

1 Business Now: Change Is the Only Constant

LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- 1-1 Define business and discuss the role of business in the economy
- 1-2 Explain the evolution of modern business
- 1-3 Discuss the role of nonprofit organizations in the economy
- 1-4 Outline the core factors of production and how they affect the economy
- 1-5 Describe today's business environment and discuss each key dimension
- 1-6 Explain how current business trends might affect your career choices

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STUDY TOOLS

1-1 BUSINESS NOW: MOVING AT BREAKNECK SPEED

Day by day, the business world simply spins faster. Industries rise—and sometimes fall—in the course of a few short months. Technologies forge instant connections across the globe. Powerful new trends surface and submerge, sometimes within less than a year. In this fast-paced, fluid environment, change is the only constant. According to Charles Darwin, it is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change. And so it is with business.

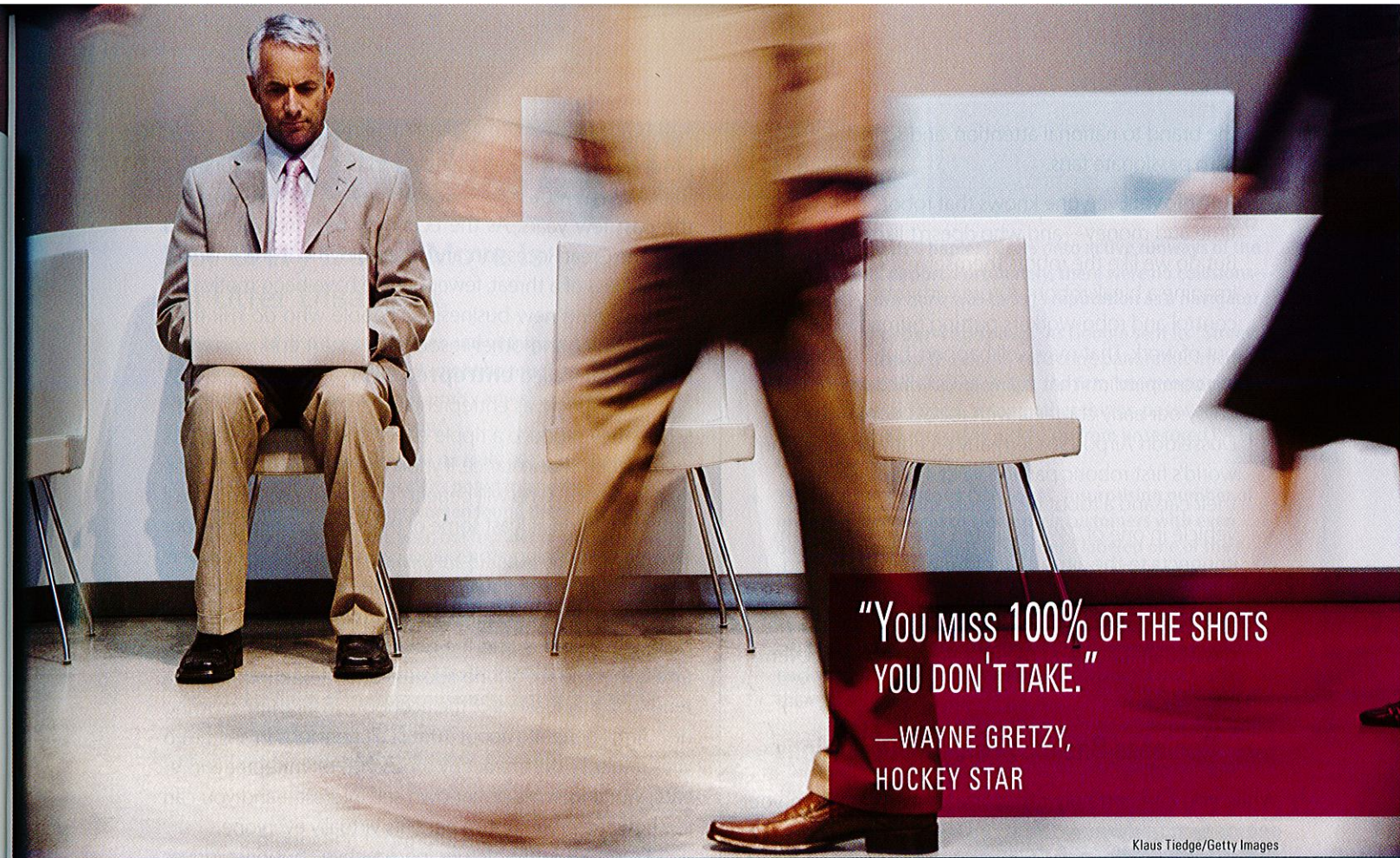
Successful firms lean forward and embrace the change. They seek the opportunities and avoid the pitfalls. They carefully evaluate risks. They completely understand their market, and they adhere to ethical practices. Their core goal: to generate long-term profits by delivering unsurpassed **value** to their customers.

value The relationship between the price of a good or a service and the benefits that it offers its customers.

Over the past few years, the explosive growth in social media has played a pivotal new

role for businesses and consumers alike in today's dynamic business environment. Digging deeper into current culture, leading-edge trendspotting firm Trendwatching.com has identified ten trends likely to shape the world's economies as we close out the turbulent teenage years of the twenty-first century. A few highlights:

- **Instant Skills:** Remember how the rise of Instagram made all of us into pseudo professional photographers? Well Trendwatching.com predicts that hundreds of millions of status-hungry consumers



will care less about what they *have or buy* and more about what they can *do or create*—seeking services that eliminate time and learning barriers to their creation of professional quality output.

- **Fast-Laning:** No one likes to wait on line. But if you invest your time and money in your favorite brand, you may not need to. A growing number of firms are finding creative ways to speed their loyal time-crunched consumers to the front of the queue, ideally without annoying everyone else, or without calling attention to the slow speed of "normal" service. For example, Starwood, Hyatt, and Hilton hotel chains have all tested programs allowing frequent guests to check in via their apps and use their cell phones as room keys, to avoid wait lines at the front desk. And in Sweden, amusement park Liseberg released an app to accompany its new Helix roller coaster. Attendees could play the free Helix Game while waiting in line for the attraction. Every 15 minutes, the player with the highest score got a pass to skip the line—creative and fun!
- **Branded Governments:** Do you believe that governments alone can solve today's problems? Most millennials don't. In fact, 73% of millennials don't

believe governments can solve today's issues alone, and 83% want businesses to get more involved. That's why leading-edge brands will step up to civic challenges in a meaningful way. For example, when Ebola swept across West Africa in 2014, mobile app Easy Taxi partnered with Dettol to offer Nigerian cab drivers lessons on how to diagnose and prevent the disease, encouraging drivers to pass their knowledge onto passengers.

- **Sympathetic Pricing:** Do the brands you buy really, truly feel your pain? Hard to know. But one good way for companies to show that they care is via imaginative discounts that demonstrate compassion or alleviate customer pain. Examples abound. PareUp, for instance, allows New York-based restaurants, coffee shops, and grocery stores to offer soon-to-be-wasted food at a discounted price. Participating merchants can send alerts to users detailing what is available, and the discounted price. Also, during the FIFA World Cup in July 2014, Brazilian publisher Lote 42 offered customers a 10% discount for every goal scored against the national team during the soccer championship. After Brazil lost 7–1 to Germany, customers were offered a 70% discount for 24 hours, catapulting

the brand to national attention, and solidifying bonds with passionate fans.

- **Robolove:** Everyone knows that robots can save time and money—and who doesn't like efficiency? But do we like the robots themselves? Many people imagine a bleak robotic future with robocops out of control and robo-workers putting human workers out of work. That may well happen, but Trendwatching.com predicts that many of us will thoroughly enjoy our early contacts with robots. For instance, Düsseldorf Airport in Germany recently unveiled the world's first robotic parking valet. Customers leave their car, and a robot picks it up and positions the vehicle in one of 249 dedicated spaces. The system connects to the airport's flight database, meaning that customers find their vehicle ready and waiting for them upon their return. Hard to get more convenient than that—and the robotic valet doesn't even expect a tip!

1-1a Business Basics: Some Key Definitions

While you can certainly recognize a business when you see one, more formal definitions may help as you read through this book. A **business** is any organization or activity that provides goods and services in an effort to earn a profit. **Profit** is the financial reward that comes from starting and running a business. More specifically, profit is the money that a business earns in sales (or revenue), minus expenses such as the cost of goods and the cost of salaries. But clearly, not every business earns

business Any organization or activity that provides goods and services in an effort to earn a profit.

profit The money that a business earns in sales (or revenue), minus expenses, such as the cost of goods, and the cost of salaries. Revenue – Expenses = Profit (or Loss).

loss When a business incurs expenses that are greater than its revenue.

entrepreneurs People who risk their time, money, and other resources to start and manage a business.

standard of living The quality and quantity of goods and services available to a population.

quality of life The overall sense of well-being experienced by either an individual or a group.

a profit all the time. When a business brings in less money than it needs to cover expenses, it incurs a **loss**. If you launch a music label, for instance, you'll need to pay your artists, lease a studio, and purchase equipment, among other expenses. If your label generates hits, you'll earn more than enough to cover all your expenses and make yourself rich. But a series of duds could leave you holding the bag. Just the possibility of earning a profit

provides a powerful incentive for people of all backgrounds to launch their own enterprises. But unfortunately, the rate of new business startups has been decreasing over the past few years. As the economy has finally emerged from the Great Recession, and unemployment and financial ruin are less of a threat, fewer people have been motivated to risk starting new businesses.² People who do risk their time, money, and other resources to start and manage a business are called **entrepreneurs**.

Interestingly, as entrepreneurs create wealth for themselves, they produce a ripple effect that enriches everyone around them. For instance, if your new website becomes the next Facebook, who will benefit? Clearly, you will. And you'll probably spend at least some of that money enriching your local clubs, clothing stores, and car dealerships. But others will benefit, too, including your members, advertisers on your site and the staff who support them, contractors who build your facilities, and the government that collects your taxes. The impact of one successful entrepreneur can extend to the far reaches of the economy. In fact, fast-growing new firms generate about 10% of all new jobs in any given year.³ Multiply the impact by thousands of entrepreneurs—each working in his or her own self-interest—and you can see how the profit motive benefits virtually everyone.

From a bigger-picture perspective, business drives up the **standard of living** for people worldwide, contributing to a higher **quality of life**. Businesses not only provide the products and services that people enjoy but also provide the jobs that people need. Beyond the obvious, business contributes to society through innovation—think cars, TVs, and tablet computers. Business also helps raise the standard of living through taxes, which the government spends on projects that range from streetlights to environmental cleanup. Socially responsible firms contribute even more by actively advocating for the well-being of the society that feeds their success.

1-2 THE HISTORY OF BUSINESS: PUTTING IT ALL IN CONTEXT

You may be surprised to learn that—unlike today—business hasn't always been focused on what the customer wants. In fact, business in the United States has changed rather dramatically over the past 200–300 years. Most business historians divide the history of American business into five distinct eras, which overlap during the periods of transition:

- **The Industrial Revolution:** Technological advances fueled a period of rapid industrialization in America from the mid-1700s to the mid-1800s. As

OOPS! What Were They Thinking?

Not Every Dumb Move Is an Utter Disaster...

In the wake of disastrous mistakes and outrageous mismanagement across our economy, it might be tough to remember that some mistakes are actually pretty amusing. Several examples might help remind you.⁴

- **Bad fabric, not fat thighs:** In early 2013, Lululemon Athletica was forced to recall its popular (and expensive) yoga pants, because many women found them utterly see-through. Later in the year, the founder of the firm was forced to resign after blaming the problem on women with fat thighs who rubbed the fabric too sheer with multiple uses.
- **Apple angst:** In a rare display of new product development weakness, Apple released its Maps program before it was ready for the Big Time. Mostly harmless, the program baffled millions of trusting consumers. But in Fairbanks,

Alaska, it directed hapless users onto active runways of the international airport. Fortunately, there were no collisions—the worst harm done was to Siri's reputation as a navigator.⁵

- **Accidental cyber-snooping:** As Google sent its "Street View" cars all over the world, collecting panoramic images for uploading into GoogleMaps, the firm "unintentionally" collected and retained, among other things, passwords and complete email messages picked up from unsecured Wi-Fi networks.
- **Thank you, Captain Obvious!** A surprising number of firms just can't seem to credit their customers with even basic intelligence. Marks & Spencer's labeled one of their Bread Puddings, **PRODUCT WILL BE HOT AFTER HEATING**. On a Sears hairdryer, **DO NOT USE WHILE SLEEPING**. And on packaging for a Rowenta iron, **DO NOT IRON CLOTHES ON BODY**. While these warnings most likely have a legal backstory, it's hard for a reasonable consumer not to see them as silly goofs.⁶

mass production took hold, huge factories replaced skilled artisan workshops. The factories hired large numbers of semiskilled workers who specialized in a limited number of tasks. The result was unprecedented production efficiency but also a loss of individual ownership and personal pride in the production process.

- **The Entrepreneurship Era:** Building on the foundation of the industrial revolution, large-scale entrepreneurs emerged in the second half of the 1800s, building business empires. These industrial titans created enormous wealth, raising the overall standard of living across the country. But many also dominated their markets, forcing out competitors, manipulating prices, exploiting workers, and decimating the environment. Toward the end of the 1800s, the government stepped into the business realm, passing laws to regulate business and protect consumers and workers, creating more balance in the economy.
- **The Production Era:** In the early part of the 1900s, major businesses focused on further refining the production process and creating greater efficiencies. Jobs became even more specialized, increasing productivity and lowering costs and prices. In 1913, Henry Ford introduced the assembly line, which quickly became standard across



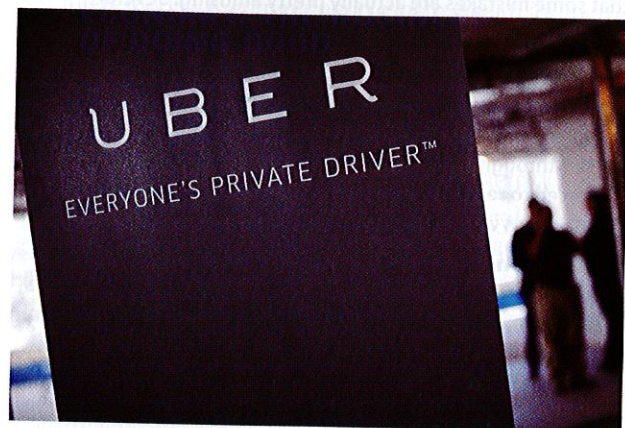
major manufacturing industries. With managers focused on efficiency, the customer was an afterthought. But when customers tightened their belts during the Great Depression and World War II, businesses took notice. The "hard sell" emerged: aggressive persuasion designed to separate consumers from their cash.

- **The Marketing Era:** After WWII, the balance of power shifted away from producers and toward consumers, flooding the market with enticing choices. To differentiate themselves from their competitors,

Traffic Jams and Parking Woes—A Problem of the Past?

Nobody likes to fight traffic at the end of the day. And it's no fun starting an evening trolling for parking or shelling out big bucks for a valet or space in a nearby lot. But when you call an Uber, you don't need to worry about any of that. More and more people are choosing the ultra-popular, relatively cheap car-hailing service, which some experts believe may eventually ease urban congestion and parking problems as millions of consumers may decide that using Uber is cheaper than owning a car. Meanwhile, despite some "significant growing pains," Uber is growing in leaps and bounds. By 2014, Uber was serving 250 cities in 53 countries, and was worth \$40 billion, more than Delta Airlines (\$37 billion) and less than Starbucks (\$60 billion). Google's closest competitors, such as Sidecar and Lyft, are eating its dust (Lyft is worth about \$700 million). Uber's "growing pains," such as a supposedly misogynistic culture and pushback from the taxi industry, which feels threatened by Uber, haven't hurt it much so far. In fact, the editor of *Fortune* magazine has recently

posited that the Uber model—connecting individual users and independent providers via app for a share of the take on a large-scale basis—will actually reshape the entire economy in the decade to come.⁷



Andrew Harrer/Bloomberg/Getty Images

businesses began to develop brands, or distinctive identities, to help consumers understand the differences among various products. The *marketing concept* emerged: a consumer focus that permeates successful companies in every department, at every level. This approach continues to influence business decisions today as global competition heats up to unprecedented levels.

- **The Relationship Era:** Building on the marketing concept, today, leading-edge firms look beyond each immediate transaction with a customer and aim to build long-term relationships. Satisfied customers can become advocates for a business, spreading the word with more speed and credibility than even the best promotional campaign. And cultivating current customers is more profitable than constantly seeking new ones. One key tool is technology. Using the Web and other digital resources, businesses gather detailed information about their customers and use these data

nonprofits Business-like establishments that employ people and produce goods and services with the fundamental goal of contributing to the community rather than generating financial gain.

to serve them better, "bringing a level of customer centricity that we've never seen before," according to Graeme Noseworthy, marketing director for IBM.

1-3 NONPROFITS AND THE ECONOMY: THE BUSINESS OF DOING GOOD

Nonprofit organizations play a critical role in the economy, often working hand-in-hand with businesses to improve the quality of life in our society. Focusing on areas such as health, human services, education, art, religion, and culture, **nonprofits** are business-like establishments, but their primary goals do not include profits. Chuck Bean, Executive Director of the Nonprofit Roundtable, explains: "By definition, nonprofits are not in the business of financial gain. We're in the business of doing good. However, nonprofits are still businesses in every other sense—they employ people, they take in revenue, they produce goods and services and contribute in significant ways to our region's economic stability and growth." Nationwide, nonprofits employ about one in ten workers, accounting for more paid workers than the entire construction industry and more than the finance, insurance, and real-estate sectors combined. And nonprofit museums, schools, theaters, and orchestras have become economic magnets for many communities, drawing additional investment.⁸

1-4 FACTORS OF PRODUCTION: THE BASIC BUILDING BLOCKS

Both businesses and nonprofits rely on **factors of production**—four fundamental resources—to achieve their objectives. Some combination of these factors is crucial for an economic system to work and create wealth. As you read through the factors, keep in mind that they don't come free of charge. Human resources, for instance, require wages, while entrepreneurs need a profit incentive.

- **Natural Resources:** This factor includes all inputs that offer value in their natural state, such as land, fresh water, wind, and mineral deposits. Most natural resources must be extracted, purified, or harnessed; people cannot actually create them. (Note that agricultural products, which people do create through planting and tending, are not a natural resource.) The value of all natural resources tends to rise with high demand, low supply, or both.
- **Capital:** This factor includes machines, tools, buildings, information, and technology—the synthetic resources that a business needs to produce goods or services. Computers and telecommunications capability have become pivotal elements of capital across a surprising range of industries, from financial services to professional sports. You may be surprised to learn that in this context, capital does not include money, but, clearly, businesses use money to acquire, maintain, and upgrade their capital.

- **Human Resources:** This factor encompasses the physical, intellectual, and creative contributions of everyone who works within an economy. As technology replaces a growing number of manual labor jobs, education and motivation have become increasingly important to human resource development. Given the importance of knowledge to workforce effectiveness, some business experts, such as management guru Peter Drucker, break out knowledge as its own category, separate from human resources.

- **Entrepreneurship:** Entrepreneurs are people who take the risk of launching and operating their own businesses, largely in response to the profit incentive. They tend to see opportunities where others don't, and they use their own resources to capitalize on that potential. Entrepreneurial enterprises can kick-start an economy, creating a tidal wave of opportunity by harnessing the other factors of production. But entrepreneurs don't thrive in an environment that doesn't support them. The key ingredient is economic freedom: freedom of choice (whom to hire, for instance, or what to produce), freedom from excess regulation, and freedom from too much taxation. Protection from corruption and unfair competition is another entrepreneurial "must."

Clearly, all of these factors must be in place for an economy to thrive. But which factor is most important? One way to answer that question is to examine current economies around the world. Russia and China are both rich in natural resources and human resources, and both countries have a solid level of capital (growing in China, and deteriorating in Russia). Yet, neither country is wealthy; both rank relatively low in terms of gross national income per person. The missing ingredient seems to be entrepreneurship, limited in Russia largely through corruption and in China through government interference and taxes. Contrast those examples with, say, Hong Kong. The population is small, and the natural resources are severely limited, yet Hong Kong has consistently ranked among the richest regions in Asia. The reason: operating for many years under the British legal and economic system, the government actively encouraged entrepreneurship, which fueled the creation of wealth.

Recognizing the potential of entrepreneurship, China has recently done more to relax



Many businesses work with nonprofits to boost their impact in the community.

factors of production Four fundamental elements—natural resources, capital, human resources, and entrepreneurship—that businesses need to achieve their objectives.

regulations and support free enterprise. The result has been tremendous growth, which may yet bring China into the ranks of the wealthier nations.⁹

1-5 THE BUSINESS ENVIRONMENT: THE CONTEXT FOR SUCCESS

No business operates in a vacuum. Outside factors play a vital role in determining whether each individual business succeeds or fails. Likewise, the broader **business environment** can make the critical difference in whether an overall economy thrives or disintegrates. The five key dimensions of the business environment are the economic environment, the competitive environment, the technological environment, the social environment, and the global environment, as shown in Exhibit 1.1.

1-5a The Economic Environment

In September 2008, the U.S. economy plunged into the worst fiscal crisis since the Great Depression. Huge, venerable financial institutions faced collapse, spurring unprecedented bailouts by the federal government and the Federal Reserve. By the end of the year, the stock market had lost more than a third of its value, and 11.1 million Americans were out of work. Housing prices fell precipitously, and foreclosure rates reached record levels. As fear swept through the banking industry, neither businesses nor individuals could borrow money to meet their needs. Economic turmoil in the United States spread quickly around the world, fueling a global economic crisis.

The U.S. economy continued to stagger through 2010 and 2011, with unemployment remaining stubbornly high, although signs of recovery began to emerge in late 2012,

business environment The setting in which business operates. The five key components are: economic environment, competitive environment, technological environment, social environment, and global environment.

"A BANKER IS A FELLOW WHO LENDS YOU HIS UMBRELLA WHEN THE SUN IS SHINING, BUT WANTS IT BACK THE MINUTE IT BEGINS TO RAIN."

—MARK TWAIN, AMERICAN AUTHOR

and certainly in 2013. The Federal Reserve—the U.S. central banking system—took unprecedented, proactive steps to encourage an economic turnaround. And President Barack Obama

Exhibit 1.1 The Business Environment



Each dimension of the business environment affects both individual businesses and the economy in general.

spearheaded passage of a massive economic stimulus package, designed not only to create jobs but also to build infrastructure—with a focus on renewable energy—to position the U.S. economy for stability and growth in the decades to come. (The price, of course, was more national debt, which will ultimately counterbalance some of the benefits.)

The government also takes active steps on an ongoing basis to reduce the risks of starting and running a business. The result: free enterprise and fair competition

flourish. Despite the economic crisis, research suggests that most budding entrepreneurs still plan to launch their firms in the next three years. One government policy that supports business is the relatively low federal tax rate, both for individuals and businesses. A number of states—from Alabama to Nevada—make their local economies even more appealing by providing special tax deals to attract new firms. The federal government also runs entire

agencies that support business, such as the Small Business Administration. Other branches of the government, such as the Federal Trade Commission, actively promote fair competitive practices, which help give every enterprise a chance to succeed.

Another key element of the U.S. economic environment is legislation that supports enforceable contracts. For instance, if you contract a baker to supply your health food company with 10,000 pounds of raw kale chips at \$1.00 per pound, that firm must comply or face legal consequences. The firm can't wait until a day before delivery and jack up the price to \$10.00 per pound because you would almost certainly respond with a successful lawsuit. Many U.S. businesspeople take enforceable contracts for granted, but in a number of developing countries—which offer some of today's largest business opportunities—contracts are often not enforceable (at least not in day-to-day practice).

Corruption also affects the economic environment. A low level of corruption and bribery dramatically reduces the risks of running a business by ensuring that everyone plays by the same set of rules—rules that are clearly visible to every player. Fortunately, U.S. laws keep domestic corruption mostly—but not completely—at bay. Other ethical lapses, such as shady accounting, can also increase the cost of doing business for everyone involved. But in the wake of corporate ethical meltdowns such as Enron, the federal government has passed tough-minded new regulations to increase corporate accountability. If the new legislation effectively curbs illegal and unethical practices, every business will have a fair chance at success.

Upcoming chapters on economics and ethics will address these economic challenges and their significance in more depth. But bottom line, we have reason for cautious (some would say very cautious) optimism. The American economy has a proven track record of flexibility and resilience, which will surely help us navigate this crisis and uncover new opportunities.

1-5b The Competitive Environment

As global competition intensifies yet further, leading-edge companies have focused on customer satisfaction like never before. The goal: to develop long-term, mutually beneficial relationships with customers. Getting current customers to buy more of your product is a lot less expensive than convincing potential customers to try your product for the first time. And if you transform your current customers into loyal advocates—vocal promoters of your product or service—they'll get those new customers for you more effectively than any advertising or discount program. Companies such as Amazon, Coca-Cola, and

Northwestern Mutual life insurance lead their industries in customer satisfaction, which translates into higher profits even when the competition is tough.¹⁰

Customer satisfaction comes in large part from delivering unsurpassed value. The best measure of value is the size of the gap between product benefits and price. A product has value when its benefits to the customer are equal to or greater than the price that the customer pays. Keep in mind that the cheapest product doesn't necessarily represent the best value. If a 99-cent toy from Big Lots breaks in a day, customers may be willing to pay several dollars more for a similar toy from somewhere else. But if that 99-cent toy lasts all year, customers will be delighted by the value and will likely encourage their friends and family to shop at Big Lots. The key to value is quality, and virtually all successful firms offer top-quality products relative to their direct competitors.

A recent ranking study by consulting firm Interbrand highlights brands that use imagination and innovation to deliver value to their customers. Exhibit 1.2 shows the winners and the up-and-comers in the race to capture the hearts, minds, and dollars of consumers around the world.

EXHIBIT 1.2 2014 GLOBAL BRAND CHAMPIONS AND THE ONES TO WATCH, INTERBRAND

Most Valuable	Biggest Gainer	Percentage Growth
Apple	Facebook	+86%
Google	Audi	+27%
Coca-Cola	Amazon	+25%
IBM	Nissan	+23%
Microsoft	Volkswagon	+23%
GE	Starbucks	+22%
Samsung	Apple	+21%
Toyota	Toyota	+20%
McDonald's	Ford	+18%
Mercedes-Benz	Hermes	+18%

Source: Best Global Brands 2014, Interbrand Website, <http://www.bestglobalbrands.com/2014/ranking/>, accessed February 5, 2015.

LEADING EDGE VERSUS BLEEDING EDGE

Speed-to-market

—the rate at which a firm transforms concepts into actual products—can be another key source of competitive advantage. And the pace of change just keeps getting faster. In this tumultuous setting, companies that stay ahead of the pack often enjoy a distinct advantage. But keep in mind that there's a difference between leading edge and bleeding edge. Bleeding-edge firms launch products that fail because they're too far ahead of the market. During the late 1990s, for example, in the heart of the dot.com boom, WebVan, a grocery delivery service, launched to huge fanfare. But the firm went bankrupt just a few years later in 2001, partly because customers weren't yet ready to dump traditional grocery stores in favor of cyber-shopping. Leading-edge firms, on the other hand, offer products just as the market becomes ready to embrace them.¹¹

Apple provides an excellent example of leading edge. You may be surprised to learn that Apple—which controls about 70%¹² of the digital music player market—did not offer the first MP3 player. Instead, it surveyed the existing market to help develop a new product, the iPod, which was far superior in terms of design and ease-of-use. But Apple didn't stop with one successful MP3 player. Racing to stay ahead, they soon introduced the colorful, more affordable iPod mini. And before sales reached their peak, they launched the iPod Nano, which essentially pulled the rug from under the blockbuster iPod mini just a few short months before the holiday selling season. Why? If they hadn't done it, someone else may well have done it instead. And Apple is almost maniacally focused on maintaining its competitive lead.¹³

1-5c The Workforce Advantage

Employees can contribute another key dimension to a firm's competitive edge. Recent research suggests that investing in worker satisfaction yields tangible, bottom-line results. The researchers

speed-to-market The rate at which a new product moves from conception to commercialization.

evaluated the stock price of *Fortune* magazine's annual list of the "100 Best Companies to Work for in America" to the S&P 500, which reflects the overall market. From 1997 through 2012, cumulative stock market returns for the "100 Best" were up +366%, compared to +93% for the S&P 500. On an annualized basis, this translates to a return of about 10.6% per year for the "100 Best," and about 4.5% per year for the S&P 500 over the same time period. While the critical difference in performance most likely stemmed from employee satisfaction, other factors—such as excellent product and superb top management—likely also played a role in both employee satisfaction and strong stock performance.¹⁴

Finding and holding the best talent will likely become a crucial competitive issue in the next decade, as the baby boom generation begins to retire. The 500 largest U.S. companies anticipate losing about half of their senior managers over the next five to six years. Since January 1, 2011, approximately 10,000 baby boomers began to turn 65 (the traditional retirement age) every day, and the Pew Research Center anticipates that this trend will continue for 19 years. Replacing the skills and experience these workers bring to their jobs may be tough: baby boomers include about 77 million people, while the generation that follows includes only 46 million. Firms that cultivate human resources now will find themselves better able to compete as the market for top talent tightens.¹⁵ However, job market contraction may



Google continues to be a powerhouse of innovation, in terms of both product development and employee benefits.

Simon Dawson/Bloomberg/Getty Images

High-Level Worries

Even the masters of the universe get worried sometimes. And Dominic Barton, global managing director of elite management consulting firm McKinsey would know, since he talks regularly with CEOs of the world's largest firms, which are among his clients. In a recent interview, he reported that top CEOs around the globe seem to share four fairly consistent worries:

1. **Geopolitics:** The world simply isn't a stable place, and big shifts have a big impact on business.
2. **Technology:** Barton claims that technology is moving two to three times faster than management, which is both an opportunity and a huge potential threat.
3. **Cybersecurity:** CEOs have begun to realize just how vulnerable their systems really are.
4. **The Global Shift in Economic Power:** 2.2 billion new middle-class consumers will emerge in the next 15 years, many of them in Africa and Asia, and CEOs want to be ready.

But despite the prevailing concerns—perhaps even because of them—Barton believes there will always be room for savvy leadership. He says, "In a world that's more volatile, judgment is going to be a premium." So the more you learn and the better you prepare, the more value you will add to the constantly changing world of business.¹⁶



Plus Utomi akoe/AFP/Getty Images

not be an issue, because a growing number of baby boomers opt to either postpone retirement or continue working part-time during retirement, in the face of inadequate financial resources.

1-5d The Technological Environment

The broad definition of **business technology** includes any tools that businesses can use to become more efficient and effective. But more specifically, in today's world, business technology usually refers to computers, telecommunications, and other digital tools. Over the past few decades, the impact of digital technology on business has been utterly transformative. New industries have emerged, while others have disappeared. And some fields—such as travel, banking, and music—have changed dramatically. Even in categories with relatively unchanged products, companies have leveraged technology to streamline production and create new efficiencies. Examples include new processes such as computerized billing, digital animation, and robotic manufacturing. For fast-moving firms, the technological environment represents a rich source of competitive advantage, but it clearly can be

a major threat for companies that are slow to adopt or to integrate new approaches.

The creation of the **World Wide Web** has transformed not only business, but also people's lives. Anyone, anywhere, anytime can use the Web to send and receive images and data (as long as access is available). One result is the rise of **e-commerce** or online sales, which allow businesses to tap into a worldwide community of potential customers. In the wake of the global economic crisis, e-commerce has slowed from the breakneck 20%+ growth rates of the past five years, but even so, analysts predict that solid growth will continue. Business-to-business selling comprises the vast majority of total e-commerce sales (and an even larger share



Joachim Wendler/Shutterstock.com

business technology Any tools—especially computers, telecommunications, and other digital products—that businesses can use to become more efficient and effective.

World Wide Web The service that allows computer users to easily access and share information on the Internet in the form of text, graphics, video, apps, and animation.

e-commerce Business transactions conducted online, typically via the Internet.

of the profits). A growing number of businesses have also connected their digital networks with suppliers and distributors to create a more seamless flow of goods and services.¹⁷

Alternative selling strategies thrive on the Internet, giving rise to a more individualized buying experience. If you've browsed seller reviews on eBay or received shopping recommendations from Amazon, you'll have a sense of how personal web marketing can feel. Online technology also allows leading-edge firms to offer customized products at prices that are comparable to standardized products. On the Burton website, for instance, customers can "custom build" professional quality "Custom X" snowboards, while sitting at home in their pajamas. Nike offers a similar service for NikeiD shoes, clothing, and gear.

As technology continues to evolve at breakneck speed, the scope of change—both in everyday life and business operations—is almost unimaginable. In this environment, companies that welcome change and manage it well will clearly be the winners.

1-5e The Social Environment

The social environment embodies the values, attitudes, customs, and beliefs shared by groups of people. It also covers **demographics**, or the measurable characteristics of a population. Demographic factors include population size and density and specific traits such as age, gender, race, education, and income. Clearly, given all these influences, the social environment changes dramatically from country to country. And a nation as diverse as the United States features a number of different social environments. Rather than cover the full spectrum, this section will focus on the broad social trends that have the strongest impact on American business. Understanding the various dimensions of the social environment is crucial since successful businesses must offer goods and services that respond to it.

DIVERSITY While the American population has always included an array of different cultures, the United States has become more ethnically diverse in recent years. Caucasians continue to represent the largest chunk of the population at 63%, but according to the Director

demographics The measurable characteristics of a population. Demographic factors include population size and density, as well as specific traits such as age, gender, and race.

FAST FASHION—DOESN'T LOOK SO HOT LINING OUR LANDFILLS



Many college students love to find vintage clothing gems that set their style apart from everyone else's, especially for special events. Yet some of those same students also find their closets overflowing with "landfill fashion," trendy garments sold for rock bottom prices by fast fashion retailers, such as H&M and Zara. The garments aren't either purchased or designed to last. The average American throws away 68 pounds of clothing per year (perhaps because it's so cheap that if you get home and decide you don't want something, it's not worth going back to return it). Some people do by all means donate used clothing to charity, but fast fashion tends to be so cheaply made that no one wants to buy it. Instead, it gets recycled into industrial rags and insulation, or sits for years in landfills, since it's often made with synthetic, petroleum-based fibers that take decades to decompose. The products are so trendy, and the prices are so cheap, that sometimes it feels virtually impossible to leave a fast fashion retailer empty-handed, but next time you do, remember that you're scoring points not only for space in your closet, but also for space in the landfills.¹⁸

INTERNET USAGE IN AFRICA IS GROWING MORE RAPIDLY THAN IN ANY OTHER REGION OF THE WORLD.

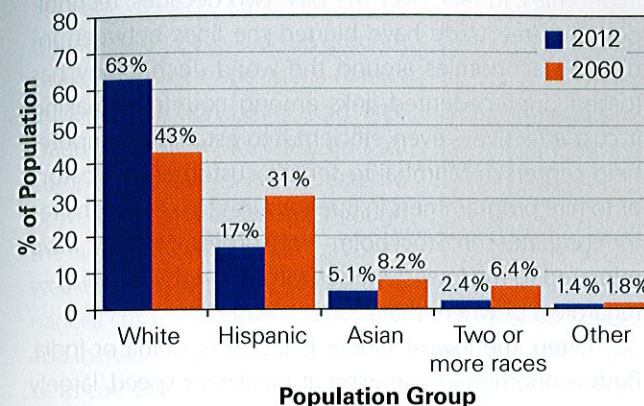
—WORLD INTERNET STATISTICS

of the U.S. Census Bureau, "The next half century marks a turning point in continuing trends—the U.S. will become a plurality nation, where the non-Hispanic white population remains the largest single group, but no group is in the majority." This will probably happen in about 2043. The Hispanic and Asian populations will probably continue to grow faster than any other ethnic groups. By 2060, nearly one in three U.S. residents will be Hispanic, up from

about one in six today. This will happen even though the overwhelming wave of immigration from Mexico to the United States has stalled and even begun to reverse in the past few years; nevertheless, among Mexican-born people worldwide, one in ten currently lives in the United States.¹⁹ Exhibit 1.3 demonstrates the shifting population breakdown.

But the national statistics are somewhat misleading, since ethnic groups tend to cluster together. African Americans, for example, currently comprise about 37% of

Exhibit 1.3 U.S. Population Estimates



Source: Population by Race and Hispanic Origin, U.S. Census Bureau, December 2012, http://www.census.gov/newsroom/releases/img/racehispanic_graph.jpg, accessed January 9, 2013.

the Mississippi population, Asians comprise about 39% of the Hawaii population, and Hispanics comprise about 47% of the New Mexico population.²⁰

So what does this mean for business? Growing ethnic populations offer robust profit potential for firms that pursue them. For instance, a number of major brands such as Coca-Cola, General Mills, Ford, Nestlé, Purina, and Toyota have invested heavily in the Hispanic market over the past five years. Recognizing the potential of the Hispanic market, Universal Pictures launched *Dr. Seuss's The Lorax* with a high-profile multipronged campaign targeted to Hispanic consumers. *The Lorax* debuted at #1 at the box office; Hispanics accounted for 28% of those ticket sales, even though they accounted for only 17% of the population. Targeting an ethnic market can also yield remarkable results for products that cross over into mainstream culture. Music mogul and entrepreneur Russell Simmons, for example, initially targeted his music and clothing to the African American market, but his success quickly spilled over to mainstream culture, helping him build a hip-hop empire.²¹

Growing diversity also affects the workforce. A diverse staff—one that reflects an increasingly diverse marketplace—can yield a powerful competitive advantage in terms of both innovation and ability to reach a broad customer base. From global behemoths such as Coca-Cola and Verizon,

to local corner stores, companies have taken proactive steps to hire and nurture people from a broad range of backgrounds. And that doesn't just reflect racial or ethnic roots. True diversity also includes differences in gender, age, religion, and nationality, among other areas. Leading-edge firms have also taken proactive steps to train their entire workforce to manage diversity for top performance.²²

Effectively managing diversity should only become easier as time goes by. Multiple studies demonstrate that young American adults are the most tolerant age group, and they are moving in a more tolerant direction than earlier generations regarding racial differences, immigrants, and homosexuality. As this generation gathers influence and experience in the workforce, they are likely to leverage diversity in their organizations to hone their edge in a fiercely competitive marketplace.²³

AGING POPULATION As life spans increase and birthrates decrease, the American population is rapidly aging. The U.S. Census Bureau projects that the nation's population age 65 and older will more than double between 2005 and 2060. By 2060, older Americans will represent just over one in five residents, up from one in seven today. Also, the number of working-age Americans will shrink from 63% to 57% of the population, dramatically increasing the number of people who are depending on each working American. And the United States isn't alone in this trend. The population is aging across the developed world, from Western Europe to Japan. China faces the same issue, magnified by its huge population. Demographers estimate that in the next 20 years the number of people in China over the age of 60 will

double, leading to a nation where the retired will outnumber the entire population of Western Europe. There are currently six workers to every retiree, but China's one-child policy suggests that the number of people providing for the old will rapidly collapse.²⁴

The rapidly aging population brings opportunities and threats for business. Companies in fields that

cater to the elderly—such as healthcare, pharmaceuticals, travel, recreation, and financial management—will clearly boom. But creative companies in other fields will capitalize on the trend as well by reimagining their current products to serve older clients. Possibilities include books, movies—maybe even video games—with mature characters; low-impact fitness programs such as water aerobics; and cell phones and PDAs with more readable screens. Again, the potential payoff of age diversity is clear: companies with

"WASTING RESOURCES COSTS THE EARTH—AND LOWERS YOUR COMPETITIVE EDGE."

—PHIL HARDING, HEAD/ SUSTAINABLE BUSINESS TEAM

older employees are more likely to find innovative ways to reach the aging consumer market.

But the larger numbers of retired people also pose significant threats to overall business success. With a smaller labor pool, companies will need to compete even harder for top talent, driving up recruitment and payroll costs. As state and federal governments stretch to serve the aging population, taxes may increase, putting an additional burden on business. And as mid-career workers spend more on elder care, they may find themselves with less to spend on other goods and services, shrinking the size of the consumer market.

RISING WORKER EXPECTATIONS Workers of all ages continue to seek flexibility from their employers. Moreover, following massive corporate layoffs in the early 2000s, employees are much less apt to be loyal to their firms. A study released in 2013 showed that on average, employees in Fortune 500 firms have a median tenure of only 3.68 years. As young people today enter the workforce, they bring higher expectations for their employers in terms of salary, job responsibility, and flexibility—and less willingness to pay dues by working extra-long hours or doing a high volume of “grunt work.” Smart firms are responding to the change in worker expectations by forging a new partnership with their employees. The goal is a greater level of mutual respect through open communication, information sharing, and training. And the not-so-hidden agenda, of course, is stronger long-term performance.²⁵

ETHICS AND SOCIAL RESPONSIBILITY With high-profile ethical meltdowns dominating the headlines in the past few years, workers, consumers, and government alike have begun to hold businesses—and the people who run them—to a higher standard. Federal legislation, passed in the wake of the Enron fiasco, demands transparent financial management and more accountability from senior executives. And recognizing their key role in business success, a growing number of consumers and workers have begun to insist that companies play a proactive role in making their communities—and often the world community—better places. Sustainability—

doing business today without harming the ability of future generations to meet their needs—has become a core issue in the marketplace, driving business policies, investment decisions, and consumer purchases on an unprecedented scale.²⁶

free trade An international economic and political movement designed to help goods and services flow more freely across international boundaries.

General Agreement on Tariffs and Trade (GATT) An international trade agreement that has taken bold steps to lower tariffs and promote free trade worldwide.

1-5f The Global Environment

The U.S. economy operates within the context of the global environment, interacting continually with other economies. In fact, over the past two decades, technology and free trade have blurred the lines between individual economies around the world. Technology has forged unprecedented links among countries, making it cost effective—even efficient—to establish computer help centers in Mumbai to service customers in Boston, or to hire programmers in Buenos Aires to make websites for companies in Stockholm. Not surprisingly, jobs have migrated to the lowest bidder with the highest quality—regardless of where that bidder is based.

Often, the lowest bidder is based in China or India. Both economies are growing at breakneck speed, largely because they attract enormous foreign investment. Over the past couple of decades, China has been a magnet for manufacturing jobs because of the high population and low wages—about \$3.50 per hour (including government-mandated benefits) versus about \$19.50 in the United States—although the gap is rapidly closing due to double-digit annual wage inflation in China. And India has been especially adept at attracting high-tech jobs, in part because of their world-class, English-speaking university graduates who are willing to work for less than their counterparts around the globe.²⁷

The migration of jobs relates closely to the global movement toward **free trade**. In 1995, a renegotiation of the **General Agreement on Tariffs and Trade (GATT)**—signed by 125 countries—took bold steps to lower tariffs (taxes on imports) and to reduce trade restrictions worldwide. The result: goods move more freely than



Global trade has forged unprecedented links among nations.

Maksim Nikalayenko/Shutterstock.com

ever across international boundaries. Individual groups of countries have gone even further, creating blocs of nations with virtually unrestricted trade. Mexico, Canada, and the United States have laid the groundwork for a free-trade mega-market through the North American Free Trade Agreement (NAFTA), and 25 European countries have created a powerful free-trading bloc through the European Union, which has been weakened by a severe, ongoing financial crisis. The free-trade movement has lowered prices and increased quality across virtually every product category, as competition becomes truly global. We'll discuss these issues and their implications in more depth in Chapter 3.

A MULTI-PRONGED THREAT In the past decade alone, war, terrorism, disease, and natural disasters have taken a horrific toll in human lives across the globe. The economic toll has been devastating as well, affecting businesses around the world. The 9/11 terrorist attacks in New York and Washington, D.C., decimated the travel industry and led to multibillion-dollar government outlays for Homeland Security. In 2002, a terrorist bombing at an Indonesian nightclub killed nearly 200 people, destroying tourism on the holiday island of Bali. The 2003 deadly epidemic of the SARS flu dealt a powerful blow to the economies of Hong Kong, Beijing, and Toronto. And the Ebola outbreak of 2014 had a catastrophic impact on several impoverished African economies that could least afford the hit. Less than two years later, the Indian Ocean tsunami wiped out the fishing industry on long swaths of the Indian and Sri Lankan coastlines and crippled the booming Thai tourism industry. That same year, in 2005, Hurricane Katrina destroyed homes and businesses alike

IN ASIA, THE AVERAGE PERSON'S LIVING STANDARDS ARE CURRENTLY SET TO RISE BY 10,000% IN ONE LIFETIME!

—NEWSWEEK

and brought the Gulf Coast oil industry to a virtual standstill. In 2012, Hurricane Sandy wreaked \$50 billion of economic damage on the eastern seaboard states. And in 2013, Typhoon Haiyan decimated the Philippines. The wars in Afghanistan and Iraq—while a boon to the defense industry—have dampened the economic potential of both areas. With nationalism on the rise, and growing religious and ethnic tensions

around the world, the global economy may continue to suffer collateral damage.²⁸

1-6 BUSINESS AND YOU: MAKING IT PERSONAL

Whatever your career choice—from video game developer, to real-estate agent, to web designer—business will affect your life. Both the broader economy and your own business skills will influence the level of your personal financial success. In light of these factors, making the right career choice can be a bit scary. But the good news is that experts advise graduating students to “Do what you love.” This is a hard-headed strategy, not softhearted puffery. Following your passion makes dollars and sense in today's environment, which values less-routine abilities such as creativity, communication, and caring. These abilities tend to be more rewarding for most people than routine, programmable skills that computers can easily emulate. Following your passion doesn't guarantee a fat paycheck, but it does boost your chances of both financial and personal success.²⁹

The BIG Picture



Business today is complex, global, and faster-moving than ever before. Looking forward, the rate of change seems likely to accelerate yet further. Although the full impact of the global economic crisis is still unclear, China and India seem poised to gain economic clout, raising worldwide competition to a whole new level. Technology will continue to

change the business landscape. And a new focus on ethics and social responsibility will likely transform the role of business in society. This book will focus on the impact of change in every facet of business, from management to marketing to money, with an emphasis on how the elements of business relate to each other, and how business as a whole relates to you.

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there was significant variation based on company, location, industry, experience, and benefits. Most new media positions require experience in the field and a four-year degree in either business or communication. Many also prefer a master's degree in business (an MBA). For more information on this career and other possible careers in business, check out Career Transitions.



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