen-Horowitz as the venture capital firm's "entrepreneur-in-residence." This gave him the resources to develop and launch Walker & Company. The business is centered around a shaving brand called Bevel. Unlike other major shaving brands that use multiple blades for their razors, Bevel sticks to a single-blade system that helps prevent bumps. Walker & Company also sells a line of hair care products called Form, which it initially had trouble promoting due to lack of resources. Now that the company is part of Procter & Gamble, though, it can take advantage of the conglomerate's multibillion-dollar marketing budget. Walker & Company will also have access to P&G's $2 billion research and development budget, allowing it to keep innovating for years to come.

The business environment is constantly changing, and along with those changes come opportunities. The purpose of this chapter and this textbook is to introduce you to the dynamic world of business and to some of the people who thrive in it. Businesspeople like Tristan Walker contribute much to the communities they serve, and they also make a good living doing so. That's what business is all about.

Sources: Jason Del Rey, "Procter & Gamble Has Acquired the Startup Aiming to Build the Procter & Gamble for People of Color," *Vox*, vox.com, December 12, 2018; J.J. McCorvey, "Tristan Walker Announces Acquisition by Procter & Gamble, Will Remain as CEO and Move Company to Atlanta," *Fast Company*, fastcompany.com, December 12, 2018; David Gelles, "Tristan Walker on the Roman Empire and Selling a Start-Up to Procter & Gamble," *The New York Times*, December 12, 2018; J.J. McCorvey, "Atlanta's Black Tech Founders Are Changing Entrepreneurship in America. Can They Avoid Silicon Valley's Mistakes?," *Fast Company*, fastcompany.com, August 5, 2019; Derek Hambrick, "Tristan Walker on the Cutting Edge of Disruption," *Emory Business*, emorybusiness.com, August 13, 2019; "Tristan Walker on Building Walker & Company Brands," National Retail Federation Foundation, nrffoundation.org, accessed January 2020.

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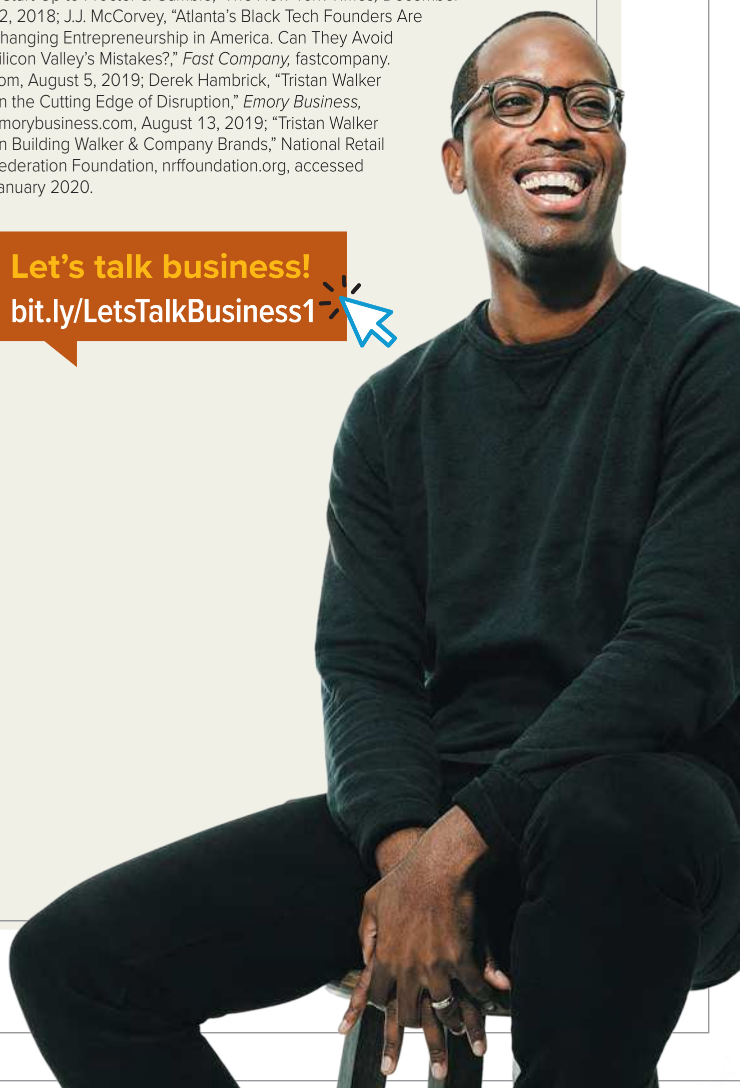


Matt Edge/The New York Times/Redux

name that **company**

EVEN THOUGH THIS COMPANY is charged with protecting consumers from identity theft and fraud, it was hacked itself. The data breach exposed the personal information of 147 million people. Name that company. (Find the answer in the chapter.)

LO 1–1 **Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.**

business
Any activity that seeks to provide goods and services to others while operating at a profit.

goods
Tangible products such as computers, food, clothing, cars, and appliances.

services
Intangible products (i.e., products that can't be held in your hand) such as education, health care, insurance, recreation, and travel and tourism.

Business and Wealth Building

Success in business depends on consistently adapting to changes in the market. A **business** is any activity that seeks to provide goods and services to others while operating at a profit. To earn that profit, you provide desired goods, jobs, and services to people or other businesses. **Goods** are *tangible* products such as computers, food, clothing, cars, and appliances. **Services** are *intangible* products (i.e., products that can't be held in your hand) such as education, health care, insurance, recreation, and travel and tourism. Once you have developed the right goods and services, based on consumer wants and needs, you need to reach those consumers using whatever media they prefer, including social media, online advertising, TV, and more.

Although you don't need to have wealth as a primary goal, one result of successfully filling a market need is that you can make money for yourself, sometimes a great deal, by giving customers what they want. Sam Walton of Walmart began by opening one store in Arkansas and, over time, became one of the richest people in the United States. Now his heirs are some of the richest people in the United States.[1]

There are over 22.1 million millionaires in the United States.[2] Maybe you will be one of them someday if you start your own business. An **entrepreneur** is a person who risks time and money to start and manage a business.

Scrub Daddy Inc.

When Aaron Krause couldn't find buyers at auto body shops for his polymer foam product, he tossed it in a box labeled "scrap" and forgot about it. A few years later, Krause dug out his old invention to clean some patio furniture and discovered it worked surprisingly well on his lounge chairs as well as his dirty dishes. He redesigned the foam into a smiling face, branded it Scrub Daddy, and took it onto the ABC show Shark Tank. Scrub Daddy is the most successful product to appear on Shark Tank to date. What risks and rewards did Krause face when starting his business?

Revenues, Profits, and Losses

Revenue is the total amount of money a business takes in during a given period by selling goods and services. **Profit** is the amount of money a business earns above and beyond what it spends for salaries and other expenses needed to run the operation. A **loss** occurs when a business's expenses are more than its revenues. If a business loses money over time, it will likely have to close, putting its employees out of work. Over 175,000 businesses in the United States close each year.[3]

As noted, the business environment is constantly changing. What seems like a great opportunity one day may become a huge failure when the economy changes. Starting a business may thus come with huge risks. But huge risks often result in huge profits. We'll explore that concept next.

Matching Risk with Profit

Risk is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable. Profit, remember, is the amount of money a business earns *above and beyond* what it pays out for salaries and other expenses. For example, if you were to start a business selling hot dogs from a cart in the summer, you would have to pay for the cart rental. You would also have to pay for the hot dogs and other materials, and for someone to run the cart while you were away. After you paid your employee and yourself, paid for the food and materials you used, paid the rent on the cart, and paid your taxes, any money left over would be profit.

Keep in mind that profit is over and above the money you pay yourself in salary. You could use any profit to rent or buy a second cart and hire other employees. After a few summers, you might have a dozen carts employing dozens of workers.

Not all enterprises make the same amount of profit. Usually those that take the most risk may make the most profit. There is high risk, for example, in making a new kind of automobile. It's also risky to open a business in an inner city, because insurance and rent are usually higher than in suburban areas, but reduced competition makes substantial profit possible. Big risk can mean big profits.

Standard of Living and Quality of Life

Entrepreneurs such as Sam Walton (Walmart), Bill Gates (Microsoft), Jeff Bezos (Amazon), and Sara Blakely (Spanx) not only became wealthy themselves; they also provided employment for many other people. Walmart is currently the nation's largest private employer, with Amazon coming in second.[4]

Businesses and their employees pay taxes that the federal government and local communities use to build hospitals, schools, libraries, playgrounds, roads, and other public facilities. Taxes also help keep the environment clean, support people in need, and provide police and fire protection. Thus, the wealth businesses generate and the taxes they pay help everyone in their communities. A nation's businesses are part of an economic system that contributes to the standard of living and quality of life for everyone in the country (and, potentially, the world). How has the economic recovery and growth over the past 10 years affected the standard of living and quality of life in your part of the world?

The term **standard of living** refers to the amount of goods and services people can buy with the money they have. Prices for goods and services in some locations are higher than in others, so people in those places can't buy as much with the same amount of money. Often, goods cost more in one country than in another because of higher taxes and stricter government regulations. Finding the right level of taxes and regulation is important in making a country or city prosperous. We'll explore those issues in more depth in Chapter 2. At this point, it is enough to understand that the United States enjoys a high standard of living largely because of the wealth created by its businesses.

The term **quality of life** refers to the general well-being of a society in terms of its political freedom, natural environment, education, health care, safety, amount of leisure, and rewards that add to the satisfaction and joy that other goods and services provide. Maintaining a high quality of life requires the combined efforts of businesses, nonprofit organizations, and government agencies. Remember, there is more to quality of life than simply making money.

entrepreneur
A person who risks time and money to start and manage a business.

revenue
The total amount of money a business takes in during a given period by selling goods and services.

profit
The amount of money a business earns above and beyond what it spends for salaries and other expenses.

loss
When a business's expenses are more than its revenues.

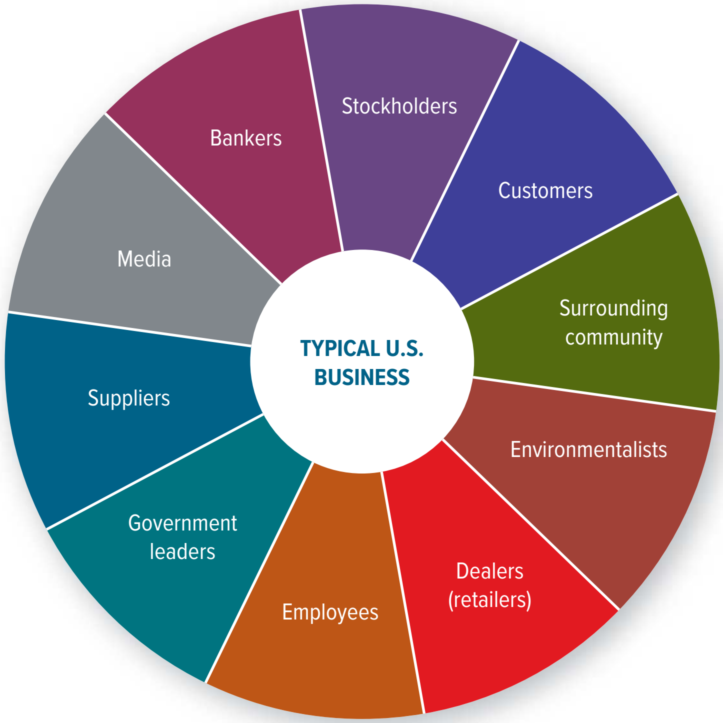
risk
The chance an entrepreneur takes of losing time and money on a business that may not prove profitable.

standard of living
The amount of goods and services people can buy with the money they have.

quality of life
The general well-being of a society in terms of its political freedom, natural environment, education, health care, safety, amount of leisure, and rewards that add to the satisfaction and joy that other goods and services provide.

FIGURE 1.1 A BUSINESS AND ITS STAKEHOLDERS
Often the needs of a firm's various stakeholders will conflict. For example, paying employees more may cut into stockholders' profits. Balancing such demands is a major role of business managers.

Source: John Mackey and Raj Sisodia, *Conscious Capitalism* (Boston, MA: Harvard Business Review Press, 2013).



Responding to the Various Business Stakeholders

stakeholders
All the people who stand to gain or lose by the policies and activities of a business and whose concerns the business needs to address.

outsourcing
Contracting with other companies (often in other countries) to do some or all of the functions of a firm, like its production or accounting tasks.

Stakeholders are all the people who stand to gain or lose by the policies and activities of a business and whose concerns the business needs to address. They include customers, employees, stockholders, suppliers, dealers (retailers), bankers, people in the surrounding community, the media, environmentalists, competitors, unions, critics, and elected government leaders (see Figure 1.1).[5]

A primary challenge for organizations of the 21st century will be to recognize and respond to the needs of their stakeholders.[6] For example, the need for the business to make profits may be balanced against the needs of employees to earn sufficient income or the need to protect the environment. Ignore the media, and they might attack your business with articles that hurt sales. Oppose the local community, and it may stop you from expanding.

Staying competitive may call for outsourcing. **Outsourcing** means contracting with other companies (often in other countries) to do some or all of the functions of a firm, like its production or accounting tasks. Outsourcing has had serious consequences in some states where jobs have been lost to overseas competitors. We discuss outsourcing in more detail in Chapter 3.

The other side of the outsourcing coin is *insourcing*. Many foreign companies are setting up design and production facilities here in the United States. For example, Korea-based Hyundai designs cars in California, operates engineering headquarters in Detroit, Michigan, and produces cars in Montgomery, Alabama.[7] Japanese automaker Honda has been producing cars in the United States for over 40 years, and opened its 12th U.S. manufacturing plant in 2016.[8] Some information technology firms have begun to bring jobs back to the United States because it can save time in decision-making processes which leads to saving money.[9] Insourcing creates many new U.S. jobs and helps offset those jobs being outsourced.

It may be legal and profitable to outsource, but is it best for all the stakeholders? Business leaders must make outsourcing decisions based on all factors. Pleasing stakeholders is not easy and often calls for trade-offs.

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The goals of nonprofit organizations are social and educational, not profit-oriented. The American Red Cross, for example, provides assistance to approximately 30 million people annually, from refugees to victims of natural disasters to relief. Why do good management principles apply equally to profit-seeking businesses and nonprofit organizations?

Using Business Principles in Nonprofit Organizations

Despite their efforts to satisfy their stakeholders, businesses cannot do everything needed to make a community all it can be. Nonprofit organizations—such as public schools, civic associations, charities like the United Way and the Salvation Army, and groups devoted to social causes—also make a major contribution to the welfare of society. A **nonprofit organization** is an organization whose goals do not include making a personal profit for its owners or organizers. Nonprofit organizations often do strive for financial gains, but they use them to meet their social or educational goals rather than for personal profit.

nonprofit organization An organization whose goals do not include making a personal profit for its owners or organizers.

Your interests may lead you to work for a nonprofit organization. That doesn't mean, however, that you shouldn't study business in college. You'll still need to learn business skills such as information management, leadership, marketing, and financial management. The knowledge and skills you acquire in this and other business courses are useful for careers in any organization, including nonprofits. We'll explore entrepreneurship right after the Test Prep.

TESTPREP

- What is the difference between *revenue* and *profit*?
- What is the difference between *standard of living* and *quality of life*?
- What is *risk,* and how is it related to *profit*?
- What do the terms *stakeholders, outsourcing,* and *insourcing* mean?

LO 1–2 **Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.**

The Importance of Entrepreneurs to the Creation of Wealth

There are two ways to succeed in business. One is to rise through the ranks of a large company. The advantage of working for others is that somebody else assumes the company's

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To create wealth for its citizens, a country requires more than natural resources. It needs the efforts of entrepreneurs and the skill and knowledge to produce goods and services. How can government support entrepreneurship and the spread of knowledge?

entrepreneurial risk and provides you with benefits like paid vacation time and health insurance. It's a good option, and many people choose it.

The other, riskier, but often more exciting, path is to become an entrepreneur. The national anthem, "The Star Spangled Banner," says that the United States is the "land of the free and the home of the brave." Part of being free is being able to own your own business and reap the profits from it. But freedom to succeed also means freedom to fail, and many small businesses fail each year. It takes a brave person to start one. As an entrepreneur, you don't receive any benefits such as paid vacation time, day care, a company car, or health insurance. You have to provide them for yourself! But what you gain—freedom to make your own decisions, opportunity, and possible wealth—is often worth the effort. Before you take on the challenge, you should study successful entrepreneurs to learn the process. You can talk to them personally and read about them in Chapter 6, as well as in other books, magazines (e.g., *Entrepreneur, Fast Company,* and *Inc.*), and online (e.g., Small Business Administration at sba.gov).

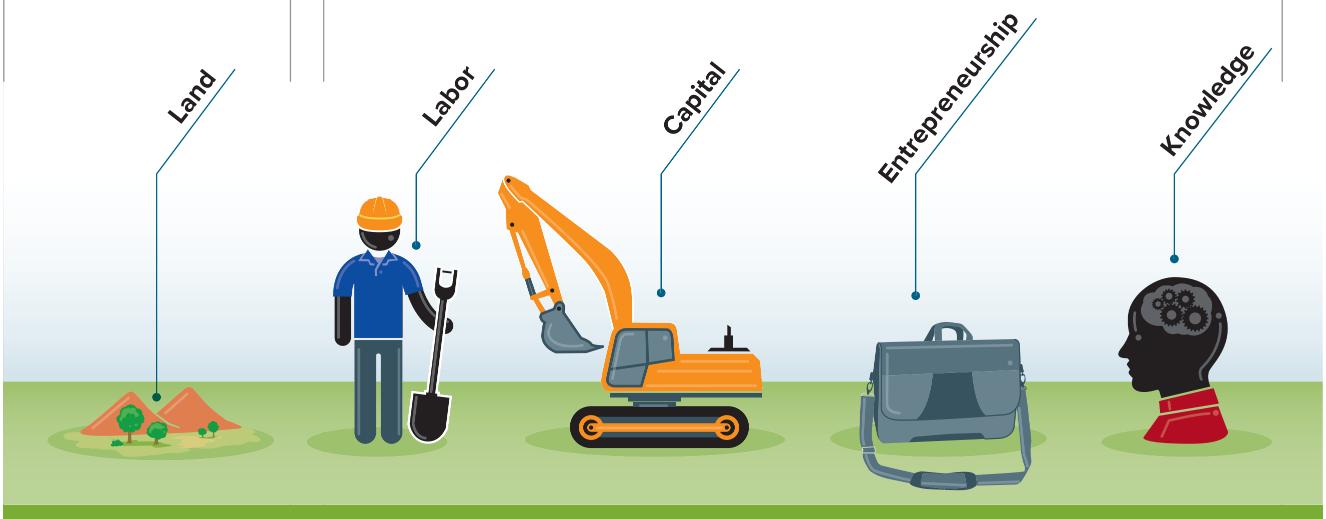
The Five Factors of Production

Have you ever wondered why some countries are relatively wealthy and others poor? Economists have been studying the issue of wealth creation for many years. They began by identifying five **factors of production** that seemed to contribute to wealth (see Figure 1.2):

factors of production
The resources used to create wealth: land, labor, capital, entrepreneurship, and knowledge.

1. *Land* (or natural resources). Land and other natural resources are used to make homes, cars, and other products.
2. *Labor* (workers). People have always been an important resource in producing goods and services, but many people are now being replaced by technology.
3. *Capital.* This includes machines, tools, buildings, or whatever else is used in the production of goods. It might not include money; money is used to buy factors of production but is not always considered a factor by itself.
4. *Entrepreneurship.* All the resources in the world have little value unless entrepreneurs are willing to take the risk of starting businesses to use those resources.
5. *Knowledge.* Information technology has revolutionized business, making it possible to quickly determine wants and needs and to respond with desired goods and services.

FIGURE 1.2 THE FIVE FACTORS OF PRODUCTION



Source: Drucker Institute, druckerinstitute.com, April 2017.

Traditionally, business and economics textbooks emphasized only four factors of production: land, labor, capital, and entrepreneurship. But the late management expert and business consultant Peter Drucker said the most important factor of production in our economy is and always will be *knowledge.*[10]

What do we find when we compare the factors of production in rich and poor countries? Some poor countries have plenty of land and natural resources. Russia, for example, has vast areas of land with many resources such as timber and oil, but it is not considered a rich country (yet). Therefore, land isn't the critical element for wealth creation.

Most poorer countries, such as Mexico, have many laborers, so it's not labor that's the primary source of wealth today. Laborers need to find work to make a contribution; that is, they need entrepreneurs to create jobs for them. Furthermore, capital—machinery and tools—is now fairly easy for firms to find in world markets, so capital isn't the missing ingredient either. Capital is not productive without entrepreneurs to put it to use.

What makes rich countries rich today is a combination of *entrepreneurship* and the effective use of *knowledge.* Entrepreneurs use what they've learned (knowledge) to grow their businesses and increase wealth. Economic and political freedom also matter.

The business environment either encourages or discourages entrepreneurship. That helps explain why some states and cities in the United States grow rich while others remain relatively poor. In the following section, we'll explore what makes up the business environment and how to build an environment that encourages growth and job creation.

TESTPREP

- What are some of the advantages of working for others?
- What benefits do you lose by being an entrepreneur, and what do you gain?
- What are the five factors of production? Which ones seem to be the most important for creating wealth?

The Business Environment

The **business environment** consists of the surrounding factors that either help or hinder the development of businesses. Figure 1.3 shows the five elements in the business environment.

business environment The surrounding factors that either help or hinder the development of businesses.

1. The economic and legal environment.
2. The technological environment.
3. The competitive environment.
4. The social environment.
5. The global business environment.

Businesses that create wealth and jobs grow and prosper in a healthy environment. Thus, creating the right business environment is the foundation for social benefits of all kinds, including good schools, clean air and water, good health care, and low rates of crime. Businesses normally can't control their environment, but they need to monitor it carefully and do what they can to adapt as it changes.

LO 1–3 **Analyze the effects of the economic environment and taxes on businesses.**

The Economic and Legal Environment

People are willing to start new businesses if they believe the risk of losing their money isn't too great. The economic system and the way government works with or against businesses can have a strong impact on that level of risk. For example, a government can minimize

FIGURE 1.3 TODAY'S DYNAMIC BUSINESS ENVIRONMENT

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spending and keep taxes and regulations to a minimum—policies that tend to favor business. Much of the debate in recent elections has focused on whether to raise or cut taxes, how to control government spending, and whether to cut regulations.

One way for government to actively promote entrepreneurship is to allow private ownership of businesses. In some countries, the government owns most businesses, and there's little incentive for people to work hard or create profit. Around the world today, however, some governments are selling those businesses to private individuals to create more wealth. One of the best things the governments of developing countries can do is to minimize interference with the free exchange of goods and services. (You can read more about the various economic systems in different countries in Chapter 2.)

The government can further lessen the risks of entrepreneurship by passing laws that enable businesspeople to write enforceable contracts. In the United States, the Uniform Commercial Code, for example, regulates business agreements such as contracts and warranties so that firms know they can rely on one another. In countries that don't yet have such laws, the risks of starting a business are that much greater. (You can read more about business laws in Bonus Chapter A.)

The government can also establish a currency that's tradable in world markets. That is, the currency lets you buy and sell goods and services anywhere in the world when it is easily exchanged for that of the other countries where you do business. If the Chinese did not want to trade their yuan for the U.S. dollar, for instance, it's hard to imagine how Coca-Cola or Disney would be able to sell their products and services there. (You can read more about currency in Chapters 3 and 20).

Tuul & Bruno Morandi/Getty Images

Starting a business is more difficult in some countries than in others. In India, for example, it takes a time-consuming and bureaucratic process to obtain government permission. Nonetheless, new businesses can become a major source of wealth and employment. This sari shop is one small example. What do you think would be the effect of a little more freedom to create business opportunities in this country of over a billion people?

Finally, the government can help minimize corruption in business and in its own ranks. Where governments are corrupt, it's difficult to build a factory or open a store without a government permit, which is obtained largely through bribery of public officials. Among businesses themselves, unscrupulous leaders can threaten their competitors and unlawfully minimize competition.

Many laws in the United States attempt to minimize corruption. Nonetheless, corrupt and illegal activities at some companies do negatively affect the business community and the economy as a whole. The news media widely report these scandals. Ethics is so important to the success of businesses and the economy as a whole that we feature stories about ethics in most chapters and devote Chapter 4 to the subject.

Governments from different countries can work together to create an environment that allows entrepreneurship to thrive. For example, in 2015 the United Nations adopted what it calls Sustainable Development Goals (SDGs) that list specific targets for ending poverty and improving the lives of the disadvantaged in the next 15 years. The ultimate goal is to move toward prosperity by partnering governments, businesses, and nonprofits in order to solve problems at the ground level in developing countries.

LO 1–4 **Describe the effects of technology on businesses.**

The Technological Environment

Since prehistoric times, humans have felt the need to create tools that make work easier. Few technological changes have had a more comprehensive and lasting impact on businesses, however, than information technology (IT). IT has completely changed the way people communicate with one another. Advertisers and other businesspeople have created ways of using these tools to reach their suppliers and customers. Even politicians have harnessed the power of the Internet to advance their causes.[11] IT is such a major force in business today that we discuss its impact on businesses throughout the entire text.

How Technology Benefits Workers and You

Technology means everything from phones to computers, mobile devices, medical imaging machines, robots, the Internet, social media, and the various software programs and apps that make business processes more effective, efficient, and productive.[12] *Effectiveness* means producing the desired result.

technology
Everything from phones to computers, mobile devices, medical imaging machines, robots, the Internet, social media, and the various software programs and apps that make business processes more effective, efficient, and productive.

ADAPTING TO CHANGE

Creating Sustainability through a Circular Economy

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There's no denying that people around the world create a lot of waste. Each year, more than 52 million tons of food end up in landfills with an additional 10 million tons remaining unharvested on farms. Less than 1 percent of the material used to produce clothing gets recycled into new apparel. The vast majority of plastic doesn't get recycled either, with much of it ending up in garbage dumps or incinerators. Besides squandering resources, the world's waste also pollutes the environment and contributes to rising greenhouse gas emissions.

To combat this problem of global proportions, some entrepreneurs have launched companies that depend on a circular economy to succeed. *Circular economy* refers to reusing, redistributing, refurbishing, and recycling products instead of dumping them in landfills—in other words, keeping products in the value circle. The aim is to produce no waste as every material is either recycled or reused in some capacity. For example, the Chicago-based firm Bubbly Dynamics refurbishes vacant industrial buildings and transforms them into sustainable business incubators. At one site called The Plant, indoor farms irrigated with rainwater and power generated by solar panels helps more than 20 companies thrive without creating unnecessary waste. The Plant's largest tenant is a brewery that produces about 20,000 pounds of compost per month, providing plenty of fertilizer for the facility's farmers.

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Other circular economy–driven companies include Earth Angel, a Brooklyn start-up that recycles waste generated by film and television productions based in New York. The company donates mattresses and used clothing to humanitarian agencies while redistributing old scenery to independent theaters and filmmakers. Socially minded enterprises like Earth Angel and Bubbly Dynamics hope other companies will follow their lead and adopt similarly sustainable business practices in the near future. Not only would it help the environment, but it could also be good for business.

Sources: Anne Kadet, "The 'Circular Economy' Rolls into New York City," *The Wall Street Journal,* June 18, 2019; Eduardo Garcia, "Where's the Waste? A 'Circular' Food Economy Could Combat Climate Change," *The New York Times,* September 21, 2019; Anne Field, "Building a Circular Economy: A Society Where 'There's No Concept of Waste,'" *Forbes,* forbes.com, October 31, 2019; "What Is a Circular Economy?," Ellen Arthur Foundation, ellenarthurfoundation.org, accessed January 2020.

Efficiency means producing goods and services using the least amount of resources. The Adapting to Change box discusses how some businesses strive to become so effective and efficient that they create no waste.

productivity
The amount of output you generate given the amount of input (e.g., hours worked).

Productivity is the amount of output you generate given the amount of input, such as the number of hours you work. The more you can produce in any given period, the more money you are worth to companies. The problem with productivity today is that workers are so productive that fewer are needed.[13]

Technology affects people in all industries. For example, a farmer can use his computer to compare data from the previous year's harvest with drone or satellite photos of his farm that show which crops are flourishing. He can check the latest grain prices and use the website newAgTalk.com to converse with other farmers from all over the world. He can also save money on chemicals by bidding for bulk fertilizer on FarmTrade.com, an online agricultural exchange. High-tech equipment tells him how and where to spread fertilizer and seed, tracks yields yard by yard, and allows him to maintain high profit margins.[14] Of course, more tech often means fewer workers. Is that a good or bad thing for farmers?

e-commerce
The buying and selling of goods over the Internet.

The Growth of E-commerce **E-commerce** is the buying and selling of goods online. There are two major types of e-commerce transactions: business-to-consumer (B2C) and business-to-business (B2B). As important as the Internet has been to online retailers in the consumer market, it has become even more important in the B2B market, where businesses sell goods and services to one another, such as IBM selling consulting services to a local bank. E-commerce has become so important that we discuss it in many chapters throughout the text.

Using Technology to Be Responsive to Customers A major theme of this text is that those businesses most responsive to customer wants and needs will succeed. Technology can help businesses respond to customer needs in many ways. For example, businesses use bar codes to identify products you buy and their size, quantity, and color. The scanner at the checkout counter identifies the price but can also put all your purchase information into a **database**, an electronic storage file for information.

Databases enable stores to carry only the merchandise their local customers want. But because companies routinely trade database information, many retailers know what you buy and from whom you buy it. Thus they can send you online ads or catalogs and other direct mail advertising offering the kind of products you might want based on your past purchases. We discuss many of the other ways businesses use technology to be responsive to consumers throughout the text.

Unfortunately, the legitimate collection of personal customer information also opens the door to identity theft. **Identity theft** is the obtaining of individuals' personal information, such as Social Security and credit card numbers, for illegal purposes. For example, in 2017 Equifax, one of the credit bureaus charged with protecting consumers from identity theft and fraud, was hacked itself. The data breach exposed the personal information of 147 million people. Equifax agreed to spend up to $425 billion to help people affected by the breach.[15]

Experts advise us to create new passwords for each account so that if the password on one account is stolen, the hackers can't access the rest of your accounts too. They also recommend storing them in a password manager, and activating two-factor authentication, which is an additional layer of security, when possible.[16] The Federal Trade Commission says millions of U.S. consumers are victims of identity theft each year. Cybersecurity will continue to be a major concern of governments, business, and consumers.[17]

Many people are concerned about how technology might be used to invade the privacy of their phone or e-mail conversations or even to track their movement through facial recognition technology used in stores, casinos, on cruise ships, and in other public places.[18] You can read more about security and privacy issues and how businesses use technology to manage information in Bonus Chapter B.

Walt Disney World introduced MyMagic+, a convenient way for guests to create their ideal vacation experience. The key element is the MagicBand, providing an all-in-one way to effortlessly connect all the vacation choices guests make online. The MagicBand uses RF technology and serves as park ticket, hotel room key, access to FastPass+ advance reservation of attraction times, and Disney's PhotoPass. Disney hotel guests may use the bands to charge meals and merchandise to their hotel account.

Bob Croslin/Getty Images News/Getty Images

database
An electronic storage file for information.

identity theft
The obtaining of individuals' personal information, such as Social Security and credit card numbers, for illegal purposes.

LO 1–5 **Demonstrate how businesses can meet and beat competition.**

The Competitive Environment

Competition among businesses has never been greater. Some have found a competitive edge by focusing on *quality*. The goal for many companies is zero defects—no mistakes in making the product. However, even achieving a rate of zero defects isn't enough to stay competitive in world markets. Companies now have to offer both high-quality products and good value—that is, outstanding service at competitive prices.

Competing by Exceeding Customer Expectations Today's customers want not only good quality at low prices but great service as well. Every manufacturing and service organization in the world should have a sign over its door telling its workers that the customer is king. Business has become more customer-driven, not management-driven as often occurred in the past. Successful organizations must now listen more closely to customers to determine their wants and needs, and then adjust the firm's products, policies, and practices accordingly. We will explore these ideas in more depth in Chapter 13.

empowerment
Giving frontline workers the responsibility, authority, freedom, training, and equipment they need to respond quickly to customer requests.

demography
The statistical study of the human population with regard to its size, density, and other characteristics such as age, race, gender, and income.

In 2020 people around the world joined protests against institutionalized racism and police violence. The movement placed a renewed focus on racial bias in many areas of life, including business. What can companies do to create diverse and inclusive workplaces?

Mark Kerrison/In Pictures/Getty Images

Competing by Restructuring and Empowerment

To meet the needs of customers, firms must give their frontline workers—for example, office clerks, front-desk people at hotels, and salespeople—the responsibility, authority, freedom, training, and equipment they need to respond quickly to customer requests. They also must allow workers to make other decisions essential to producing high-quality goods and services. The process is called **empowerment**, and we'll be talking about it throughout this book.

As many companies have discovered, it sometimes takes years to restructure an organization so that managers can and will give up some of their authority and employees will assume more responsibility. We'll discuss such organizational changes in Chapter 8.

LO 1–6 **Analyze the social changes affecting businesses.**

The Social Environment

Demography is the statistical study of the human population with regard to its size, density, and other characteristics such as age, race, gender, and income. In this text, we're particularly interested in the demographic trends that most affect businesses and career choices. The U.S. population is going through major changes that are dramatically affecting how people live, where they live, what they buy, and how they spend their time. Furthermore, tremendous population shifts are leading to new opportunities for some firms and to declining opportunities for others. For example, there are many more retired workers than in the past, creating new markets for all kinds of goods and services.

Managing Diversity

Diversity means much more than recruiting and retaining minority and female employees. Diversity efforts include older adults, people with disabilities, people with different sexual orientations, atheists, religious people, extroverts, introverts, married people, and single people. It also means dealing sensitively with workers and cultures around the world.[19] Managing diversity involves creating a workplace that promotes inclusion and belonging. *Inclusion* is about having a voice that is heard. *Belonging* is about feeling part of a community.[20]

Legal and illegal immigrants have had a dramatic effect on many regions, and will continue to do so as the government debates immigration reform.[21] Businesses, schools, and hospitals have been especially affected.[22] Some local governments are making efforts to adapt, including changing signs, brochures, websites, and forms to include other languages. Has your city experienced such changes? What are some of the impacts you've noticed? How has the debate about changing immigration policies affected your community?

The Increase in the Number of Older Citizens

People aged 75 and over are currently the richest demographic group in the United States.[23] Therefore they represent a lucrative market for companies involved with food service, transportation, entertainment, education, lodging, and so on. By 2030 the percentage of the population 65 or older will be over 20 percent; by 2050 it will more than double.[24] What do these changes mean for you and for businesses in the future? Think of the products and services that middle-aged and older people will need—medicine, nursing homes, assisted-living facilities, adult day care, home health care, transportation, recreation, and the like—and you'll see opportunities for successful businesses of the 21st century. Don't rule out computer games and online services. Businesses that cater to older consumers will have the opportunity for exceptional growth in the near future. The market is huge.

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The United States boasts enormous ethnic and racial diversity. Its workforce is also widely diverse in terms of age, which means that managers must adapt to the generational demographics of the workplace. What are some challenges of working with someone much younger or much older than you?

On the other hand, retired people will be draining the economy of wealth. Social Security has become a major issue.[25] The pay-as-you-go system (in which workers today pay the retirement benefits for today's retirees) operated just fine in 1940, when 42 workers supported each retiree; but by 1960, there were only 5 workers per retiree, and today, as members of the Baby-Boom generation (born between 1946 and 1964) retire, that number is 2.8 and is projected to drop to 2.2 by 2036.[26] In addition, the government has been spending some of the accumulated Social Security money instead of leaving it all in the Social Security account.

Soon, less money will be coming into Social Security than will be going out. The government will have to do something to make up for the shortfall: raise taxes, reduce Social Security benefits (e.g., raise the retirement age at which people qualify for payments), reduce spending elsewhere (e.g., in other social programs like Medicare or Medicaid), or borrow on the world market.

In short, paying Social Security to older citizens in the future will draw huge amounts of money from the working population. That is why there is so much discussion in the media today about what to do to save Social Security.

The Increase in the Number of Single-Parent Families It is a tremendous task to work full-time and raise a family. Thus, the growth of single-parent households has also had a major effect on businesses. Whereas only 7 percent of parents were single in 1950, today a third of the children in the United States live with a single parent.[27] Single parents, including those forced by welfare rules to return to work after a certain benefit period, have encouraged businesses to implement programs such as family leave (giving workers time off to attend to a sick child or elder relative) and flextime (allowing workers to arrive or leave at selected times). You will read about such programs in more detail in Chapter 11.

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More and more working families consist of single parents who must juggle the demands of a job and the responsibilities of raising children. What can managers do to try to retain valued employees who face such challenges?

The Rise of Gen Z's Economic Influence Generation Z (those born after the mid-1990s) will soon be the largest group of consumers in the world, accounting for as much as $143 billion in spending power in the United States alone. Designing products and services to meet the broad tastes of this demographic is critical to the success of many companies. In order to reach these consumers, marketers have to use a variety of tools to capture their attention and engage them. The Connecting through Social Media box discusses how a few companies are using social media to connect with Gen Zers.

CONNECTING THROUGH **SOCIAL MEDIA**

The Lucrative Challenge of Connecting with Gen Z Online

Paul Bradbury/Getty Images

The Internet has always existed for Generation Z. As a result, this tech-savvy generation spends a ton of time on social media, especially platforms like Instagram, YouTube, and TikTok. Although reaching young people online can be a challenge for companies, the potential rewards for doing so are too significant to ignore given the size of this demographic group. And while social media will play a major role in this group's future purchasing decisions, they may not use it in the ways that some would expect.

For instance, while it might seem logical to assume that Gen Zers do all their shopping online, studies show that they love the experience of brick-and-mortar stores and malls. While they're out shopping, they are constantly on their smartphones seeking deals on social media.

As the social network of choice for many influencers, Facebook-owned Instagram has become an incredibly powerful force in branding. Experts expect it will stay that way since the platform has more than 1 billion active users. In fact, social networks like Instagram and YouTube have grown so big that tech developers have largely stopped trying to create new apps to compete with them. Instead, many of today's social media start-ups focus on creating tools that can then be used on major platforms. For example, John Barnett worked as a developer at Snapchat and Instagram before founding his own company called Chroma Stories, an app that helps users make visual "stories" on social media. "We're focused on helping people create for whatever platform they're on, if it's Facebook, Instagram, Snap, WhatsApp, Pinterest, Twitter," said Barnett. Like the members of Generation Z themselves, modern companies will need to be similarly versatile in order to appeal to young consumers.

Sources: Craig Giammona and Tiffany Kary, "What Gen Z Wants," *Bloomberg Businessweek,* April 29, 2019; Jordyn Holman, Tiffany Kary, and Kim Bhasin, "A New Crop of Mall Rats," *Bloomberg Businessweek,* April 29, 2019; Katherine Bindley, "Catching Gen Z Requires a Big Fish: Instagram," *The Wall Street Journal,* September 28, 2019; Kathryn Lundstrom, "How to Reach Gen Z in 2020—Beyond Authenticity," *Adweek,* adweek.com, January 2, 2020.

LO 1–7 **Identify what businesses must do to meet global challenges, including war and terrorism.**

The Global Environment

The global environment of business is so important that we show it as surrounding all other environmental influences (see again Figure 1.3). Two important issues here are the growth of global competition and the negotiation of trade agreements among nations.

World trade, or *globalization,* has grown due to the development of efficient distribution systems (we'll talk about these in Chapter 15) and technological advances such as online communication systems. Globalization has greatly improved living standards around the world. China and India have become major U.S. competitors. Shop at Walmart and most other U.S. retail stores, and you can't help but notice the number of "Made in China" stickers you see. Call for computer help, and you are as likely to be talking with someone in India as someone in the United States.

World trade has its benefits and costs. You'll read much more about its importance in Chapter 3 and in the Reaching beyond Our Borders boxes throughout the text. This chapter's Reaching beyond Our Borders box on the next page discusses how Coca-Cola adapted its products to meet the needs of its global markets.

War and Terrorism War and terrorism have drained trillions of dollars a year from the U.S. economy.[28] Some companies—like those that make bullets, tanks, and uniforms—have benefited greatly. Others, however, lost workers to the armed forces, and still others have grown more slowly as money was diverted to the war effort. The threat of more wars and terrorism leads the government to spend even more money on spying and the military. Such expenditures are subject to much debate. The increased unrest in the world adds great uncertainty. This uncertainty is considered by some to be the biggest risk in business. It is difficult to plan when there are so many unknown factors such as how changes in military policy will affect the economy.[29]

How Global Changes Affect You As businesses expand to serve global markets, new jobs will be created in both manufacturing and service industries. Global trade also means global competition. The students who will prosper will be those prepared for the markets of tomorrow. Rapid changes create a need for continuous learning, so be prepared to continue your education throughout your career. You'll have every reason to be optimistic about job opportunities in the future if you prepare yourself well.

The Ecological Environment Few issues have captured the attention of the international business community more than climate change. **Climate change** is the movement of the temperature of the planet up or down over time. There are some who remain unconvinced of the dangers of global warming.[30] However, most scientists and many of the world's largest firms—including General Electric, Coca-Cola, Shell, Nestlé, DuPont, Johnson & Johnson, British Airways, and Shanghai Electric—say the evidence for climate change is overwhelming. Saving energy and producing products that cause less harm to the environment, such as solar energy, is called **greening**.

climate change
The movement of the temperature of the planet up or down over time.

greening
The trend toward saving energy and producing products that cause less harm to the environment.

TESTPREP

- What are four ways the government can foster entrepreneurship?
- What are the differences among effectiveness, efficiency, and productivity?
- What is *empowerment*?
- What are some of the major issues affecting the economy today?

LO 1–8 **Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.**

The Evolution of U.S. Business

Businesses in the United States have become so productive that they need fewer workers than ever before to produce goods. If global competition and improved technology are

Coca-Cola's Global Offerings Expand Far beyond Soda

coca-colacompany.com

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For more than a century, Coca-Cola's immense branding power has centered on its signature soft drink. But the company's namesake is far from the only beverage in its enormous roster of products. In fact, Coca-Cola owns hundreds of drink brands that cater to the diverse needs of markets around the world. The company carefully researches local tastes and incorporates these flavors into beverages that appeal to a variety of global consumers.

One such drink is Mazza Chunky, an Indian fruit juice that includes chunks of mango. Coca-Cola researchers thought of the idea when they noticed that many people in the country liked to drink mango pulp straight from the fruit. Keeping an eye on local trends also led to products like a sesame-and-walnut drink in China, as well as a Brazilian line of whey shakes. Some flavors that perform well in global markets are eventually introduced to American consumers. For instance, in 2019 the company launched Coca-Cola Energy in countries like Germany, the United Kingdom, Spain, and many others. The drink was such a success that Coca-Cola introduced it to the United States less than a year later.

Quickly bringing new products to market has become a top priority for the company as it continues to expand its global offerings. In the past, Coca-Cola spent at least a year developing a drink before it launched. These days, though, the company can finish the process in as little as four months. By dedicating so many resources to new-product development, Coca-Cola has built a worldwide empire of soft drinks that should only grow larger in the years to come.

Sources: Eric Bellman and Jennifer Maloney, "Coca-Cola Launched 500 Drinks Last Year. Most Taste Nothing Like Coke," *The Wall Street Journal*, August 23, 2018; Jasmine Wu, "Coca-Cola to Launch Coke-Branded Energy Drink in US, in a Bid for More Growth," *CNBC*, cnbc.com, October 1, 2019; Coca-Cola Company, coca-colacompany.com, accessed January 2020.

putting skilled people out of work, should we be concerned about the prospect of high unemployment rates and low incomes? Where will the jobs be when you graduate? These important questions force us all to look briefly at the U.S. economy and its future.

Progress in the Agricultural and Manufacturing Industries

The United States has experienced strong economic development since the 1800s. The agricultural industry led the way, providing food for the United States and much of the world. Cyrus McCormick's invention of the harvester in 1834, other inventions such as Eli Whitney's cotton gin, and modern improvements on such equipment did much to make large-scale farming successful. Technology has made modern farming so efficient that the number of farmers has dropped from about 33 percent of the population to less than 1 percent today. However, average farm size is now about 430 acres versus 150 acres in the past.[31]

Agriculture is still a major industry in the United States. What has changed is that the millions of small farms that existed previously have been replaced by some huge farms, some merely large farms, and some small but highly specialized farms. The loss of farmworkers over the past century is not a negative sign. It is instead an indication that U.S. agricultural workers are the most productive in the world.

Most farmers who lost their jobs during the 19th and 20th centuries went to work in factories springing up around the country. Manufacturers, like farms, began using new technology, new tools, and machines to become more productive. Eventually the consequence in manufacturing, as in farming, was the elimination of many jobs.

baranozdemir/Getty Images

Agriculture is one of the largest and most important industries in the United States. Technology has increased productivity and made farmers more efficient, allowing for larger farms. This trend has helped reduce the increase in price of some foods for consumers, but has also reduced the number of small, family-run farms. Does the new technology also help smaller farms compete? If so, how?

Again, the loss to society is minimized if the wealth created by increased productivity and efficiency creates new jobs elsewhere—and that's exactly what has happened over the past 50 years. Many workers in the industrial sector found jobs in the growing service sector. Most of those who can't find work today are people who need retraining and education to become qualified for jobs that now exist or will exist in the near future, such as building wind farms or making electric automobiles. We'll discuss the manufacturing sector and production in more detail in Chapter 9.

Progress in Service Industries

In the past, the fastest-growing industries in the United States produced goods like steel, automobiles, and machine tools. Today, the fastest-growing firms provide services in areas such as law, health, telecommunications, entertainment, and finance.

Since the mid-1980s, the service sector has generated almost all the increases in employment. Together, services employ about 85 percent of workers in the United States.[32] Chances are very high that you'll work in a service job at some point in your career. Figure 1.4 lists many service-sector jobs; look it over to see where the careers of the future are likely to be. Retailers like Nordstrom Rack are part of the service sector. Each new retail store can create managerial jobs for college graduates.

Another bit of good news is that there are *more* high-paying jobs in the service sector than in the goods-producing sector. High-paying service-sector jobs abound in health care, accounting, finance, entertainment, telecommunications, architecture, law, software engineering, and more.[33] Projections are that some areas of the service sector will grow rapidly, while others may have much slower growth. The strategy for college graduates is to remain flexible, find out where jobs are being created, and move when appropriate.

Progress in the Information Age

Despite the growth in the service sector we've described above, the service era is giving way to a new era. We're in the midst of an information-based global and technical revolution that is altering all sectors of the economy: agricultural, industrial, and service. In the Information Age, a significant portion of a company's value is based on its intellectual capital. *Intellectual capital* includes employee knowledge and skills that can be used to create new products, attract new customers, and increase profits.[34]

The new or enhanced products and services created by intellectual expertise in areas such as the technical and scientific fields encourage innovation in the economy as a whole. For example, universities and companies engaging in research and development may develop new software and search engines that can be passed on to workers in more traditional fields. Doctors can use the new technology to offer improved treatments such as robot-assisted surgeries. Farmers can use the new software applications to manage their farm crops. Schools can provide students with digital study aids and online courses.[35]