

BOONE & KURTZ

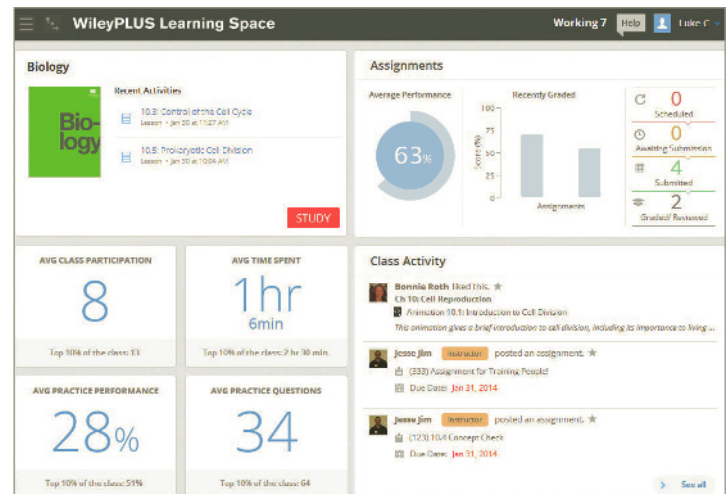


CONTEMPORARY BUSINESS

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BOONE & KURTZ



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Accompanying each chapter, documentary-style video clips of successful companies like Zipcar, Timberland, and Comet Skateboards reinforce key concepts while exposing students to innovative business practices.



BOONE & KURTZ STUDENT CASE VIDEOS

The Student Case Videos feature six recent business graduates in the workplace as they share their experiences and career goals. Each video illustrates the central theme of the six parts of Boone & Kurtz *Contemporary Business*.

Available in *WileyPLUS* and on the *Contemporary Business* Book Companion Site



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John Wiley & Sons, Inc.

David L. Kurtz

University of Arkansas

Boone & Kurtz's
Contemporary
BUSINESS

16TH EDITION



The 16th edition of *Contemporary Business* is dedicated to my wife, Diane.
She is the best thing that ever happened to me.
—Dave Kurtz

To my loving parents, who took me to the library and talked
a lot about the importance of education.
—Susan Berston

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About the Author

During Dave Kurtz's high school days, no one in Salisbury, Maryland, would have mistaken him for a scholar. In fact, he was a mediocre student, so bad that his father steered him toward higher education by finding him a succession of backbreaking summer jobs. Thankfully, most of them have been erased from his memory, but a few linger, including picking peaches, loading watermelons on trucks headed for market, and working as a pipefitter's helper. Unfortunately, these jobs had zero impact on his academic standing. Worse yet for Dave's ego, he was no better than average as a high school athlete in football and track.

But four years at Davis & Elkins College in Elkins, West Virginia, turned him around. Excellent instructors helped get Dave on sound academic footing. His grade point average soared—enough to get him accepted by the graduate business school at the University of Arkansas, where he met Gene Boone. Gene and Dave became longtime co-authors; together they produced more than 50 books. In addition to writing, Dave and Gene were involved in various entrepreneurial ventures.

This long-term partnership ended with Gene's death a few years ago. But, this book will always be Boone & Kurtz's *Contemporary Business*.

If you have any questions or comments about the new 16th edition, Dave can be reached at ProfKurtz@gmail.com.

About the Contributor

During Susan Berston's four years as a campus tour guide while a student at the University of California, Berkeley, she endured hundreds of elevator rides crammed with visitors eager to reach the Campanile's observation deck 200 feet above. It was during these years that her excitement for teaching and learning became deeply engrained.

After completing an MBA at the University of San Francisco, Susan worked in the corporate banking division of a Japanese bank. However, after a few years, Susan found herself bit by the sales bug. She joined the sales force of printer RR Donnelley & Sons Company, which is where her passion for satisfying customers, outsmarting competitors, providing solutions, and building relationships was realized.

She returned to academia and campus life to eventually become a full-time instructor at City College of San Francisco—where her father, also a textbook author, taught business for close to six decades. Here Susan feels incredibly lucky rooting for her students, whether as a faculty advisor to the Kiva Microfinance Club, as an engaged guide and mentor, or as a member of the school's Senate Executive Council. But it's the storytelling that keeps Susan going, bringing ideas to life in both the classroom and on the pages of this very textbook. And watching students learn, evolve, and succeed is simply the icing on the cake.

Preface

A part of every business is change; now more than ever, business moves at a pace that is unparalleled. Containing the most important introductory business topics, *Contemporary Business* includes the most current information available and the best supplementary package on the market. You'll find that this new edition gets your students excited about the world of business, helps them improve their critical-thinking skills, and offers you and your students solutions at the speed of business.

For Instructors Consistent with recent editions of *Contemporary Business*, the instructor resources are designed to propel the instructor into the classroom with all the materials needed to engage students and help them understand text concepts. As always, all the major teaching materials are contained within the Instructor's Manual. The PowerPoint Presentations and Test Bank have also been updated and improved. Greensburg, KS—our continuing case—is highlighted in part videos, plus we've added two other videos: "One Year Later" and "Future Plans." Our Wiley Business End-of-Chapter Video Series showcases companies such as Zipcar, Necco, Timberland, New Harvest Coffee Roasters, and Comet Skateboards.

For Students With contemporary being the operative word, we've added two videos to update our Greensburg, Kansas video series. As always, every chapter is loaded with up-to-the-minute business issues and examples to enliven classroom discussion and debate, such as how "social entrepreneurs" are making their mark on emerging businesses. Processes, strategies, and procedures are brought to life through videos highlighting real companies and employees, an inventive business model, and collaborative learning exercises. And to further enhance the student learning process, with *WileyPLUS Learning Space*, instructors and students receive 24/7 access to resources that promote positive learning outcomes. Throughout each study session, students can assess their progress and gain immediate feedback on their strengths and weaknesses so they can be confident they are spending their time effectively.

How Boone & Kurtz Became the Leading Brand in the Market For more than three decades, *Contemporary Business* has provided the latest in content and pedagogy. Our current editions have long been the model for our competitors' *next* editions. Consider Boone & Kurtz's proven record of providing instructors and students with pedagogical firsts:

- *Contemporary Business* was the first introductory business text written specifically for the student—rather than the instructor—featuring a motivational style students readily understood and enjoyed.
- *Contemporary Business* has always been based on marketing research, written the way instructors actually teach the course.
- *Contemporary Business* was the first text to integrate computer applications—and later, Internet assignments—into each chapter.
- *Contemporary Business* was the first business text to offer end-of-chapter video cases as well as end-of-part cases filmed by professional producers.
- *Contemporary Business* was the first to use multimedia technology to integrate all components of the Introduction to Business ancillary program, videos, and PowerPoints for both instructors and students—enabling instructors to custom-create lively lecture presentations.

Wiley is proud to be publishing a book that has represented the needs of students and instructors so effectively and for so many years. The 16th edition will continue this excellent tradition and will continue to offer students and instructors solutions at the speed of business.

Continuing to Build the Boone & Kurtz Brand: What's New Trends, strategies, and practices are evolving, and students must understand business in today's fast-paced world. Keeping this in mind, here are just a few of the important business trends and practices we've focused on for this new edition to help move students forward into a great business career.

Throughout the textbook, several global updates have been made, including new chapter opening vignettes, features, and cases; new web assignments; and new end-of-chapter exercises. Business statistics have been updated and cover such topics as the price of gasoline; U.S. and global GDP data; updates on populations, languages, and wealth; information on the world's leading companies based on sales, market value, and profits; top U.S. trading partners; top U.S. merchandise exports and imports; and the best industries for starting a new business.

Companies and topics highlighted in chapter-opening vignettes include Microsoft's new CEO embracing business opportunities; Toyota regaining the top spot in the global auto industry; Anytime Fitness leading the U.S. franchise list; how the new sharing economy generates business start-ups; why Quicken Loans is a great place to work; and how Glassdoor, the online job site, helps both job seekers and employers.

"Career Kickstart" provides students with timely tips on how to succeed in the business world. Specific topics include mastering social networking; using Twitter to find a job or new employees; becoming a pro at electronic business communications; and preparing for a performance review.

"Going Green" continues to highlight what contemporary companies are doing to be socially responsible and to help protect the environment. Companies and topics featured include a company that buys used boxes and resells them to consumers as part of moving-day kits; a new form of corporate ownership called B Corporations, in which businesses state their social and environmental goals in company bylaws; eBay and its push for green commerce; and ice cream company Häagen-Dazs' commitment to honey bee research.

"Hit & Miss" shines a spotlight on companies, business leaders, and entrepreneurs. Success stories include AT&T's commitment to hiring military vets; Chipotle's niche in the fast-casual dining sector; Tory Burch and her foundation's support of women entrepreneurs; Apple's move to reshore manufacturing work back to the United States; and the entrepreneur's story behind the highly successful Rainbow Loom.

What Are Learning Styles?

Have you ever repeated something to yourself over and over to help remember it? Or does your best friend ask you to draw a map to someplace where the two of you are planning to meet, rather than just tell her the directions? If so, then you already have an intuitive sense that people learn in different ways. Researchers in learning theory have developed various categories of learning styles. Some people, for example, learn best by reading or writing. Others learn best by using various senses—seeing, hearing, feeling, tasting, or even smelling. When you understand how you learn best, you can make use of learning strategies that will optimize the time you spend studying. To find out what your particular learning style is, www.wiley.com/college/boone and take the learning styles quiz you find there. The quiz will help you determine your primary learning style:

Visual Learner

Print Learner

Auditory Learner

Haptic Learner

Kinesthetic Learner

Interactive Learner

Then, consult the information below and on the following pages for study tips for each learning style. This information will help you better understand your learning style and how to apply it to the study of business.

Study Tips for Visual Learners

If you are a Visual Learner, you prefer to work with images and diagrams. It is important that you see information.

Visual Learning

- Draw charts/diagrams during lecture.
- Examine textbook figures and graphs.
- Look at images and videos on *WileyPLUS* and other websites.
- Pay close attention to charts, drawings, and handouts your instructor uses.
- Underline; use different colors.
- Use symbols, flowcharts, graphs, different arrangements on the page, white spaces.

Visual Reinforcement

- Make flashcards by drawing tables/charts on one side and definition or description on the other side.
- Use art-based worksheets; cover labels on images in text and then rewrite the labels.
- Use colored pencils/markers and colored paper to organize information into types.
- Convert your lecture notes into “page pictures.” To do this:
 - Use the outlined visual learning strategies.

- Reconstruct images in different ways.
- Redraw pages from memory.
- Replace words with symbols and initials.
- Draw diagrams where appropriate.
- Practice turning your visuals back into words.

If visual learning is your weakness: If you are not a Visual Learner but want to improve your visual learning, try re-keying tables/charts from the textbook.

Study Tips for Print Learners

If you are a Print Learner, reading will be important but writing will be much more important.

Print Learning

- Write text lecture notes during lecture.
- Read relevant topics in textbook, especially textbook tables.
- Look at text descriptions in animations and websites.
- Use lists and headings.
- Use dictionaries, glossaries, and definitions.
- Read handouts, textbooks, and supplementary library readings.
- Use lecture notes.

Print Reinforcement

- Rewrite your notes from class, and copy classroom handouts in your own handwriting.
- Make your own flashcards.
- Write out essays summarizing lecture notes or textbook topics.
- Develop mnemonics.
- Identify word relationships.
- Create tables with information extracted from textbook or lecture notes.
- Use text based worksheets or crossword puzzles.
- Write out words again and again.
- Reread notes silently.

- Rewrite ideas and principles into other words.
- Turn charts, diagrams, and other illustrations into statements.
- Practice writing exam answers.
- Practice with multiple choice questions.
- Write paragraphs, especially beginnings and endings.
- Write your lists in outline form.
- Arrange your words into hierarchies and points.

If print learning is your weakness: If you are not a Print Learner but want to improve your print learning, try covering labels of figures from the textbook and writing in the labels.

Study Tips for Auditory Learners

If you are an Auditory Learner, then you prefer listening as a way to learn information. Hearing will be very important, and sound helps you focus.

Auditory Learning

- Make audio recordings during lecture.
- Do not skip class; hearing the lecture is essential to understanding.

- Play audio files provided by instructor and textbook.
- Listen to narration of animations.
- Attend lecture and tutorials.
- Discuss topics with students and instructors.

- Explain new ideas to other people.
- Leave spaces in your lecture notes for later recall.
- Describe overheads, pictures, and visuals to somebody who was not in class.

Auditory Reinforcement

- Record yourself reading the notes and listen to the recording
- Write out transcripts of the audio files.
- Summarize information that you have read, speaking out loud.
- Use a recorder to create self-tests.

- Compose “songs” about information.
- Play music during studying to help focus.
- Expand your notes by talking with other and with information from your textbook.
- Read summarized notes out loud.
- Explain your notes to another auditory learner.

- Talk with the instructor.
- Spend time in quiet places recalling the ideas.
- Say your answers out loud.

If auditory teaming is your weakness: If you are not an Auditory Learner but want to improve your auditory learning, try writing out the scripts from pre-recorded lectures.

Study Tips for Interactive Learners

If you are an Interactive Learner, you will want to share your information. A study group will be important.

Interactive Learning

- Ask a lot of questions during lecture or review sessions.
- Contact other students, via e-mail or discussion forums, and ask them to explain what they learned.

Interactive Reinforcement

- “Teach” the content to a group of other students.
- Talking to an empty room may seem odd, but it will be effective for you.
- Discuss information with others, making sure that you both ask and answer questions.

- Work in small group discussions, making a verbal and written discussion of what others say.

If interactive learning is your weakness: If you are not an Interactive Learner but want to improve your interactive learning, try asking your study partner questions and then repeating them to the instructor.

Study Tips for Haptic Learners

If you are a Haptic Learner, you prefer to work with your hands. It is important to physically manipulate material.

Haptic Learning

- Take blank paper to lecture to draw charts/tables/diagrams.
- Using the textbook, run your fingers along the figures and graphs to get a “feel” for shapes and relationships.

Haptic Reinforcement

- Trace words and pictures on flashcards.
- Perform electronic exercises that involve drag-and-drop activities.
- Alternate between speaking and writing information.
- Observe someone performing a task that you would like to learn.

- Make sure you have freedom of movement while studying.

If haptic learning is your weakness: If you are not a Haptic Learner but want to improve your haptic learning, try spending more time in class working with graphs and tables while speaking or writing down information.

Study Tips for Kinesthetic Learners

If you are a Kinesthetic Learner, it will be important that you involve your body during studying.

Kinesthetic Learning

- Ask permission to get up and move during lecture.
- Participate in role-playing activities in the classroom.
- Use all your senses.
- Go to labs; take field trips.
- Listen to real-life examples.
- Pay attention to applications.
- Use trial-and-error methods.
- Use hands-on approaches.

Kinesthetic Reinforcement

- Make flashcards; place them on the floor, and move your body around them.
- Move while you are teaching the material to others.
- Put examples in your summaries.
- Use case studies and applications to help with principles and abstract concepts.
- Talk about your notes with another kinesthetic person.

- Use pictures and photographs that illustrate an idea.
- Write practice answers.
- Role-play the exam situation.

If kinesthetic learning is your weakness: If you are not a Kinesthetic Learner but want to improve your kinesthetic learning, try moving flash cards to reconstruct graphs and tables, etc.

LEARNING STYLES SURVEY CHART

Resources	Visual	Print	Auditory	Interactive	Haptic	Kinesthetic
Hit & Miss	✓	✓		✓		
Launching Your Career	✓	✓		✓		
Learning Goals	✓	✓		✓		
Going Green	✓	✓				
Career Kickstart	✓	✓		✓		
Solving an Ethical Controversy	✓	✓				
Assessment Checks	✓	✓		✓		
Review Questions	✓	✓		✓		
Cases	✓	✓		✓		
Project/Teamwork Applications	✓	✓		✓		
Flashcards	✓	✓		✓	✓	✓
Business Terms	✓	✓		✓		
Interactive Quizzes	✓	✓		✓		
Student PowerPoints	✓	✓		✓	✓	
Audio Summary (English/Spanish)	✓	✓	✓	✓	✓	
Animated Figures	✓	✓	✓	✓	✓	
Case Study Animations	✓	✓	✓	✓	✓	✓
E-lectures	✓	✓	✓	✓	✓	
Greensburg, KS Continuing Case	✓	✓	✓	✓	✓	✓
End-of-Chapter Videos	✓	✓	✓	✓	✓	✓
Final Exam Questions	✓	✓		✓		
Quiz Questions	✓	✓		✓		
Pre-lecture Questions	✓	✓		✓		
Post-lecture Questions	✓	✓		✓		
Video Questions	✓	✓	✓	✓		✓
Drop-box Questions	✓	✓		✓		

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Contemporary Business has long benefited from the instructors who have offered their time as reviewers. Recent editions have been enhanced based on the timely and thoughtful feedback provided by our Advisory Board:

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In Conclusion

I would like to thank Susan Berston and John Fritschen for their contributions to this edition. I would also like to thank Cate Rzasa for her editorial and production efforts on behalf of *Contemporary Business*.

Let me conclude by noting that this new edition would never have become a reality without the outstanding efforts of the Wiley editorial, production, and marketing teams. Special thanks to George Hoffman, Lisé Johnson, Jennifer Manias, Kelly Simmons, Katherine Bull, Amanda Dallas, Allison Morris, Wendy Lai, and Valerie Vargas.



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Contemporary
BUSINESS

Learning Objectives

- 1 Define *business*.
- 2 Identify and describe the factors of production.
- 3 Describe the private enterprise system.
- 4 Identify the seven eras in the history of business.
- 5 Explain how today's business workforce and the nature of work itself is changing.
- 6 Identify the skills and attributes needed for the 21st-century manager.
- 7 Outline the characteristics that make a company admired.

The Changing Face of Business





Energy Production Comes Home

Have you heard of Southwestern Energy? Pioneer Natural Resources? Range Resources? These companies and others are all part of a recent U.S. news story that is very important to American business. For the first time in 25 years, the United States is now producing more oil domestically than we are importing. Oil production increased due in large part to the widespread adoption of two drilling technologies: horizontal drilling and fracking.

Horizontal drilling allows oil companies to get more oil from a single well as the drill bit first goes down vertically through the overlying rock and then is turned horizontally to drill along and through the oil-rich layers. Multiple horizontal holes can be drilled from a single site, greatly increasing the amount of oil reserves available in a single well. Once the holes are drilled in the oil-producing layers, high-pressure water mixed with fine sand is pumped into the well to fracture the rock and extract oil.

Fracking has also been widely used to drill into shale formations and extract natural gas, such as the Marcellus formation in Pennsylvania, the Fayetteville formation in Arkansas, and the Bakken formation in North Dakota. The result of these efforts has been a significant increase in the availability and reserves of domestic oil and gas.

Why is this significant to U.S. consumers and business? First, for the past several decades one of the largest imports into the

United States has been crude oil. As we will see in later chapters, when the overall value of imports is reduced compared to the value of exports, the U.S. balance of trade becomes more favorable, which is generally a benefit to U.S. consumers.

Second, industries such as steel, glass, and cement, which are heavy consumers of energy, will be more competitive as their cost of production decreases. Many of these industries have had a hard time competing with foreign sources due to their lower cost basis. Lower energy costs will help these industries.

Third, because of the increased supply and reduced price of natural gas, utility companies are switching away from burning coal to produce electricity. As a fuel, natural gas contains less carbon than coal and consequently produces less carbon dioxide as a combustion product. This plus other conservation efforts have allowed the United States to achieve the emission targets of the Kyoto protocol—reducing greenhouse gasses by more than 5 percent—a goal that many experts thought impossible just a decade ago.

Increased domestic oil and gas production creates a more favorable balance of trade, more competitive domestic industries, and reduced greenhouse gas emissions. Any one of these stories would be newsworthy by itself, but together they represent significant and positive changes for U.S. consumers and businesses.¹

Overview

Business is the nation's engine for growth. A growing economy—one that produces more goods and services with fewer resources over time—yields income for business owners, their employees, and stockholders. So a country depends on the wealth its businesses generate, from large enterprises such as the Walt Disney Company to tiny online start-ups, and from venerable firms such as 160-year-old jeans maker Levi Strauss & Company to powerhouses such as Google. What all these companies and many others share is a creative approach to meeting society's needs and wants.

Businesses solve our transportation problems by marketing cars, tires, gasoline, and airline tickets. They bring food to our tables by growing, harvesting, processing, packaging,

and shipping everything from spring water to cake mix and frozen shrimp. Restaurants buy, prepare, and serve food, and some even deliver. Construction companies build our schools, homes, and hospitals, while real estate firms bring property buyers and sellers together. Clothing manufacturers design, create, import, and deliver our jeans, sports shoes, work uniforms, and party wear. Entertainment for our leisure hours comes from hundreds of firms that create, produce, and distribute films, television shows, video games, books, and music downloads.

To succeed, business firms must know what their customers want so that they can supply it quickly and efficiently. That means they often reflect changes in consumer tastes, such as the growing preference for sports

drinks and vitamin-fortified water. But firms can also *lead* in advancing technology and other changes. They have the resources, the know-how, and the financial incentive to bring about new innovations as well as the competition that inevitably follows, as in the case of Apple's iPhone and Google's Android operating system.

You'll see throughout this book that businesses require physical inputs such as auto parts, chemicals, sugar, thread, and electricity, as well as the accumulated knowledge and experience of their managers and employees. Yet they also rely heavily on their own ability to change with the times and with the

marketplace. Flexibility is a key to long-term success—and to growth.

In short, business is at the forefront of our economy—and *Contemporary Business* is right there with it. This book explores the strategies that allow companies to grow and compete in today's interactive and hyper-competitive marketplace, along with the skills that you will need to turn ideas into action for your own success in business. This chapter sets the stage for the entire text by defining business and revealing its role in society. The chapter's discussion illustrates how the private enterprise system encourages competition and innovation while preserving business ethics.

[1] What Is Business?

What comes to mind when you hear the word *business*? Do you think of big corporations like ExxonMobil or The Coca-Cola Company? Or does the local deli or shoe store pop into your mind? Maybe you recall your first summer job. The term *business* is a broad, all-inclusive term that can be applied to many kinds of enterprises. Businesses provide the bulk of employment opportunities, as well as the products that people enjoy.

Business consists of all profit-seeking activities and enterprises that provide goods and services necessary to an economic system. Some businesses produce tangible goods, such as automobiles, breakfast cereals, and smart phones; others provide services such as insurance, hair styling, and entertainment ranging from Six Flags theme parks and NFL games to concerts.

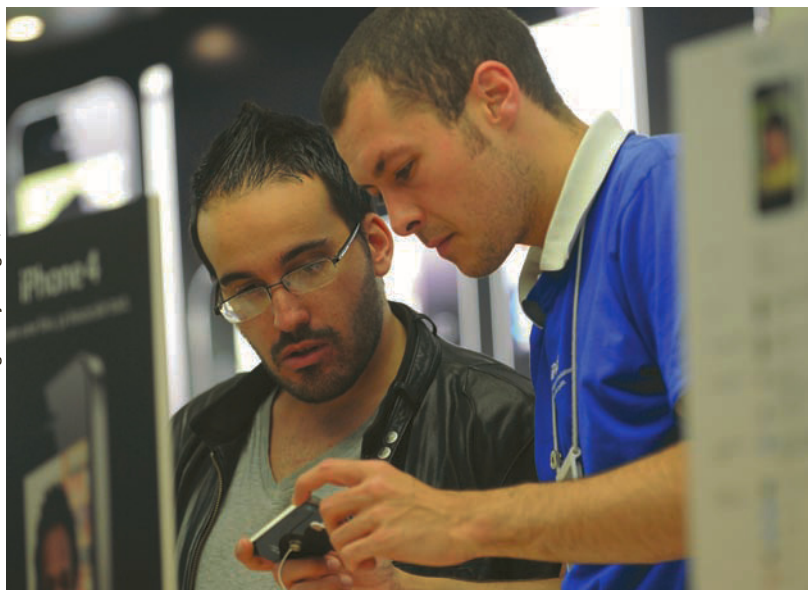
Business drives the economic pulse of a nation. It provides the means through which its citizens' standard of living improves. At the heart of every business endeavor is an exchange between a buyer and a seller. A buyer recognizes a need for a good or service and trades money with a seller to obtain that product. The seller participates in the process in hopes of gaining profits—a main ingredient in accomplishing the goals necessary for continuous improvement in the standard of living.

Profits represent rewards earned by businesspeople who take the risks involved in blending people, technology, and information to create and market want-satisfying goods and services. In contrast, accountants think of profits as the difference between a firm's revenues and the expenses it incurs in generating those revenues. More generally, however, profits serve as incentives for people to start companies, expand them, and provide consistently high-quality competitive goods and services.

The quest for profits is a central focus of business because without profits, a company could not survive. But businesspeople also recognize their social and ethical responsibilities. To succeed in the long run, companies must deal responsibly with employees, customers, suppliers, competitors, government, and the general public.

business all profit-seeking activities and enterprises that provide goods and services necessary to an economic system.

profits rewards earned by businesspeople who take the risks involved in blending people, technology, and information to create and market want-satisfying goods and services.



Antoine Antoniol/Bloomberg/Getty Images, Inc.

A business, such as this cell phone store, survives through the exchange between a buyer and a seller.

Not-for-Profit Organizations

What do Purdue's athletic department, the U.S. Postal Service, the American Lung Association, and your local library have in common? They all are classified as **not-for-profit organizations**, businesslike establishments that have primary objectives other than returning profits to their owners. These organizations play important roles in society by placing public service above profits, although it is important to understand that these organizations need to raise money so that they can operate and achieve their social goals. Not-for-profit organizations operate in both the private and public sectors. Private-sector not-for-profits include museums, libraries, trade associations, and charitable and religious organizations. Government agencies, political parties, and labor unions, all of which are part of the public sector, are also classified as not-for-profit organizations.

Not-for-profit organizations are a substantial part of the U.S. economy. Currently, more than 1.5 million nonprofit organizations are registered with the Internal Revenue Service in the United States, in categories ranging from arts and culture to science and technology.² These organizations control more than \$2.9 trillion in assets and employ close to 11 million people—more people than the federal government and all 50 state governments combined.³ In addition, millions of volunteers work for them in unpaid positions. Not-for-profits secure funding from private sources, including donations, and from government sources. They are commonly exempt from federal, state, and local taxes.

Although they focus on goals other than generating profits, managers of not-for-profit organizations face many of the same challenges as executives of profit-seeking businesses. Without funding, they cannot do research, obtain raw materials, or provide services. St. Jude Children's Research Hospital's pediatric treatment and research facility in Memphis treats nearly 7,800 children a year for catastrophic diseases, mainly cancer, immune system problems, and infectious and genetic disorders. Patients come from all 50 states and all over the world and are accepted without regard to the family's ability to pay. To provide top-quality care and to support its research in gene therapy, chemotherapy, bone marrow transplantation, and the psychological effects of illness, among many other critical areas, St. Jude relies on contributions, with some assistance from federal grants.⁴

Other not-for-profits mobilize their resources to respond to emergencies. Superstorm Sandy was one of the biggest U.S. disasters that the American Red Cross has had to respond to in recent years. To date, Sandy is the second costliest hurricane in U.S. history, with damages topping \$68 billion.⁵

Some not-for-profits sell merchandise or set up profit-generating arms to provide goods and services for which people are willing and able to pay. College bookstores sell everything from sweatshirts to coffee mugs with school logos imprinted on them, while the Sierra Club and the Appalachian Mountain Club both have full-fledged publishing programs. Founded in 1912, The Girl Scouts of the USA are known for their mouth-watering cookies. The organization has created a cookie empire valued at more than \$700 million through sales by local scout troops.⁶ Handling merchandising programs like these, as well as launching other fund-raising campaigns, requires managers of not-for-profit organizations to develop effective business skills and experience. Consequently, many of the concepts discussed in this book apply to not-for-profit organizations as well as to profit-oriented firms.

not-for-profit organizations

businesslike establishments that have primary objectives other than returning profits to their owners.

Assessment Check

1. What activity lies at the center of every business endeavor?
2. What is the primary objective of a not-for-profit organization?



The Red Cross mobilized its efforts to respond to disaster on the East Coast after Superstorm Sandy struck.

Paul J. Richards/AFP/Getty Images

[2]

Factors of Production

factors of production

four basic inputs: natural resources, capital, human resources, and entrepreneurship.

natural resources all production inputs that are useful in their natural states, including agricultural land, building sites, forests, and mineral deposits.

capital includes technology, tools, information, and physical facilities.

human resources include anyone who works, including both the physical labor and the intellectual inputs contributed by workers.

An economic system requires certain inputs for successful operation. Economists use the term **factors of production** to refer to the four basic inputs: natural resources, capital, human resources, and entrepreneurship. Table 1.1 identifies each of these inputs and the type of payment received by firms and individuals who supply them.

Natural resources include all production inputs that are useful in their natural states, including agricultural land, building sites, forests, and mineral deposits. One of the largest wind farms in the world, the Roscoe Wind Complex near Roscoe, Texas, generates enough power to support more than a quarter-million homes. Natural resources are the basic inputs required in any economic system.

Capital, another key resource, includes technology, tools, information, and physical facilities. *Technology* is a broad term that refers to such machinery and equipment as computers and software, telecommunications, and inventions designed to improve production. Information, frequently improved by technological innovations, is another critical factor because both managers and operating employees require accurate, timely information for effective performance of their assigned tasks. Technology plays an important role in the success of many businesses. Sometimes technology results in a new product, such as hybrid autos that run on a combination of gasoline and electricity, or electric cars that use energy stored in batteries.

Technology often helps a company improve its own products. Netflix, once famous for its subscription-based DVD-by-mail service, offers on-demand Internet streaming media and original content streaming TV service. Netflix has exclusive rights to streaming movies and original TV shows, like “Orange Is the New Black.”⁷

And sometimes firms rely on technology to help move and track their products more efficiently. UPS has partnered with the Red Cross to launch emergency logistics teams in several U.S. cities. UPS emergency coordinators in each city gather expert volunteers, ensure that supplies reach disaster areas, and provide storage space.⁸

To remain competitive, a firm needs to continually acquire, maintain, and upgrade its capital, and businesses need money for that purpose. A company’s funds may come from owner-investments, profits plowed back into the business, or loans extended by others. Money then goes to work building factories; purchasing raw materials and component parts; and hiring, training, and compensating workers. People and firms that supply capital receive factor payments in the form of interest.

Human resources represent another critical input in every economic system. Human resources include anyone who works, from the chief executive officer (CEO) of a huge corporation to a self-employed writer or editor. This category encompasses both the physical labor and the intellectual inputs contributed by workers. Companies rely on their employees as a valued source of ideas and innovation, as well as physical effort. Some companies solicit employee ideas through traditional means, such as an online “suggestion box” or in staff

TABLE

1.1

Factors of Production and Their Factor Payments

FACTOR OF PRODUCTION	CORRESPONDING FACTOR PAYMENT
Natural resources	Rent
Capital	Interest
Human resources	Wages
Entrepreneurship	Profit



© Plesea Petre/iStockphoto

Competent, effective human resources can be a company's best asset. Providing benefits to those employees to retain them is in a company's best interest.

meetings. Others encourage creative thinking during company-sponsored hiking or rafting trips or during social gatherings. Effective, well-trained human resources provide a significant competitive edge because competitors cannot easily match another company's talented, motivated employees in the way they can buy the same computer system or purchase the same grade of natural resources.

Hiring and keeping the right people matters, as we'll see later in the case at the end of this chapter. Employees at Mars, Inc. feel they have a great place to work, partly because of the opportunities for advancement and generous pay the company provides.⁹

Entrepreneurship is the willingness to take risks to create and operate a business. An entrepreneur is someone who sees a potentially profitable opportunity and then devises a plan to achieve success in the marketplace and earn those profits. By age 20, Jessica Mah was co-founder and CEO of inDinero, a San Francisco-based company that created an app designed to help small businesses keep track of their money. Mah had "noticed that anything that touches money is much harder for entrepreneurs than it should be," so she took a risk and started a firm designed to help them.¹⁰

U.S. businesses operate within an economic system called the *private enterprise system*. The next section looks at the private enterprise system, including competition, private property, and the entrepreneurship alternative.

entrepreneurship

willingness to take risks to create and operate a business.

Assessment Check

1. Identify the four basic inputs to an economic system.
2. List four types of capital.

3 The Private Enterprise System

No business operates in a vacuum. All operate within a larger economic system that determines how goods and services are produced, distributed, and consumed in a society. The type of economic system employed in a society also determines patterns of resource use. Some economic systems, such as communism, feature strict controls on business ownership, profits, and resources to accomplish government goals.

Live Nation Connects Superstar Artists and Fans

Chances are, the last concert you attended may have been produced by Beverly Hills–based powerhouse, Live Nation Entertainment. The largest producer of live music concerts worldwide, Live Nation sells millions of tickets each year for events that range from folk to electronic dance music and that feature entertainers from new artists to music legends. A few years ago, Live Nation merged with ticket-selling giant Ticketmaster Entertainment to create Live Nation Entertainment.

Over 250 million fans access various entertainment platforms each year, attending more than 180,000 events in 47 countries. While more than 65 percent of the company's revenues come from its concert segment, other distinct business units include venue operations, ticketing services, and artist management and services.

If you've ever thought about a career as a concert promoter, consider the "accidental trajectory" of then college student Jodi Goodman. After urging a failing jazz club owner in Boston to allow her to book a few rock music events, Goodman not only turned the club around, but word soon got out about her knack for managing both artists and fans. It was not long before other venues sought her talent, and her career took her to San Francisco. Jodi Goodman is now president of Live Nation Entertainment for Northern California. With skill and market expertise, Goodman continues to bring artists and fans together in one of the top music markets in the country.

Concert revenues continue to rise and the future looks bright. Some of this success can be attributed to the Boston college kid who read the

local music market by bringing some good old rock 'n' roll to a jazz club on the brink of closure.

Questions for Critical Thinking

1. Ticketmaster, now part of Live Nation Entertainment, responded to the threat of the secondary ticket resale market (by firms like Craigslist and StubHub) by launching its own ticket marketplace. How will Ticketmaster's marketplace impact secondary market competitors?
2. Live Nation anticipates double-digit growth in the number of concertgoers worldwide over the next several years. What factors could contribute to such a healthy increase in attendance?

Sources: Company website, "2013 Annual Report," <http://livenation.com>, accessed January 9, 2014; "Live Nation's New Groove: Electronic Dance Music and Scalped Tickets," *Bloomberg Businessweek*, accessed January 9, 2014, www.businessweek.com; Glenn Peoples, "Live Nation Revenue Hits a Record \$2.26 Billion in Third Quarter," *Billboard Biz*, accessed January 9, 2014, www.billboard.com; Christine Ryan, "Hot 20: The Music Woman, Jodi Goodman," *7x7 Magazine*, accessed January 9, 2014, www.7x7.com; Ina Fried, "Live Nation Aims to Unify Ticketmaster, Ticket Resale Businesses," *All Things Digital*, accessed January 9, 2014, <http://allthingsd.com>.

private enterprise system economic system that rewards firms for their ability to identify and serve the needs and demands of customers.

capitalism economic system that rewards firms for their ability to perceive and serve the needs and demands of consumers; also called the private enterprise system.

competition battle among businesses for consumer acceptance.

competitive differentiation unique combination of organizational abilities, products, and approaches that sets a company apart from competitors in the minds of customers.

In the United States, businesses function within the **private enterprise system**, an economic system that rewards firms for their ability to identify and serve the needs and demands of customers. The private enterprise system minimizes government interference in economic activity. Businesses that are adept at satisfying customers gain access to necessary factors of production and earn profits.

Another name for the private enterprise system is **capitalism**. Adam Smith, often identified as the father of capitalism, first described the concept in his book, *The Wealth of Nations*, published in 1776. Smith believed that an economy is best regulated by the "invisible hand" of **competition**, the battle among businesses for consumer acceptance. Smith thought that competition among firms would lead to consumers' receiving the best possible products and prices because less efficient producers would gradually be driven from the marketplace.

The invisible hand concept is a basic premise of the private enterprise system. In the United States, competition regulates much of economic life. To compete successfully, each firm must find a basis for **competitive differentiation**, the unique combination of organizational abilities, products, and approaches that sets a company apart from competitors in the minds of customers. Businesses operating in a private enterprise system face a critical task of keeping up with changing marketplace conditions. Firms that fail to adjust to shifts in consumer preferences or ignore the actions of competitors leave themselves open to failure. Live Nation Entertainment connects millions of concertgoers with their favorite artists at venues worldwide; see the Hit & Miss feature for keys to the company's success.

Throughout this book, our discussion focuses on the tools and methods that 21st-century businesses apply to compete and differentiate their goods and services. We also discuss many of the ways in which market changes will affect business and the private enterprise system in the years ahead.

Basic Rights in the Private Enterprise System

For capitalism to operate effectively, people living in a private enterprise economy must have certain rights. As shown in Figure 1.1, these include the rights to private property, profits, freedom of choice, and competition.

The right to **private property** is the most basic freedom under the private enterprise system. Every participant has the right to own, use, buy, sell, and bequeath most forms of property, including land, buildings, machinery, equipment, patents on inventions, individual possessions, and intangible properties.

The private enterprise system also guarantees business owners the right to all profits—after taxes—they earn through their activities. Although a business is not assured of earning a profit, its owner is legally and ethically entitled to any income it generates in excess of costs.

Freedom of choice means that a private enterprise system relies on the potential for citizens to choose their own employment, purchases, and investments. They can change jobs, negotiate wages, join labor unions, and choose among many different brands of goods and services. A private enterprise economy maximizes individual prosperity by providing alternatives. Other economic systems sometimes limit freedom of choice to accomplish government goals, such as increasing industrial production of certain items or military strength.

The private enterprise system also permits fair competition by allowing the public to set rules for competitive activity. For this reason, the U.S. government has passed laws to prohibit “cutthroat” competition—excessively aggressive competitive practices designed to eliminate competition. It also has established ground rules that outlaw price discrimination, fraud in financial markets, and deceptive advertising and packaging.¹¹

The Entrepreneurship Alternative

The entrepreneurial spirit beats at the heart of private enterprise. An **entrepreneur** is a risk taker in the private enterprise system. You hear about entrepreneurs all the time—two college students starting a software business in their dorm room or a mom who invents a better baby carrier. Many times their success is modest but, once in a while, the risk pays off in huge profits. Individuals who recognize marketplace opportunities are free to use their capital, time, and talents to pursue those opportunities for profit. The willingness of individuals to start new ventures drives economic growth and keeps pressure on existing companies to continue to satisfy customers. If no one were willing to take economic risks, the private enterprise system wouldn’t exist.

By almost any measure, the entrepreneurial spirit fuels growth in the U.S. economy. Of all the businesses operating in the United States, about one in seven firms started operations during the past year. These newly formed businesses are also the source of many of the nation’s new jobs. Every year, they create more than one of every five new jobs in the economy. These companies are a significant source of employment or self-employment. Of the 27.5 million U.S. small businesses currently in operation, more than 21 million consist of self-employed people without any employees. Almost 8.5 million U.S. employees currently work for a business with fewer than 20 employees.¹² Does starting a business require higher education? Not necessarily, although it can help. Figure 1.2 presents the results of a survey of small-business owners, which shows that about 24 percent of all respondents had graduated from college, and 19 percent had postgraduate degrees.

Besides creating jobs and selling products, entrepreneurship provides the benefits of innovation. In contrast to more established firms, start-up companies tend to innovate most in fields of technology, making new products available to businesses and consumers. Because small

FIGURE 1.1 Basic Rights within a Private Enterprise System



private property most basic freedom under the private enterprise system; the right to own, use, buy, sell, and bequeath land, buildings, machinery, equipment, patents, individual possessions, and various intangible kinds of property.

entrepreneur person who seeks a profitable opportunity and takes the necessary risks to set up and operate a business.