Technology makes it possible to work from virtually anywhere. Is that a good thing?
Source: Getty Images, Inc.

Companies can also use new technology systems to increase productivity. Giving employees what they need to get their work done more efficiently and effectively is the simplest way to increase productivity. If employees can get more work done in a shorter amount of time, productivity increases. When employees are more productive, they are more valuable. This, in turn, makes the whole company more valuable. But technological benefits aren't limited to just helping employees; they streamline the internal operations of a business so the entire business can be more effective, efficient, and productive.

Thirty years ago, businesses were often centrally located, with all employees in one building. Today, this is less common. Technology is making it possible for employees to **telecommute**, or work from home or another location away from the office. The virtual global workforce, or telecommuters who work on a global scale, expands the pool of potential employees so that the right employee can be found for the job no matter where he or she works. In fact, the worldwide population of mobile workers is expected to exceed 12.4 billion by 2020.[11] Teleconferencing is keeping CEOs and other corporate representatives from having to travel constantly for meetings. It is also allowing companies to communicate easily no matter the distance. Both of these advancements are saving money on what used to be necessary expenses. With less travel, there is less money spent on plane tickets, hotel rooms, and food. With more employees telecommuting, many businesses can operate out of smaller offices, which are cheaper and easier to manage. The reduction in travel and other services also has an impact on the environment, consuming less energy and fewer resources.

What role does the Internet play in technological growth? If IT is the tool that is changing the functions of business, the Internet is the tool that is changing the scope of business. Although IT by itself would be extremely influential for the business world, the Internet makes it truly revolutionary. In 1995, the Internet was just starting to proliferate. Many people were intrigued by this new technology, but initially there weren't high hopes for companies that operated solely on the Internet. But this changed in 1995 when both eBay and Amazon.com launched. These companies showed that such an endeavor was not only possible but also potentially lucrative. Their high-profile success paved the way for the general acceptance of public e-commerce. As ■ **FIGURE 1.2** shows, people now are buying every type of product online. We'll discuss online business and technology in more detail in Chapter 10.

■ **FIGURE 1.2**
What Are People Buying Online?
Source: Laptop: Ruslanchik/Shutterstock; bags: urfin/Shutterstock.

E-COMMERCE **E-commerce** consists of three different kinds of business trade: *business to consumer* (B2C), *business to business* (B2B), and *consumer to consumer* (C2C). B2C interactions are the ones you're probably most familiar with, such as buying books at Amazon.com or songs or movies from iTunes. B2C interactions take place between a business and a consumer. B2B interactions involve the sale of goods and services, such as personalized or proprietary software, from one business to another. Although both are fairly similar in many ways, the ways in which they differ are significant. B2B e-commerce often involves large transactions to few customers and customized products and pricing, with numerous managers from both businesses making sure that the transaction is beneficial to both parties. This process is obviously more involved than typical B2C transactions, such as downloading risk + reward + relationship

The Business Landscape pp. 3–5

Source: Nhvabe/Getty Images, Inc.

Ben Silberman had a hobby when he was a kid in Des Moines, Iowa: He collected bugs. As a twenty-something now out of college and working, Silberman watched social networking sites take off. He thought there should be a better way to trade information about their hobbies with their friends. After his girlfriend heard him complain about wanting to leave his job and start a company one time too many, he did just that. He and a couple of friends, Evan Sharp and Paul Sciarra, began working on a Web app that would help people pick up new hobbies.1 They named it Pinterest.

Meanwhile, in a small town in Pennsylvania, members of the Chang family, who emigrated from Hong Kong three decades ago, fulfilled a lifelong dream of opening a Chinese restaurant. Although opening the new business was challenging, the Changs built a reputation for treating people like family and developed a loyal customer base. ■

What do a billion-dollar software company with hundreds of millions of users and a small-town family restaurant have in common? These organizations represent the varied spectrum of *business* in the United States. In this chapter, you'll learn about the basic skills it takes to run a successful business.

Business Defined

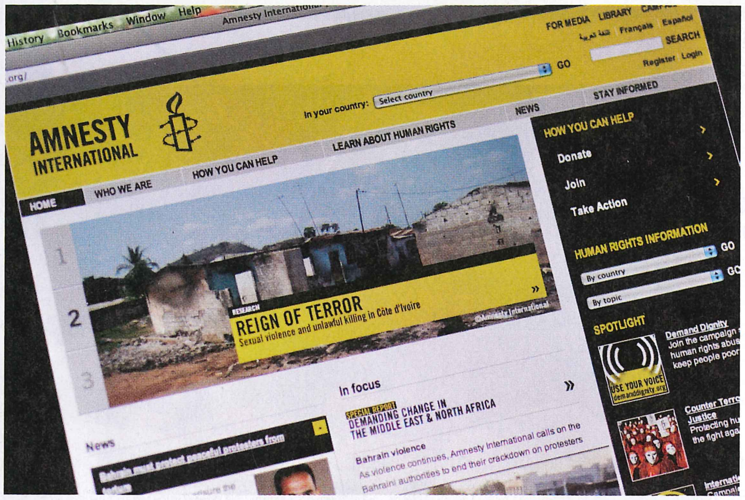
What exactly is a business? Both Pinterest and the Changs' Chinese restaurant are **businesses**—entities that offer products to their customers to earn a profit. A **profit** is earned when a company's **revenue** (the money it brings in) is greater than its **expenses** (the money it pays out). When expenses exceed revenue, the company posts a *loss*.

What kinds of products do businesses offer? A product can be either a *good* or a *service*. **Goods** are physical products a business sells. A roast beef sandwich at Arby's, a 42-inch television at Best Buy, and a Honda Fit at your local car dealership are all considered goods because they are tangible items. Conveyer belts, pumps, and parts sold to other businesses are also goods, even though they are not sold directly to consumers.

A **service** is an intangible product that is bought or sold. Services include haircuts, health care, car insurance, and theatrical productions. Unlike a polo shirt on a rack at Hollister Co., services cannot be physically handled.

Some companies offer products that are both goods *and* services. Take, for example, restaurant franchises like T.G.I. Fridays. When you order a sirloin steak at T.G.I. Fridays, you're paying for the good (a fire-grilled sirloin) as well as the service of preparing, cooking, and serving the steak.

Countries change over time in whether goods or services dominate their economic system. Historically, the United States was primarily agricultural based



Many not-for-profit organizations, such as Amnesty International, operate like a business but do not pursue profits. Instead, they seek to service their community through social, educational, and political means.
Source: NetPhotos/Alamy.

but then moved to a strong manufacturing base that centered on producing goods. Today, that has diminished, and the service sector dominates. Other countries are following different trajectories; for example, in China, the manufacturing of goods is now the dominant business model.

What do businesses do with their profits? More often than not, profits are the driving force behind a business's growth. As more profits are generated, a company can reward its employees, increase its productivity, or expand its business into new areas.

The proprietor of a business is not the only one who benefits from the profits it generates. A successful business benefits society by providing the goods and the services consumers need and want. Businesses also provide employment opportunities for members of the community. Because they offer desired goods and services, provide employment, and generate income and spending in the economy, successful businesses contribute to the quality of people's lives by creating higher standards of living for society.

What about not-for-profits? **Not-for-profit organizations** do not go into business to pursue profits for their owners. Instead, a not-for-profit organization seeks to service its community through social, educational, or political means. Organizations such as universities, hospitals, environmental groups, and charities are examples of not-for-profit organizations. Any profits they generate are used to further the organizations' causes by expanding the services they provide.

The Factors of Production

What do businesses use to create the products they sell? To fully understand how a business operates, you have to consider its **factors of production**, or the resources it uses to produce goods and services. For years, businesses focused on the traditional factors of production: labor, natural resources, capital, entrepreneurial talent, intellectual property, and technology:

- **Labor.** Needless to say, businesses need people to produce goods and provide services. **Labor** is a human resource that refers to any *physical* work or *intellectual* work (ideas and knowledge) people contribute to a business's production.
- **Natural resources. Natural resources** are the raw materials provided by nature that are used to produce goods and services. Soil used in agricultural production; trees used for lumber to build houses; and coal, oil, and natural gas used to create energy are all examples of natural resources.
- **Capital.** There are two types of capital: *real capital* and *financial capital*. **Real capital** refers to the physical facilities used to produce goods and services, such as office buildings and factories. **Financial capital** refers to money used to facilitate a business enterprise. Financial capital can be acquired via business loans, from investors, through other forms of fund-raising, or by tapping into one's personal savings.
- **Entrepreneurial talent.** An **entrepreneur** is someone who assumes the risk of creating, organizing, and operating a business and directs all of a business's resources. Entrepreneurs are a human resource, just like labor, but what sets them apart from labor is not only their willingness to bear risks but also their ability to effectively manage businesses. For successfully doing so, entrepreneurs are rewarded with profits from the businesses.

- **Intellectual property. Intellectual property** consists of privately owned, intangible assets developed as a result of people's intellect and creativity. Drug patents held by pharmaceutical companies, copyrights to songs, and trademarks for products such as Coca-Cola are examples. Holding a patent on a drug, for example, means that no other company can compete with your product while the patent is in force.
- **Technology.** In our twenty-first-century economy, an additional factor of production has become increasingly important: technology. **Technology** refers to goods and services such as computers, smart phones, software, and digital broadcasting that make businesses more efficient and productive. Successful companies are able to keep pace with technological progress and harness new knowledge, information, and strategies. Unsuccessful companies often fail because they have not kept pace with the latest technology.

You will learn more about labor (Chapter 9), capital (Chapter 15), entrepreneurs (Chapter 5), and technology and knowledge factors (Chapter 10) as you continue reading this text.

Recall the examples of Pinterest and the Changs' Chinese restaurant. Pinterest provides a service to its users: the ability to instantly communicate their interests, hobbies, and projects to other people. The Changs provide goods to their customers in the form of the food they sell. They also provide a service in the form of the preparation and delivery of that food. Although the business models and products offered by these businesses vary considerably, the two businesses are similar because both were started by creative entrepreneurs determined to make a profit. Pinterest is now worth billions of dollars. For the Chang family, the profits are much more modest. The members are making a solid living but are far from seeing a 10-figure profit. Although these two enterprises differ greatly in many ways, both the Changs and the founders of Pinterest have realized their dreams by starting successful new businesses.

THE LIST

Ten Tech Entrepreneurs—Under 30. Very Successful.[2]

1. Ben Silberman: Pinterest valued at $4 billion
2. Mark Zuckerberg: Facebook tops $100 billion
3. Arash Ferdowsi and Drew Houston: Dropbox valued at $4 billion
4. Daniel Ek: Spotify $1 billion in revenue
5. Naveen Selvadurai: Foursquare $600 million in revenue
6. Kevin Systrom and Mike Krieger: Instagram sold for $1 billion
7. Jennifer Hyman and Jenny Fleiss: Rent the Runway $105 million
8. Ben Lerer: Thrilllist $150 million projected revenue
9. Kim Kardashian: Shoedazzle merging with JustFab will bring over $400 million revenue
10. Danile Kafie and Josh Kushner: Vostu largest social gaming company in South America

Common Business Challenges and Opportunities pp. 5–13

In 2008, Leroy Washington inherited his family's deli. The deli had a loyal clientele with a regular lunch crowd. Then a new Subway store moved into a building directly across the street. Because Subway is a national franchise that advertises heavily, the new store has great name recognition. The store also occupies a larger space, has more workers and ovens, and has a more extensive menu.

Leroy found his lunch crowd dwindling as people switched to the national chain with its faster service and greater variety of sandwiches. To better compete with Subway, Leroy had to get creative. So, instead of just offering traditional deli choices, he expanded the restaurant's menu to include Cuban pressed sandwiches and an "early bird special" consisting of light fare on the dinner menu. Leroy hoped that the changes would appeal to the large number of Cuban immigrants and senior citizens populating the area.

Source: Rui Dias-aidos/Thinkstock,/Getty Images, Inc.

Dealing with competition is just one of the many challenges business owners such as Leroy face. However, as Leroy found, confronting these challenges can sometimes lead to opportunities for growth as well. Next we'll discuss how competition, the social environment, globalization, and technological change create both business challenges and opportunities like they have for Leo.

Competition

How does competition influence business? In a market-based economy, such as that in the United States, there is an emphasis on individual economic freedom and a limit on governmental intervention. In this type of market, competition is a fundamental force. Competition arises when two or more businesses vie with one another to attract customers and gain an advantage. The private enterprise system in the United States is predicated on the fact that competition benefits consumers because it motivates businesses to produce a wider variety of better and cheaper goods and services.

Competition in Today's Marketplace

A competitive environment is where a free market economy thrives. Competition forces companies to improve their product offerings, lower their prices, aggressively promote their brands, and focus on customer satisfaction. Having to compete for a finite number of consumers usually weeds out less efficient companies and less desirable products from the marketplace. To win at the competitive game of business, today's companies need to deliver customer satisfaction and understand the power of social networking and are finding they need to empower their employees.

CUSTOMER SATISFACTION AND BEYOND To understand how successful businesses provide products that are either better or less expensive than those of their competitors, consider the market for home video: As more manufacturers and retailers jumped into the high-definition television (HDTV) market a number of years ago, the prices for HDTV sets fell sharply. This created a market of people hungry for Blu-ray players so they could watch high-definition programs on the new sets. As a result, the sales of Blu-ray players—once the sole dominion of high-end retailers and manufacturers—rose dramatically as the players became a staple in people's home entertainment systems. The prices of Blu-ray players dropped too. Customers could find moderately priced ones at a variety of retailers, such as Amazon.com, Costco, and Best Buy. These companies are able to turn over merchandise quickly and in high volumes, which allows them to lower the prices they pay for products as well as what their customers pay for them.

Later as the market continued to evolved, streaming media became an option through companies like Comcast and Verizon as well as via Netflix and Google Play. Disc sales plummeted, as did the sales of disc players. Other companies like Amazon and Pandora began offering streaming media services as well, and

ON TARGET

Nantucket Nectars: Tom and Tom's Partnership

Tom First and Tom Scott were college buddies who did not want to climb the traditional corporate ladder. After graduating from Brown University, the friends moved to Nantucket, Massachusetts, where they started a floating convenience store called Allserve in a red boat in Nantucket Harbor. The store provided delivery service of almost any item, from newspapers to laundry, to neighboring boats.

While Allserve proved to be a modest success, "Tom and Tom" soon had another idea. They decided to sell their own natural juice blend, and Nantucket Nectars was born. The popularity of the juice spread quickly in Nantucket. Allserve then purchased a distribution company to expand the reach of its products, which many national chains now carry. The two entrepreneurs maintained their local roots by subsequently starting the Juice Guys Juice Bar in Nantucket.[3] This partnership is an example of how a successful business can be started by two eager and driven people. Tom and Tom have come a long way since their days as floating delivery boys in Nantucket Harbor, and they are now running a nationally recognized corporation.

television manufacturers began integrating streaming players for Netflix, Amazon .com, and Pandora into their television sets. Competition is what made this all happen.

SOCIAL NETWORKING Websites like Pinterest, Facebook, Twitter, and many others are examples of social networking sites. **Social networking sites** are websites that make it easier for people to connect with one another online for the purposes of building and supporting social relationships. With over 1.3 billion users, Facebook is probably the best-known social networking site. Twitter is another popular social networking site.

What do social media have to do with business competition? Today more than ever, customers are connected to each other through a great variety of media—e-mail, texting, blogs, and social networking sites. Companies are therefore increasingly using social networking to connect to their customers. Through these sites, they can promote their products, offer discounts, and build relationships with people interested in their companies.

Individuals can use social networking sites to quickly spread the word about very good (or very bad) services or products. If a customer is dissatisfied, word can spread at the speed of light. As discussed later in this book, a happy customer base can be a powerful marketing tool for a company.

Other social networking sites are specialized for the needs of businesses. LinkedIn, for example, has more than 270 million users. LinkedIn users exchange résumés and build networking contacts by connecting with old acquaintances, former employers, and coworkers. Companies also use the site to find job candidates and get them interested in their firms.

EMPLOYEE EMPOWERMENT In a competitive environment, it is essential for a company to empower workers to feel free to deal with customer needs. This means employers seek workers who have interpersonal, communication, and decision-making skills. Companies today need to be more reactive to customers' needs to retain their competitive advantage. Therefore, more companies are giving employees greater decision-making responsibilities rather than having decisions trickle down through layers of management. This also leads to greater satisfaction and more career advancement opportunities for employees.

Apple: Taking a Bite Out of Microsoft?

Biz CHAT

In an effort to dominate the personal computer (PC) market, Apple and Microsoft have had a long and bitter rivalry. Originally, the main point of contention between the two companies was the graphical user interface (GUI), which is the user interface for the main program that runs PCs. Apple released the first GUI, which included folders and long file names, in 1983. When Microsoft released Windows 2.0 in 1988, Apple took Microsoft to court, complaining that the "look and feel" of the Windows interface was stolen from the Apple interface. This suit continued until 1992, when Apple finally lost.

Microsoft led the competition in the early 1990s. It became an industry standard to have Windows operating systems preinstalled on most PCs, which were dominating the computer market at the time. The 10-year battle finally ended when Apple announced an official alliance with Microsoft in 1997. Microsoft and Apple agreed to a five-year deal in which Microsoft would continue to develop Office software for Apple computers and Apple agreed to bundle Microsoft's Internet Explorer in all its operating systems.[4]

So competition can create new partnerships—strange ones at times. Today, Microsoft is actively wooing Apple in an effort to have promote and sell their products to Apple users. If you own an Apple iPhone and use the company's digital personal assistant "Siri" to conduct a Web search, she will use Microsoft's Bing browser instead of Google to search the Web. What's in this for Apple? Google has become one of Apple's main competitors in the mobile phone market with its Android phone platform. The element of competition between these rival high-tech companies drives them all to keep innovating and producing higher-quality products than if no one challenged them.

Social Environment

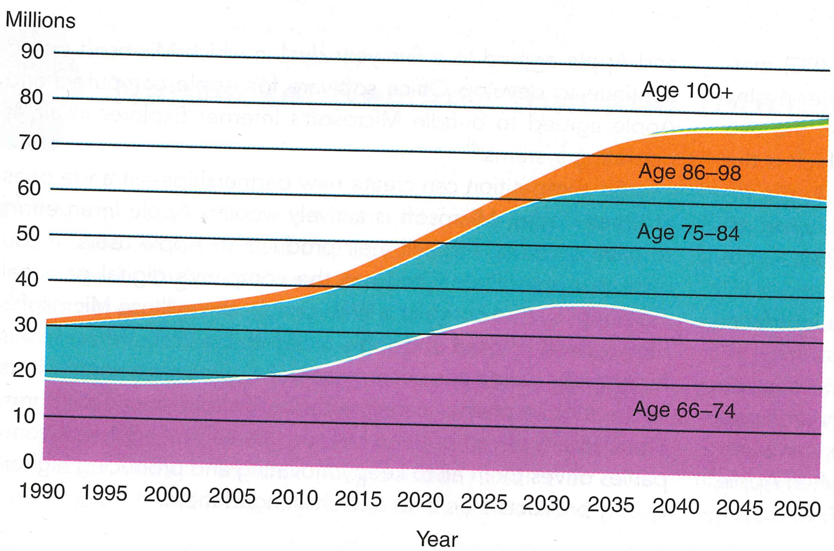
How does the social environment affect businesses? A social environment is an interconnected system of different demographic factors, such as the race, ethnicity, gender, age, income distribution, sexual orientation, and other characteristics of a population. Social, economic, and political movements and trends are constantly changing the social environment of the United States and other countries. An influx of immigrants can change the racial demographic, or an economic slump can change the income distribution demographic. These changes affect where we live, what we buy, and how we choose to spend our money. To best serve their employees, customers, and the community, businesses must consider the shifts and changes in the social environment when making decisions. Let's discuss three specific issues surrounding the social environment that present potential challenges and opportunities for today's businesses.

AN AGING POPULATION Not only are older Americans living longer, healthier lives, but they are also better educated, are wealthier, and have achieved higher living standards than previous generations. *Baby boomers*, the generation born between 1946 and 1964, make up the majority of the aging population in the United States. Not only do the 78 million baby boomers make up one of the largest population groups in the United States, but they are also the wealthiest. Baby boomers, who in 2014 were between the ages of 50 and 68, have an estimated spending power of over $2 trillion per year. This makes baby boomers a large and lucrative target for businesses. For example, the cosmetics company Garnier is eager to make a profit from the aging population with its anti-aging beauty line called UltraLift, which is aimed at baby-boomer women. Garnier released the line in an effort to keep its product offerings aligned with the shift in demographics.

Although an aging population presents many opportunities for businesses, it also presents challenges for the U.S. economy. Many analysts have warned that the nation will be faced with difficult choices as baby boomers continue to reach retirement age. Some potential problems include the government having to raise taxes to fund entitlement programs such as Social Security and Medicare, reduce the benefits of these programs, or face higher federal budget deficits.

Why does this matter to businesses? As shown in **FIGURE 1.1**, in 2050, there will be over 80 million Americans age 65 or older. Today, almost 40 percent of the total personal income for senior citizens comes from Social Security payments. Together these trends imply that there will be a decrease in the number of workers and an increase in the demand for social services. Longevity is another aspect of this demographic shift; in 2010, there were over 53,000 centenarians (people age 100 or older) in the United States.[5] Projections place that number at 580,000 by 2040. The health care programs and services required to care for this population will need to be in place.

FIGURE 1.1
U.S. Population Age 65 and Over: 1990–2050
Source: Data from U.S. Census Bureau.



Along with these challenges, as we noted, caring for the needs of an older population will present businesses with opportunities for growth, especially retirement centers, health care and pharmaceutical companies, and the travel industry. A bigger population translates to a larger market for these goods and services.

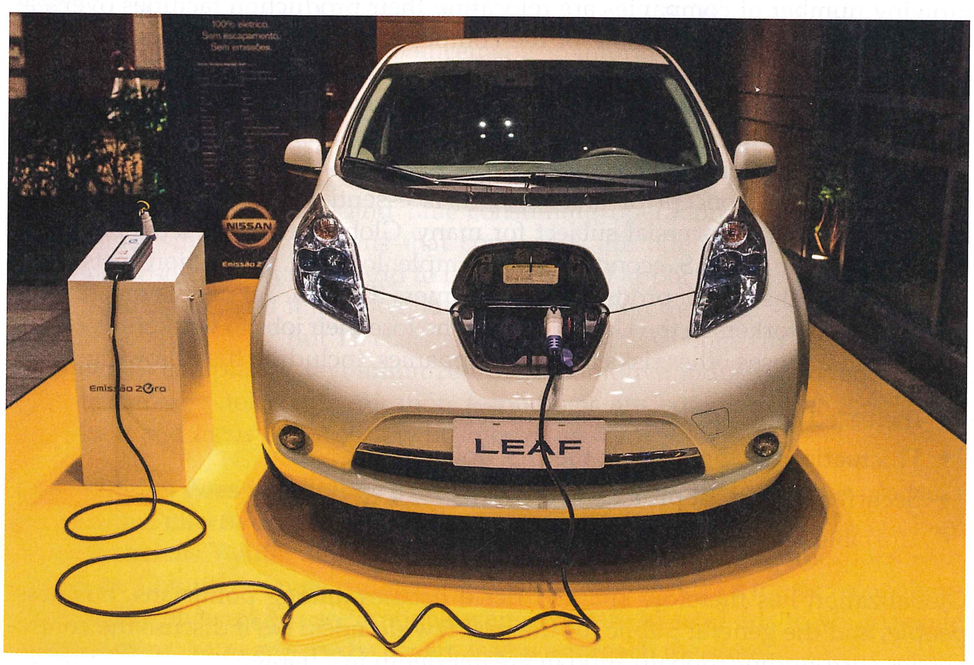
INCREASING WORKFORCE DIVERSITY In business, there is no one-size-fits-all way to manage employees and appeal to customers because every person is different. As the United States becomes more diverse, it is important for businesses to mirror that diversity in their workforce. Firms that don't are at risk for losing touch with their new, more diverse customer base. According to the latest data available, the U.S. Census Bureau reports that the minority population in the United States is about 35 percent, making one in three residents a minority. In some companies, minorities account for the majority of the workforce. At the hotel chain Four Seasons, for example, minorities represent 64 percent of the company's 12,400 employees.[6]

However, in today's business climate, increasing and managing a company's diversity involves more than just employing an ethnically diverse workforce. Companies must also develop a diversity initiative that outlines their goals and objectives for managing, retaining, and promoting a diverse workforce. A diversity initiative might include a nondiscrimination policy, a minority network, or diversity education. To increase diversity within a business, the company must treat it as a business-critical goal.

Although the inclusion and advancement of racial minorities in the workplace is an important step in establishing a diverse workforce, it is only part of the process. Today, the term *minority* applies to more than just people of different ethnicities. Minority groups might represent a person's gender, culture, religion, sexual orientation, or disability. Companies must include these minority groups in their diversity initiative to ensure that all minority employees are treated fairly by their managers and coworkers.

THE GREEN MOVEMENT The public's increasing anxieties about global warming and climate change have motivated businesses to become involved in a **green economy**—one that factors ecological concerns into business decisions. Because their customers are concerned about the environment, businesses that manufacture products that contribute to higher emissions of carbon dioxide and consume inordinate amounts of fossil fuels must adapt to this new environmental awareness to remain competitive.

In the automotive industry, for example, hybrid vehicles, which run on a combination of electricity and gasoline, have not only become hot sellers but also are critical to meeting national objectives. New fuel economy standards[7] in the United States will require cars to get almost 55 miles per gallon by 2025. Almost every major car manufacturer—including Toyota, Honda, and BMW—now offers hybrid models. Vehicles that run on other types of energy sources are appearing as well, such as the Tesla Model S and the Nissan Leaf, which are all-electric vehicles. The Leaf has a range of almost 100 miles on a single charge—and not a tailpipe to be seen.



Nissan Leaf electric cars are an example of how the automobile manufacturers are responding to changes in the social environment.
Source: YASUYOSHI CHIBA/AFP/ GettyImages.

A focus on environmental issues also opens up a brand-new market that will be increasingly important in the future. The demand for more green products presents new opportunities for entrepreneurs to meet those needs. These "green-collar" jobs can revitalize large swaths of the U.S. manufacturing economy that have been decimated. Creating wind energy turbines, installing solar panels, and landscaping designs that make your microclimate (the climate immediately surrounding your home) energy efficient will be necessary businesses of the twenty-first century.

THE SOCIAL ENVIRONMENT AND YOU As a prospective employee, any one of these social issues will probably affect the company for which you end up working. Because workers are increasingly retiring at later ages, the competition for certain jobs and career advancement might be fiercer than in years past. On the other hand, the culture of business is constantly shifting to meet the ever-evolving needs of U.S. demographics. This means more opportunity for employees who can navigate a diverse environment. In addition, jobs aimed at responding to the needs of the growing green economy will also likely present new opportunities for job seekers. Entrepreneurial possibilities always exist for those who have the vision and desire to succeed and are willing to take risks.

Globalization

How has globalization affected businesses? You're familiar with multinational companies such as Nike, McDonald's, and Coca-Cola. **Multinational enterprises**—companies that have operations in more than one country—are among the leaders of a movement called globalization. **Globalization** is a movement toward a more interconnected and interdependent world economy. This means that economies around the world are merging as technology, goods and services, labor, and capital move back and forth more easily across international borders. For example, FedEx, the world's largest express transportation company, conducts business in more than 220 countries and territories around the world.[8]

The effects of globalization on the business world vary widely, from the economic transformation of China to the shutting down of major manufacturing plants in the United States. The Internet and modern technological advances are making it possible for a company of any size from anywhere in the world to compete globally. Lower tariffs and other trade restrictions give U.S. companies the option to export or import goods to and from other countries or conduct their business overseas. Instead of building their products in plants at home, a growing number of companies are relocating their production facilities overseas or subcontracting at least some of the components of their products to foreign companies around the world to achieve lower manufacturing costs. This is called **offshoring**. The low labor costs in countries such as China and India make these countries ideal locations for multinational companies seeking technology services and manufactured products at a low cost.

Although the concept of globalization is essential for many companies, it is still a highly controversial subject for many. Globalization presents both benefits and risks to the U.S. economy. For example, lowered production costs allow firms to lower the cost of products for consumers like you. Yet people remain concerned about workers in the United States who lose their jobs to workers overseas. Globalization poses other risks for U.S. companies, including the following:

- Increased competition from international companies
- Fluctuations in the value of the U.S. dollar
- Security and patent protection concerns
- Unstable political climates in foreign countries

Globalization has therefore sparked fierce debates among politicians, businesspeople, and the general public for the past few decades. We'll discuss the controversies surrounding globalization in greater depth in Chapter 4.