

BUSINESS ESSENTIALS

NINTH CANADIAN EDITION

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To Fran, for bringing a lifetime of friendship, fun, and love into our family.

—R.J.E.

For Paul and Sherry—Friends for life.

—R.W.G.

To Nitsa and Costa Dean.

—G.D.

To Ann, Eric, and Grant.

—F.A.S.

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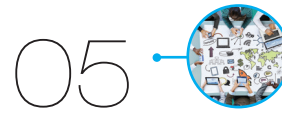
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PREFACE

HELPING STUDENTS BUILD A SOLID BUSINESS KNOWLEDGE FOUNDATION

Welcome to the ninth Canadian edition of *Business Essentials*. If you're like many students, you may be starting this term with some questions about why you're here. You may be taking this course at a community college, CEGEP, or at a university, and you may be taking it in a traditional classroom setting or online. Whatever the case, you may be wondering just what you're supposed to get from this course and how it will benefit you. In short, you may be wondering, "How will this help me?"

This is a survey course designed to introduce you to the exciting and challenging world of business, both in Canada and elsewhere. The course is designed to fit the needs of a wide variety of students. You may be taking this course as the first step towards earning a degree in business, or you may be thinking about business and want to know more about it, or you may know you want to study business but are unsure of the area you want to pursue. You may plan to major in another field but want some basic business background and are taking this course as an elective. Or you may be here because this course is required or is a prerequisite for another course. Whatever your situation, this course will be helpful to you.

If you don't have a lot of work experience, you may be uncertain as to what the business world is all about. If you do have a lot of work experience, you might be a bit skeptical as to what you can actually learn about business from an introductory course. One of our biggest challenges as authors is to write a book that meets the needs of such a diverse student population, especially when we acknowledge the legitimacy of your right to ask, "How will this help me?" We also want to do our best to ensure that you find the course challenging, interesting, and useful. To achieve this goal, we think it is helpful to use the old metaphor about people wearing different "hats" as they go through life. Each individual has different roles to play in different settings. For example, your roles may include student, child, spouse, employee, friend, and/or parent. You can think of each of these roles as needing a different hat—when you play the role of a student, for example, you wear one hat, but when you leave campus and go to your part-time job, you put on a different hat. From the perspective of studying and interfacing with the world of *business*, there are at least four distinct "hats" that you might wear:

- *The Employee Hat.* One hat is "worn" as an employee working for a business. Most people wear this hat throughout their working career. To wear the hat successfully, you will need to understand your "place" in the organization—your job duties and responsibilities, how to get along with others, how to work with your boss, what your organization is all about, and so on. You'll begin to see how best to wear this hat as you learn more about organizing business enterprises in Chapter 7, how organizations manage their human resources in Chapter 8, motivation and leadership in Chapter 9, and in several other places in this book.
- *The Employer or Boss Hat.* Another business hat that many people wear is as an employer or boss hat. Whether you start your own business or get promoted within someone else's business, people will be working for you. You'll still need to know your job duties

and responsibilities, but you'll also need to understand how to manage other people—how to motivate and reward them, how to lead them, how to deal with conflict among them, and the legal parameters that may affect how you treat them. Chapters 3, 6, 8, and 9 provide a lot of information about how you can best wear this hat, although information about the role of employer is found throughout the book.

- *The Consumer Hat.* Even if you don't work for a business, you will still wear the hat of a consumer. Whenever you fill your car with Petro Canada gasoline; buy on Amazon, Zara, or Reitmans; or download a song from iTunes, you're consuming products or services created by businesses. To wear this hat effectively, you need to understand how to assess the value of what you're buying, your rights as a consumer, and so on. We discuss how you can best wear this hat in Chapters 1, 3, 12, and 13.
- *The Investor Hat.* The final business hat many people wear is that of an investor. You may buy your own business or work for a company that allows you to buy its stock. You may also invest in other companies through the purchase of stocks or shares of a mutual fund. In order for you to invest wisely, you must understand some basics, such as financial markets, business earnings, and the costs of investment. Chapters 4, 11, 14, and 15 will help you learn how to best wear this hat.

Most people wear more than one of these hats at the same time. Regardless of how many hats you wear or when you may be putting them on, you will interface with many different businesses in different ways. Knowing how to best wear all of these hats is what this book is all about.

The world is populated with a breathtaking range of businesses and business opportunities. Big and small businesses, traditional and online businesses, established and new businesses, broad-based and niche businesses, successful and unsuccessful businesses, global and domestic businesses—regardless of where your future plans take you, we hope that you will look back on this course as one of your positive first steps.

Keep in mind that what you get out of this course depends on at least three factors. One factor is this book and the information about business that you will acquire as a result of reading it. Another factor is your instructor, who is a dedicated professional who wants to help you grow and develop intellectually and academically. The third factor is YOU. Learning is an active process that requires you to be a major participant. Simply memorizing the key terms and concepts in this book may help you achieve an acceptable course grade, but true learning requires that you read, study, discuss, question, review, experience, evaluate—and wear the four hats—as you go along. Tests and homework are necessary, but we hope that you will finish this course with new knowledge and increased enthusiasm for the world of business. Your instructor will do his or her part to facilitate your learning. The rest, then, is up to you. We wish you success.

CHAPTER MATERIAL

NEW & UPDATED! Chapter Opening Cases Each chapter begins with a description of a problem or opportunity that is facing a Canadian company, or a general issue that impacts many different businesses in Canada. These chapter opening cases help students to bridge the gap between theory and practice. Topics include coverage of familiar companies that are global leaders in their industries such as Spin Master (toys and entertainment), Maple-Leaf, Couche-Tard (convenience stores), RBC, Tim Hortons, and Bombardier; the impact of the legalization of marijuana; stories about Canadian entrepreneurs and corporate leaders; business successes and failures; the increasing use of robots in business firms; new product marketing; the bitcoin and blockchain phenomenon; and many others that will be of great interest to students. Questions for Discussion at the end of each opening case direct student attention to important issues in the chapter that they should consider.

Future Directions for the Modern Accountant

In the future, although an accountant's knowledge of business aided by analytical and technical skills will be essential, a wider skill set will be necessary to meet market demands in this changing profession. The traditional accountant's role was centred on analyzing historical financial data, creating financial statements, and providing interpretations of financial data and documents to facilitate business decisions. The expectations for the modern CPAs increasingly call for the more intimate role of leadership in demonstrating financial implications for many additional parts of the business, including its overall operations, strategy, data management, human resources, and technical resources. In consultative roles, accountants are being asked for guidance on broad issues, including business development, evaluating strategic opportunities, assessments of risks and threats, and strategies for using massive databases to identify promising

directions for developing new products, improving customer service, and evaluating new lines of business to gain competitive advantage. Beyond just technical expertise, such participation requires thorough knowledge of clients' businesses and the markets in which they operate. The following trends have emerged and are contributing to the additional roles of the modern accountant:

- **Fewer restrictions from physical and geographic boundaries**—With increasing globalization, many foreign-based firms are interacting with firms based elsewhere around the world. Coupled with modern technology, accountants and clients in other countries are working together remotely. An accountant based at company headquarters, or at a home-office in Halifax, can provide services to a client located in Saskatoon, Sao Paulo, or Singapore.

Solutions—describes how rapidly changing technology has provided business firms with many new ways to connect with customers. The second series—*Disruptions in Business*—explains how existing businesses are being dramatically changed by new ways of doing business, and how entirely new industries are developing with astonishing speed and challenging traditional ways of doing business. The third series—*Entrepreneurship and New Ventures*—provides real-life examples of entrepreneurs who saw an opportunity to provide a new product or service in the marketplace, and the activities they carried out in order to be successful. The fourth series—*The Greening of Business*—analyzes the steps that businesses are taking to be more environmentally friendly. Critical thinking questions appear at the end of each boxed insert to motivate students to think about what they have read.

E-BUSINESS AND SOCIAL MEDIA SOLUTIONS

"Simon Says," Alexa, What Have You Done?

Most of us are very familiar with the children's game "Simon Says." It taught us about the importance of paying attention by forcing us to act on instructions only after hearing those magic words. But today a whole new generation of kids may be far more likely to substitute Simon's name for Amazon's Alexa or Apple's Siri or Samsung's Bixby. After all, they may ask Alexa more questions than they ask their friends or parents on some days.

In the search for efficiency and the quest to effectively organize our lives, complete tasks, and find resources, many people have become reliant on e-assistants. The use of integrated technology is more common in people's homes than at work; however, these personal assistants are on guard, listening and waiting to engage while sitting on desks, tucked away inside purses, or in the jacket pockets in the workplace. Even if Alexa (and similar devices) have not officially conquered the business world, they are listening and preparing to gain more access in the years ahead. As you read the next paragraph, consider the business implications (security and otherwise) and the lessons from the following story that made headlines around the world.

A couple was having a private conversation in their home when their Echo speaker activated Alexa when a word that sounded like "Alexa" was recognized. Apparently, during the conversation that followed, a "send message



Penodaphragm/Shutterstock

command" was also triggered. Fortunately, the private discussion was about hardwood floors and not something more sensitive because Alexa then sent that recorded conversation, randomly, to a contact (one of their employees). He later called and told them details of that private conversation and warned them about what happened. Obviously, the couple felt like their privacy had been invaded; quite frankly, it had been totally violated! However, not without their partial cooperation. After the incident, they understandably decided to unplug all of their devices! Amazon explained the very unlikely string of events that led to this failure, but it did not guarantee that this could not happen again. Instead, their explanation was much more cautious but less reassuring to anyone who was paying attention.

So, what are the potential implications of this type of scenario in the business world? There's a lot of buzz about the promise of artificial intelligence. AI actually dates back to the 1950s; however, today we have computers with the processing power to make advanced decisions that were previously reserved for science fiction

movies. We have seen many technologies creep in from the consumer world to the business world. But what if that recorded conversation had been about the private negotiation details between a manufacturer and a distributor on a potential distribution agreement? What if the management team had been talking about their costs, margins, sales goals, and bottom-line minimum price to close the deal? What if Alexa, or her future B2B version, had sent a recorded message of all those secret strategic details to (1) the other side of the negotiating table or (2) the competition or (3) had just simply posted it online?

Advanced technology can help us access and organize information for better decision making. As AI evolves even further, we must not forget that the first word in that term is "artificial." As kids, "Simon Says" taught us to listen carefully. We were penalized when we made a mistake. So Alexa can learn a lot from Simon. "Simon Says" that artificial intelligence is impressive, but it remains a shadow of true knowledge.

CRITICAL THINKING QUESTIONS

1. List all the positive ways that you use such personal assistants. List all the ways a business person can use an e-assistant in his or her day-to-day job.
2. Conduct research to find information about this case and look for other similar stories. What did you find? How does this research impact your perception of e-assistants? How does this impact your perception of the business applications of this technology today?

NEW & UPDATED! There's an App for That! Each chapter includes a description of several useful apps that are related to the chapter material. These apps allow students to understand business concepts in new and dynamic ways.

THERE'S AN APP FOR THAT!	
APP DETAILS	PLATFORMS
1. McKinsey Insights App Source: McKinsey and Company Key Features: Provides the latest thinking on the biggest issues facing senior executives, everything from leadership and corporate strategy to globalization and technology's impact on business and society.	Apple, Android and Windows
2. SWOT Canvas App Source: Chanat Attopakom Key Features: Allows you to conduct a SWOT analysis on your phone.	Apple and Windows
3. Goal Tracker: GoalsOnTrack App Source: Goal Software for High Achievers Key Features: Helps users develop and reach goals based on the SMART goal setting approach (specific, measurable, achievable, relevant, and time-framed).	Apple and Android

APP DISCOVERY EXERCISE
Because app availability changes, conduct your own search for the "Top Three" management apps and identify the key features.

NEW & UPDATED! Boxed Inserts on Key Topics The text contains four series of boxed inserts that are positioned at strategic points in the chapters. The first series—*E-Business and Social Media*

NEW! Examples of Business Practice In addition to the boxed inserts, each chapter contains numerous examples of how actual Canadian and international businesses operate so that students can gain a better understanding of the dynamics of business practice in both Canada and elsewhere. These examples—which range in length from one sentence to several paragraphs—are in addition to the in-depth opening cases and end-of-chapter cases that appear in each chapter. These examples help students understand concepts that are discussed in the text.

NEW & UPDATED! Key Terms In each chapter, the key terms that students should know are highlighted in the text and defined in the margin.

NEW & UPDATED! Figures and Tables The latest available data appear in tables and figures throughout the text.

END-OF-CHAPTER MATERIAL

UPDATED! Summary of Learning Objectives The material in each chapter is concisely summarized, using the learning objectives as the organizing scheme. This helps students understand the main points that were presented in the chapter.

NEW & UPDATED! Two types of questions are included at the end of each chapter: *analysis questions* (which require students to

QUESTIONS AND EXERCISES

QUESTIONS FOR ANALYSIS

1. Explain the significance of organizational size as it relates to organizational structure. Describe the changes likely to occur as an organization grows.
2. Why do some managers have difficulties in delegating authority? Why do you think this problem might be more pronounced in small businesses?
3. Do you think that you would want to work in a matrix organization, where you were assigned simultaneously to multiple units or groups? Why, or why not?
4. In your own words, explain how a functional structure differs from a divisional structure.
5. Why should managers pay attention to the informal organization?
6. The argument has been made that the divisional structure does a better job than the functional structure of training managers for top-level positions. Do you agree or disagree with this argument? Explain your reasoning.

APPLICATION EXERCISES

7. Select a company where you would like to work one day. Using online research, determine if the company has a functional, divisional, matrix, international, team, virtual, or learning organization. Explain how you arrived at this conclusion. Do you believe that its organizational structure is consistent with the organization's mission? Do you think that organizational structure is well suited to your working style and preferences?
8. Describe a hypothetical organizational structure for a start-up digital marketing firm. Describe changes that might be necessary as the business grows.
9. Think about the organization where you currently work (or one where you previously worked). Which of the basic structural types was it most consistent with (functional, divisional, project, matrix, and international)? What was the basis of departmentalization in the organization? Why was that basis used?
10. Interview the manager of a local service business (e.g., a fast-food restaurant). What types of tasks does this manager typically delegate? Is the appropriate authority also delegated in each case? What problems occur when authority is not delegated appropriately?

think beyond simple factual recall and apply the concepts they have read about), and *application exercises* (which ask students to apply what they have learned). The exercises, which are designed to help students increase their understanding of how business firms actually operate, require students to engage in practical activities such as interviewing managers about concepts and issues that are discussed in the chapter.

NEW! Building a Business: Continuing Exercise This team exercise, which is found at the end of each chapter in the text, gives students the opportunity to develop an entirely new business venture that fits with their interests. Questions at the end of each exercise require students to carefully consider how the material in the chapter will influence the decisions they must make about their new venture.

NEW & UPDATED! Building Your Business Skills This feature asks students to examine some specific aspect of business. While working in a group context, students gather data about an interesting business issue and then develop a written report or a class presentation based on the information that was gathered. Each exercise begins with a list of goals, a description of the situation, a step-by-step methodology for proceeding, and follow-up questions to help students focus their responses to the challenge.

NEW & UPDATED! Exercising Your Ethics This exercise describes a situation that contains an ethical dilemma. Students are then asked several questions that focus on how to approach and resolve the dilemma. In the exercise, students take on the role of employee, owner, customer, or investor and examine a chapter-related business ethics dilemma through the perspective of that role. Students learn how to see an ethical dilemma from various points of view, and to decide what outcome is ultimately best in each situation.

NEW & UPDATED! Business Case Each chapter concludes with a case study that focuses on a real Canadian or international company, or on an issue that impacts businesses in general. These cases are designed to help students apply the chapter material to a company or an issue that is currently in the news. At the end of each case, several Questions for Discussion guide students in their analysis.

BUSINESS CASE 13

FREEMIUM MUSIC: TAKING OVER THE INDUSTRY

You may or may not be surprised to hear that subscription streaming services are the fastest-growing form of music listening. According to the 2018 Global Music Report, there are 176 million music streaming subscribers, and the annual growth is tremendous, with 68 million people signing up in the previous 12 months alone. In Canada, streaming revenues were up 68.8 percent at the time. That report also marked the first time that such services registered more revenues (\$6.6 billion) than physical music sales (\$5.2 billion) and digital downloads (\$2.8 billion).

Streaming is more than the future of music; it is also the present. For example, The Weeknd, a popular Canadian artist with global appeal, has capitalized on this platform. His song "I Can't Feel My Face" premiered on Apple Music and was streamed more than 1.5 billion times, on all the various services, in the first two years alone. That sort of exposure and popularity allows artists like The Weeknd to cash in. However, despite these impressive figures, he said, "We live in a world in which artists don't make the money until they hit the stage." What does he mean? In fact, royalty payouts are not what they once were; they amount to only about 0.009 to 0.0284 per stream, or less than 1 penny per stream. In addition, 99.9 percent of artists don't get 1.5 billion plays in their whole career! In other words, under this new streaming model, the nearly free access to music can help build popularity that is then fully monetized and that eventually pays off with lucrative tours and endorsement deals. In 2017, The Weeknd earned \$92 million. That same year, Chance the Rapper earned \$33 million without ever selling a physical album or even signing a record deal! His real paydays have come through endorsement deals with Kit Kat and Apple and of course through festival gigs and tour money.

SPOTIFY THE MARKET LEADER AND THE COMPETITION

Spotify was originally launched in Stockholm, Sweden, in 2008 by two entrepreneurs named Daniel Ek and Martin Lorentzon. As their website indicates, Spotify has led the fight from a "transaction based" music acquisition model to an "access based" model offering more than 35 million tracks to its customers. Spotify has more than 170 million monthly active users, with 75 million premium subscribers, in 65 countries. The company went public in 2018, with an initial public offering (IPO) valued at US\$26.5 billion. Its most notable competitors are Pandora, SoundCloud, and Tidal. There is also one other late comer to the party going by a name you are quite familiar with: Apple.

APPLE THE MARKET FOLLOWER

Apple is one of the most innovative companies in the world; it helped transform the computer, smartphone, tablet, and music industries. However, the dominant position achieved by Apple iTunes (after the digital revolution disrupted the physical distribution model) is now threatened by streaming services. In fact, the digital download model championed by



Photo: L.A. Skypix/amy/Getty Images

Apple's iTunes saw heavier declines than physical distribution in the previous 12-month period (20.5% vs. 11.2%). Apple saw the writing on the wall a few years back and entered the streaming business in 2015 (albeit as a late arrival). However, despite the delay, once it made the move, it was fully committed. When Apple bought Beats by Dr. Dre for \$3 billion back in 2014, many scratched their heads at the high price tag. However, Apple was not simply buying the company for its headphones; part of that move was to acquire the Beats streaming service and brand equity.

CONCLUSION

So, where will the music industry be heading next? There have been a few major disruptions in the past couple of decades, from sales of CDs, to an epidemic of illegal streaming, to the emergence of iTunes, to the now rise in subscription streaming. The freemium model is the present hope for the future, but these days you can be sure of one thing: change is just around the corner. Survival of the quickest is the new norm!

QUESTIONS FOR DISCUSSION

1. In terms of degrees of competition, how would you describe the market for music streaming? Do you think this will change in the next five years? If so, how?
2. How can relatively unknown music artists promote themselves and their new music to help them gain traction on streaming sites? Provide concrete examples of promotional strategies that they can use.
3. Conduct some research and identify the top streaming global artists during the past year. What makes these artists so popular? How has that translated into actual revenues in the past 12 months?

END-OF-PART MATERIAL

Crafting a Business Plan The business plan project is tailor-made to match and reinforce text content. It is *software-independent* and provides students with an easy-to-understand template that they work from as they create their business plans. The business plan project is divided into logical sections, and each part (e.g., marketing, production, finance, etc.) is located at the end of the section where that material is covered. With five parts in all, students can gradually apply the concepts they've learned in the chapters to their business plans throughout the course.

APPENDICES

There are five appendices in the text.

- Appendix A—**A Brief History of Canadian Business in Canada**—summarizes the high points of the development of business in Canada during the past 300 years.
- Appendix B—**Business Law**—includes key topics such as contracts, the concept of agency, warranties, copyrights and trademarks, and bankruptcy.
- Appendix C—**Using Technology to Manage Information in the Internet and Social Media Era**—focuses on the impact that IT has had on the business world, the IT resources businesses have at their disposal, the threats that information technology poses for businesses, and the ways in which businesses protect themselves from these threats. There is also an important section on the role of social media platforms in the modern business world.
- Appendix D—**Managing Your Personal Finances: A Synopsis**—presents a down-to-earth, hands-on approach that will help students manage their personal finances. Included in the supplement is a worksheet for determining personal net worth, insightful examples demonstrating the time value of money, a method for determining

how much money to invest now in order to build a future nest egg of a certain size, suggestions on how to manage credit card debt, guidelines for purchasing a house, and a personalized worksheet for setting financial goals.

- Appendix E—**Insurance as Risk Management**—provides information on insurable vs. uninsurable risks, the different types of insurance products that are available, and special forms of business insurance.

WHAT'S NEW IN THE NINTH CANADIAN EDITION?

New content has been included in all chapters. An illustrative (but not exhaustive) list is as follows:

Chapter 1—New material on government's role as a regulator with regard to agriculture; details of the bread price-fixing scandal in which the Competition Bureau made allegations and exposed over a decade of collusion between some of Canada's largest supermarkets: Loblaws, Metro, Sobeys, as well as Walmart; new examples of supply and demand principles linked to the real-world experiences of Atlantic fisherman; a new discussion on supply management that was a major source of dispute in the NAFTA negotiations and a key battle before the ultimate signing of the USMCA agreement.

Chapter 2—New and updated information on GDP, the national debt, and the business cycle; on how inflation is impacted by key social issues such as the push towards a \$15 minimum wage in many provinces; and on the economic shocks caused by sudden fuel price changes (especially grocery products). You will also find a new section describing the important role R&D played in the emergence of the canola industry in Canada; new consumer preferences and tastes are examined as well how the concern for our environment and food supply are a big part of the push for natural products such as cricket-based protein bars and flour. A spotlight is also directed on modern-day strategic alliances between companies like Magna International and Lyft (the ridesharing service).

Chapter 3—New information on corruption and bribes in international business activity, examples of ethical failures such as improper financial management, B Corp certification for businesses that want to be environmentally responsible, how to incorporate various ethical norms into management decision making, the concept of carbon pricing, the fair trade movement, price fixing, whistle-blowers, counterfeit goods, and the role that consumers play in solving pollution problems.

Chapter 4—New information highlighting entrepreneurial goals and characteristics; a more detailed discussion on accessing resources and bootstrapping for entrepreneurs; a focus on the growing opportunities to buy existing businesses with an aging population of businesspeople heading towards retirement.

Chapter 5—A new look at the global economy through the lens of BREXIT, USMCA, and other major shocks to the economic world order (many of which are originating in the United States). A key underlying question is constantly considered: just how will the rise of protectionist rhetoric and policy shape the next few years? We look at recent tariff threats and policy as well as retaliations across the globe; we examine the implications of Brexit on the European zone, the continued emergence of the BRICS trading alliance, and the future of the Comprehensive Economic and Trade Agreement (CETA), as well as other new agreements like the Trans Pacific Partnership (TPP).

Chapter 6—New information on McDonald's planning process as managers try to improve the company's performance, what students should expect in a manager's job, how social media makes the activities of managers more visible to the public, and the practical realities of corporate strategy; new material on corporate culture, the importance of managers having "soft skills" (as opposed to technical skills), decision-making skills, and the importance of contingency planning.

Chapter 7—New information on job specialization in the age of automation and industrial robots; we look at new examples demonstrating the forms of departmentalization and the role of informal groups and the grapevine in an organization.

Chapter 8—New information on the impact of education on employee compensation, differences in salary progression for men and women in various jobs, male vs. female earnings, the salary impact for new employees who graduate from community colleges and universities, the debate about executive compensation, diversity issues at companies like Facebook and Google, union organizing strategies, right-to-work laws, union membership in Canada.

Chapter 9—New material on employee turnover and the importance of understanding the "regression to the mean" phenomenon.

Chapter 10—New material on changes in manufacturing over time, materials management for service organizations, global productivity comparisons, ISO 14000 certification, and supply chain disruptions.

Chapter 11—New and updated information about the CPA accounting designation as well as a look at the evolving role of the modern accountant. An explanation of the role of the International Accounting Standards Board (IASB), which developed International Financial Reporting Standards (IFRS), a sort of "global GAAP." We distinguish between Part I for publicly accountable enterprises (IFRS) and government private enterprises; Part II Accounting Standards for Private Enterprises (ASPE); Part III for not-for-profit organizations; and Part IV for pension plans.

Chapter 12—New material on niche marketing initiatives by Shoppers Drug Mart with its latest retail concept, Wellwise; we highlight a potential strategic alliance that would see Canadian coffee brand icon Second Cup become involved in the distribution of legalized marijuana; we identify a new low-cost airline; we take an extended look at the evolving topic of marketing observation through the lens of the Facebook scandal involving Cambridge Analytica.

Chapter 13—New examples on price lining are brought to life using the Apple iPad as an example; a new section outlining the redistribution of advertising budgets and the new emphasis on consumer engagement; a new discussion about corporate accountability in the sharing/social media economy is supported by the United Airlines scandal that erupted after a passenger was forcibly removed from a flight. Finally, there is an extensive look at how the retailing landscape is changing with consumers increasingly buying online and ignoring brick-and-mortar stores. Is there a future for traditional retailers and shopping malls?

Chapter 14—New information is presented on alternate financial transaction vehicles like Alipay and cryptocurrencies; updated information is given on the top banks and credit unions in Canada, as well as the latest Big Mac Index statistics; a discussion is provided on the role of the IMF in a period where many fundamental institutions are being questioned and tested.

Chapter 15—New information is provided on financial planning, managing risk with diversification, return on investment, the time value of money, fantasy stock markets, mutual funds, and securities regulation.

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His experience as a practitioner has fostered an advocacy for integrating concepts with best business practices in business education. The five business books he has written have been translated into Spanish, Chinese, Malaysian, and Romanian. Dr. Ebert has served as the editor of the *Journal of Operations Management*. He is a past-president and fellow of the Decision Sciences Institute. He has served as consultant and external evaluator for *Quantitative Reasoning for Business Studies*, an introduction-to-business project sponsored by the National Science Foundation.

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Dr. Griffin has served the Academy of Management as chair of the organizational behaviour division. He also has served as president of the southwest division of the Academy of Management and on the board of directors of the Southern Management Association. He is a fellow of both the Academy of Management and the Southern Management Association. He is also the author of several successful textbooks, each of which is a market leader. In addition, they are widely used in dozens of countries and have been translated into numerous foreign languages, including Spanish, Polish, Malaysian, and Russian.

George Dracopoulos is a member of the Business Administration Department at Vanier College. He has served as department chairman and is now the International Business Exchange Coordinator. In the past 15 years, George has built bridges with universities, government organizations, and multinational corporations throughout France and Belgium. Hundreds of students have benefitted from his initiatives. He is also the co-organizer and co-founder of the national BDC/Vanier Marketing Case Competition and was named the Vanier VIP for his dedication and devotion to the community.

Mr. Dracopoulos also serves as a lecturer at McGill University. He created an online pilot project, designing courses geared primarily to aboriginal students in remote communities. He was also honoured (among a select group) as "Professor of the Year" by a McGill University publication for his work in the Desautels Faculty of Management. He earned his MBA at McGill, as well as a graduate diploma in Education and a graduate degree in Applied Management. He earned his BA at Concordia University.

Outside his teaching career, Mr. Dracopoulos is an award-winning entrepreneur. George does not simply write about disruptive technology. A few years ago, he co-founded a company called Zero-Ohm Systems after negotiating and acquiring the global licensing and manufacturing rights to a patented invention (United States, Europe, and Russia) serving the audio industry. He has successfully marketed the device at international trade shows. In 2017 the company made a breakthrough in Orlando, Florida, when it was honoured with the Best New Product Technology Award at InfoComm (North America's biggest trade show for the AV market). In this capacity, Mr. Dracopoulos has been interviewed by top industry media and trade publications in North America and Europe.

George is continuously engaged in executing real-world strategies. He provides marketing and management consulting solutions (e.g., brand audits, customer relationship surveys, strategic consultations, and IMC campaigns). He has also built web-based materials and training documents for clients in various industries, including aviation/IT solutions, publishing, and higher education. Mr. Dracopoulos has been invited to provide motivational speeches and/or keynote addresses at events across North America on topics such as Connecting with Millennials, Effective Communication, and Transformational Leadership. He has worked on various other text projects, including *Business in Action*, 2nd Canadian edition (2009), co-authored with Courtland L. Bovée and John V. Thill; and *Business*, 8th Canadian edition (2014), co-authored with Ricky Griffin, Ronald J. Ebert, Frederick Starke, and Melanie Lang.

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Dr. Starke earned his BA and MBA from Southern Illinois University and his PhD in Organizational Behaviour from Ohio State University. He has published research articles in scholarly journals such as *Administrative Science Quarterly*, *Journal of Applied Psychology*, *Academy of Management Journal*, *Journal of Management Studies*, and *Journal of Business Venturing*. He has also written articles for professional journals, such as the *Journal of Systems Management*, *Information Executive*, and the *Canadian Journal of Nursing Administration*. Dr. Starke also writes textbooks that are used by university and community college students in business programs across Canada. These titles include *Organizational Behaviour*, *Business Essentials*, *Management*, and *Business*. Dr. Starke also presents seminars on the topics of decision making and goal setting to practising managers in both the public and private sectors.

PART
01

INTRODUCING THE CONTEMPORARY BUSINESS WORLD

- 01** UNDERSTANDING THE CANADIAN BUSINESS SYSTEM 2
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Understanding the Canadian Business System

LO

**AFTER READING THIS CHAPTER,
YOU SHOULD BE ABLE TO:**

- LO-1** Define the nature of Canadian *business* and identify its main goals.
- LO-2** Describe different types of global *economic systems* according to how they control the *factors of production* through *input* and *output markets*.
- LO-3** Describe the interactions between business and government in Canada.
- LO-4** Show how *demand* and *supply* affect resource distribution in Canada.
- LO-5** Identify the elements of *private enterprise* and explain the various *degrees of competition* in the Canadian economic system.

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Spin Master: Canadian Toy Maker Becomes a Global Children's Entertainment Company

Here's a business success story that will inspire you. After graduating from university, two young Canadian entrepreneurs named Anton Rabie and Ronnen Harary formed a company called Spin Master and were later joined by a third co-founder, Ben Varadi. They started selling a fad product called Earth Buddy and managed to secure some significant sales and distribution. Never heard of it? Like all fads, it had its moment in the sun, but eventually those sales dried up. It was a nylon stocking, filled with sawdust, made to look like a head. It was topped with grass seeds that grew to look like hair. For a recent example of a big fad, think of the fidget spinner craze.

This initial success gave these entrepreneurs firsthand experience with real-world sales, manufacturing, finance, and accounting in an accelerated time frame as they scrambled to meet demand. Mistakes were made but lessons were learned, and their passion and energy were richly rewarded. In fact, at the beginning of 2018, Spin Master purchased Gund, a 120-year-old stuffed toy brand for \$79.1

million, which marked the ninth acquisition in a three-year span. At the time, Anton and Ronnen were also being recognized on a list of the top 100 wealthiest people in Canada with an estimated net worth of \$1.64 billion dollars each.

So how did they go from Earth Buddies to buying iconic toy brands? Well, have you heard of Paw Patrol or Hatchimals? Did you play with Air Hogs or Bakugan when you were younger? Have you recently purchased a Luvabella doll for your niece? Do the words Meccano and Zoomer mean something to children in your home and neighborhood? If you said yes, you have part of your answer. If you said no to all these questions, then where have you been? Let's dig deeper into the full story.

Then and Now: Evolving Models

Spin Master was founded approximately 25 years ago with one product and a dream. Today it employs over 1500 people globally with offices in Canada, the United States,



Frank Gunn/The CP Image

Mexico, France, Italy, the United Kingdom, Slovakia, Poland, Germany, Sweden, the Netherlands, China, Hong Kong, Japan, Vietnam, and Australia.

Long-term success in any industry demands the ability to evolve and to find new ways to satisfy customer needs. In some ways, this task has become more difficult as modern technologies are altering buying patterns and leaving many established companies struggling to survive. In other ways, this task has been greatly enhanced by modern technology. For example, today we have YouTube influencers like Ryan, a six-year-old toy-tester, with a following of 10.2 million subscribers and more than 17 billion uploads of his toy reviews. Spin Master teamed with this young millionaire (He and his parents made more than 14 million in 2017 alone!) to promote Soggy Doggy in a 10-minute video. That video was viewed six million times in just two months right before the peak holiday season.

These entrepreneurs have built an organization with the ability to pivot and thrive in changing times. Spin Master has received 92 Toy of The Year (TOTY) nominations and has 21 wins across a variety of product categories. As if this kind of success was not enough, Spin Master has branched out into the production of television series, including shows such as Bakugan, Battle Brawlers, and the current big hit PAW Patrol, which is broadcast in more than 160 countries and territories.

The Future

Spin Master is no longer just a toy company. It describes itself as “a leading global children’s entertainment company that creates, designs, manufactures, licenses and markets a diversified portfolio of innovative toys, games,

products and entertainment properties.” It’s a good thing too. The toy industry is under tremendous pressure with more and more children asking mom and dad for smart-phones rather than stuffed animals at younger ages. The recent shutdown of the iconic Toys “R” Us outlets in the United States is yet another sign of the times. Although much of that failure is due to the shift toward online sales, in favor of companies like Amazon, industry experts have estimated that this closure may further reduce toy sales by 10 percent in the United States. The future of Toys “R” Us in Canada is also unclear.

So what does the future hold for Spin Master? Time will tell, but with their track record of success and their diversification experience, they clearly have the will to fight and the capacity to meet new challenges.

• QUESTIONS FOR DISCUSSION •

1. Based on what you read in the preceding case, what are the primary reasons for the long-term success of Spin Master?
2. In what ways does Spin Master demonstrate the basic principles of business, the power of entrepreneurship and creativity in a global economy?
3. In this chapter, we will discuss the different types of economic systems. After reading that section, answer the following question. What features of the Canadian economy helped make Spin Master’s success a reality? In what ways would this task have been more difficult in a command economy? Explain.
4. What are the greatest challenges facing Spin Master today? What does the company need to do to thrive for another 25 years or more?

HOW WILL THIS HELP ME?

All businesses are subject to the influences of economic forces. But these same economic forces also provide smart managers and entrepreneurs with opportunities for profits and growth. The ideas presented in this chapter will help you to better understand (1) how *managers* deal with the challenges and opportunities resulting from economic forces and (2) how *consumers* deal with the challenges and opportunities of price fluctuations.



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LO-1 THE IDEA OF BUSINESS AND PROFIT

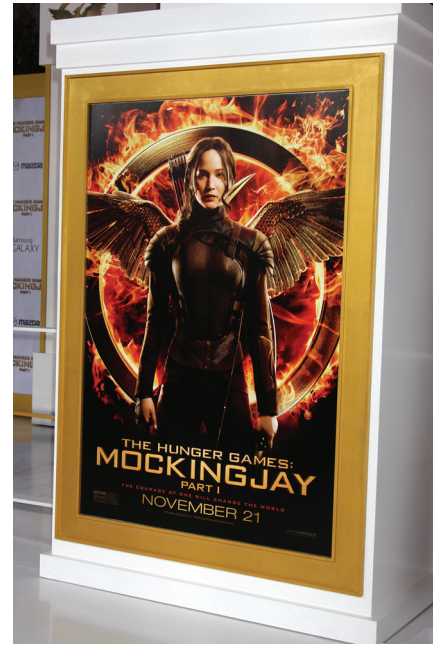
The opening Spin Master case provides an inspiring example of entrepreneurship and a free-market economy. It shows how businesses must evolve and stay in touch with new industry trends. It also shows how business managers must pay attention to issues such as corporate strategy, brand strategy, business–government relations, international business opportunities, mergers, and many other concepts that you will read about in this text.

Let's begin by asking what you think of when you hear the word *business*. Do you think of large corporations like Shoppers Drug Mart and Walmart or smaller companies like your local supermarket or favorite restaurant? Do you think about successful companies like Netflix, CN, and Telus? Each of these firms is a **business**—an organization that produces or sells goods or services to make a profit. Businesses produce most of the goods and services that we consume, and they employ most of the workforce in Canada. Taxes paid by businesses help support government at all levels. In addition, businesses help support charitable causes and provide community leadership. For example, Spin Master has donated domestically to local causes and has even created a global initiative called the Toy Movement; during the holiday season of 2017, Spin Master delivered more than 45 000 toys to underprivileged children in South Africa.¹

Each year *Forbes* magazine evaluates and ranks 153 countries for ease of conducting business transactions. In 2017, the United Kingdom ranked first, followed by New Zealand, the Netherlands, Sweden, and Canada.²

Profit is what remains after a business's expenses have been subtracted from its revenues. Profits reward the owners of businesses for taking the risks involved in investing their time and money. Profits can be very large if a company produces something that consumers really like. For example, the *Hunger Games* series of movies have generated large profits for Lions Gate and achieved combined total gross revenues of approximately \$1.5 billion.³

Many organizations in Canada do not try to make a profit. These **not-for-profit organizations** use the funds they generate from government grants or from the sale of goods or services to provide services to the public. Charities, educational institutions, hospitals, labour unions, and



▲▲ The Hunger Games Series has been a huge success for Lions Gate.

Kathy Hutchins/Shutterstock

government agencies are examples of not-for-profit organizations. Business principles are helpful to these not-for-profit organizations as they try to achieve their service goals.

BUSINESS An organization that seeks to earn profits by providing goods and services.

PROFIT What remains (if anything) after a business's expenses are subtracted from its sales revenues.

NOT-FOR-PROFIT ORGANIZATION An organization that provides goods and services to customers, but does not seek to make a profit while doing so.

LO-2 ECONOMIC SYSTEMS AROUND THE WORLD

A Canadian business is different in many ways from one in China, and both are different from businesses in Japan, France, or Argentina. A major determinant of how organizations operate is the kind of economic system that characterizes the country in which they do business. An **economic system** allocates a nation's resources among its citizens. Economic systems differ in terms of who owns and controls these resources, known as the "factors of production."

Factors of Production

The key difference between economic systems is the way in which they manage the **factors of production**—the basic resources that a country's businesses use to produce goods and services. The factors of production are labour, capital, entrepreneurs, natural resources, and information.⁴

Labour

The people who work for a company represent the first factor of production—*labour*. Sometimes called human resources, labour is the mental and physical capabilities of people. Carrying out the business of a huge company, such as Suncor Energy, requires a labour force with a wide variety of skills ranging from managers to geologists to truck drivers.

ECONOMIC SYSTEM The way in which a nation allocates its resources among its citizens.

FACTORS OF PRODUCTION The resources used to produce goods and services: labour, capital, entrepreneurs, and natural resources.



^ You are probably very familiar with Petro Canada, but (since 2009) the company behind the retail brand is Suncor Energy.

James Jones Jr/Shutterstock

Capital

Capital refers to the funds required to start a business and to keep it operating and growing. For example, Petro Canada needs capital to pay for its annual drilling costs, which run into millions of dollars each year. Major sources of capital for businesses are personal investment by owners, the sale of stock to investors, profits from the sale of products and services, and funds borrowed from banks and other lending institutions.

Entrepreneurs

Entrepreneurs are people who accept the opportunities and risks involved in creating and operating businesses. Sergey Brin and Larry Page (Google), Mark Zuckerberg (Facebook), and Tobias Lutke (Shopify) are well-known entrepreneurs.

Natural Resources

Natural resources include all physical resources, such as land, water, mineral deposits, and trees. Suncor Energy (which sells products to

consumers through the Petro Canada retail brand) makes use of a wide variety of natural resources. It obviously has vast quantities of crude oil to process each year. But Suncor Energy also needs the land where the oil is located, as well as land for its refineries and pipelines.

Information

Information includes the specialized knowledge and expertise of people who work in businesses, as well as information contained in market forecasts and various other forms of economic data. Information is a key factor of production because, unlike land, labour, and capital, information can be shared without being diminished. For example, if two people exchange apples, they still each have only one apple, but if two people exchange ideas, each person now has two ideas instead of one.⁵

Types of Economic Systems

Different types of economic systems manage the factors of production in different ways. In some systems, ownership is private; in others, the government owns the factors of production. Economic systems also differ in the ways decisions are made about production and allocation. A **command economy**, for example, relies on a centralized government to control all or most factors of production and to make all or most production and allocation decisions. In a **market economy**, individuals—producers and consumers—make production and allocation decisions through the mechanism of supply and demand.

The boxed insert entitled “Disruptions Are Everywhere” is the opening box of a series that provides you with an overview of topics you will see throughout this book and how disruptive business models are changing the business landscape.

COMMAND ECONOMY An economic system in which government controls all or most factors of production and makes all or most production decisions.

MARKET ECONOMY An economic system in which individuals control all or most factors of production and make all or most production decisions.



Paul Warburton / Alamy Stock Photo



ZUMA Press, Inc. / Alamy Stock Photo



Foodfolio/Alamy Stock Photo

^ Starbucks uses various factors of production, including labour (a Starbucks barista), entrepreneurs (CEO Howard Schultz), and natural resources (such as coffee beans).

DISRUPTIONS IN BUSINESS

Disruptions are Everywhere!

Much has been said in the news lately about how technological change is disrupting traditional business practices. Of course, disruptions have been occurring for thousands of years. Think of the electric light disrupting the whale oil business or the automobile disrupting the wagon business. But those changes occurred at a time when the rate of change in society *overall* was much slower than it is now. Now everything seems to be changing all the time. Consider what has happened in just the past couple of decades:

- The business of travel agents was threatened and severely impacted by online reservations.
- The business of video rental (think Blockbuster) was disrupted by Netflix.
- Traditional food outlets such as Sobeys and Loblaw's are threatened by Amazon's purchase of Whole Foods.
- Uber and Lyft, the ride-hailing companies, have created great concern among both taxi companies and rental car companies.
- The abolition of the Canadian Wheat Board has resulted in substantial changes in the way crops are marketed and transported.
- The music industry has been severely disrupted by file sharing and iTunes.
- Robo-advisors have disrupted the investment advice industry.
- Vaporizers and e-cigarettes have disrupted the cigarette industry.
- Airbnb has disrupted the hotel industry.
- Self-driving cars may take the jobs of professional drivers (taxi, delivery, long-haul).
- If electric cars become popular, the oil industry may be disrupted because such cars will sharply reduce the demand for oil.

Disruption has become so common that companies cannot ignore it. In subsequent chapters, some of the disruptions mentioned above will be explained in more detail. All the changes that are occurring mean significant improvements for consumers in the form of new and useful products and services, but they also pose a real threat to the financial health of certain businesses, to the investors who buy their stock, and to the managers and workers who are employed by them. This is the reality of the dynamic world of business.

CRITICAL THINKING QUESTION

Consider the following statement: *The disruptions that are increasingly evident in the Canadian economy increase stress levels and the complexity of people's lives. We should be more concerned about our quality of life than we are about new gadgets and new ways of doing things.* Do you agree or disagree with the statement? Explain your reasoning.

Command Economies

The two basic forms of command economies are communism and socialism. As originally proposed by nineteenth-century German economist Karl Marx, **communism** is a system in which the government owns and operates all sources of production. Marx envisioned a society in which individuals would ultimately contribute according to their abilities and receive economic benefits according to their needs. He also expected government ownership of production factors to be only temporary (historical examples would tell us otherwise). During the past few decades, most countries have abandoned communism in favor of a more market-based economy. Even countries that still claim to be communist (e.g., China, Vietnam, and Cuba) now contain clear elements of a market-based economy. However, in China's case, that should not be confused with easing of political control. In 2018, Chinese leader Xi Jinping and his party eliminated term limits, which gave him the potential ability to stay in power for life. This was not a step forward toward continued reform.⁶

In a less extensive command economic system called *socialism*, the government owns and operates only selected major industries. Smaller businesses such as clothing stores and restaurants may be privately owned. Although workers in socialist countries can usually choose their occupations or professions, a substantial proportion generally work for the government. Many government-operated enterprises are inefficient because management positions are frequently filled based on political considerations rather than on ability. Extensive public welfare systems have also resulted in very high taxes. Because of these factors, socialism is generally declining in popularity.⁷

Market Economies

A **market** is a mechanism for exchange between the buyers and sellers of a good or service. For example, the internet is a technologically sophisticated market that brings buyers and sellers together through



Xi Jinping is General Secretary of the Communist Party of China, President of the People's Republic of China, and Chairman of the Central Military Commission. With the recent change in rules and the elimination of term limits, he can theoretically remain in power until his death.

Justin Lane/Epa/Shutterstock

e-commerce. People usually think of e-commerce as being business-to-consumer (B2C) transactions, such as buying household goods from Amazon for personal use. But business-to-business (B2B) transactions far exceed B2C transactions in dollar value.

In a market economy, B2C and B2B exchanges take place without much government involvement. To understand how a market economy works, consider what happens when a customer goes to a fruit stand to buy apples. Assume that one vendor is selling apples for \$1 per kilogram,

COMMUNISM A type of command economy in which the government owns and operates all industries.

MARKET An exchange process between buyers and sellers of a particular good or service.

and another is charging \$1.50. Both vendors are free to charge what they want, and customers are free to buy what they want. If both vendors' apples are of the same quality, the customer will likely buy the cheaper ones. But if the \$1.50 apples are fresher, the customer may buy them instead. Both buyers and sellers enjoy freedom of choice.

Input and Output Markets A useful model for understanding how the factors of production work in a pure market economy is shown in Figure 1.1.⁸ In an **input market**, firms buy resources from households that supply the resources. In an **output market**, firms supply goods and services in response to demand on the part of the households. The activities of these two markets create a circular flow. Ford Motor Company, for example, buys labour directly from households, which may also supply capital from accumulated savings in the form of stock purchases. Consumer buying patterns provide information that helps Ford decide which models to produce and which to discontinue. In turn, Ford uses these inputs in many ways and becomes a supplier to households when it designs and produces various kinds of automobiles, trucks, and sport-utility vehicles and offers them for sale to consumers.

Individuals are free to work for Ford or an alternative employer and to invest in Ford stock or alternative forms of saving or consumption. Similarly, Ford can create whatever vehicles it chooses and price them at whatever value it chooses. Consumers are free to buy their next car from Ford, Toyota, BMW, or any other manufacturer. The political basis for the free-market economy is called **capitalism**, which allows private ownership of the factors of production and encourages entrepreneurship by offering profits as an incentive. This process contrasts markedly with that of a command economy, in which individuals may be told where they can and cannot work, companies may be told what they can and cannot manufacture, and consumers may have little or no choice as to what they purchase or how much they pay for items.



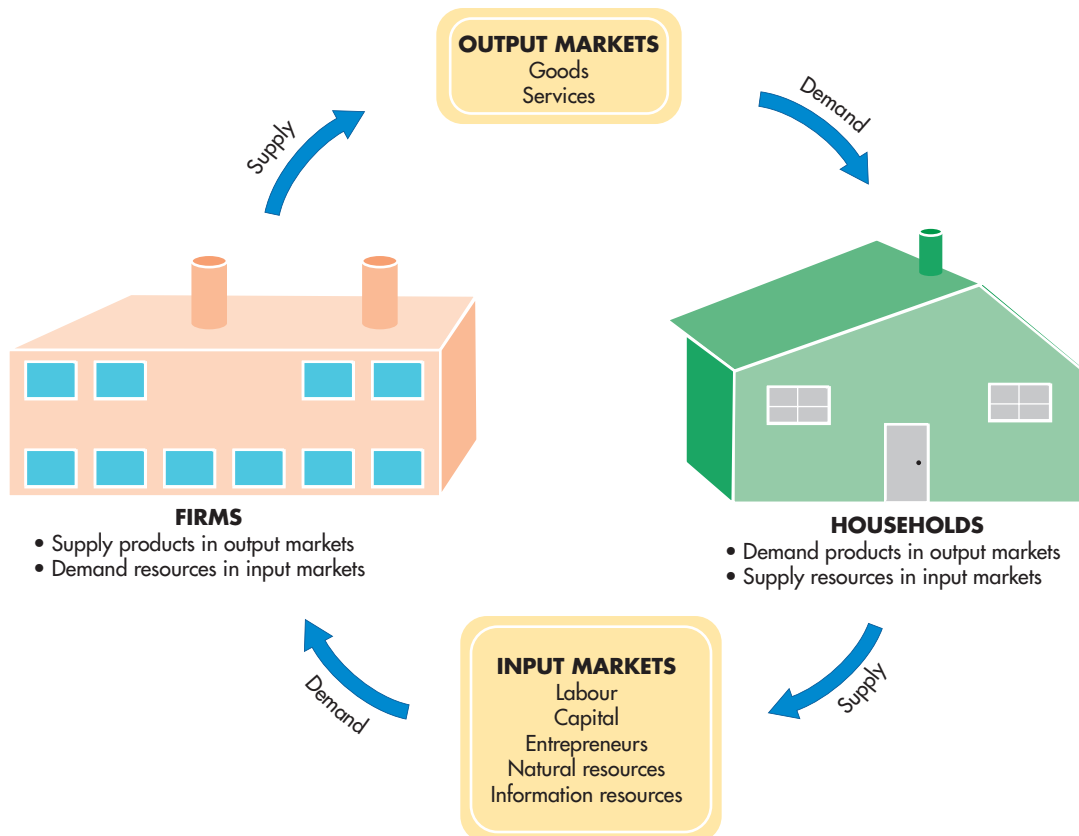
↑↑ The People's Republic of China has used a planned economic model for many years but is now moving toward a mixed market economy. But Hong Kong has been using the mixed market model for years. These signs on a busy Hong Kong street are promoting a variety of goods and services provided by merchants along the street.

TungCheung/Shutterstock

INPUT MARKET Firms buy resources that they need in the production of goods and services.

OUTPUT MARKET Firms supply goods and services in response to demand on the part of consumers.

CAPITALISM An economic system in which markets decide what, when, and for whom to produce.



<<< **FIGURE 1.1** Circular flow in a market economy

THERE'S AN **APP** FOR THAT!

APP DETAILS	PLATFORMS
<p>1. The Economist App Source: <i>The Economist</i> Key Features: Free access to the editor's top six must-read articles; access to the full magazine for subscribers.</p>	Apple, Android, Windows, BlackBerry
<p>2. Khan Academy App Source: Khan Academy Education Key Features: More than 10 000 educational videos with a wide selection of economics videos explaining core theory and concepts.</p>	Apple, Android, Windows
<p>3. Financial Post App Source: Postmedia Canada Network Inc. Key Features: Up-to-date source of Canadian business and investing news as well as market and financial data.</p>	Apple, Android

APP DISCOVERY EXERCISE
 Because app availability changes, conduct your own search for "top 3" economic statistics apps and identify the key features.

Mixed Market Economies

Command and market economies are two extremes, or opposites. Most countries rely on some form of **mixed market economy** that features characteristics of both command and market economies. One trend in mixed market economies that began back in the 1990s is **privatization**—converting government enterprises into privately owned companies. In Canada, for example, the air traffic control system was privatized, and the federal government sold several other corporations, including Petro Canada, Canadian National Railway, and Air Canada. The Organization for Economic Co-operation and Development (OECD) said that Canada Post's monopoly should be ended, and it should be privatized.⁹

Deregulation means a reduction in the number of laws affecting business activity and in the powers of governmental enforcement agencies. A study by the Conference Board of Canada showed that deregulation (in tandem with privatization and increased competition) caused a sharp increase in productivity in sectors such as freight and airlines.¹⁰

MIXED MARKET ECONOMY An economic system with elements of both a command economy and a market economy, which in practice is typical of most nations' economies.

PRIVATIZATION The transfer of activities from the government to the private sector.

DEREGULATION A reduction in the number of laws affecting business activity.

LO-3 INTERACTIONS BETWEEN BUSINESS AND GOVERNMENT

In Canada's mixed market economy, there are many important interactions between business and government. The ways in which government influences business and the ways business influences government are described next.

How Government Influences Business

Government plays several key roles in the Canadian economy, and each of these roles influences business activity in some way. The roles government plays are as follows.

Government as a Customer

The government buys thousands of different products and services from business firms, including office supplies, office buildings, computers, battleships, helicopters, highways, water treatment plants, and management and engineering consulting services. Many businesses depend on government purchasing, if not for their survival, then at least for a certain level of prosperity. Total government expenditures in 2017 were \$311.3 billion.¹¹

Government as a Competitor

The government also competes with business through Crown corporations, which are accountable to a minister of parliament for their conduct. Crown corporations such as Hydro-Quebec and Canada Post generate

billions of dollars of revenue and account for significant economic activity in Canada. Crown corporations exist at both provincial and federal levels.

Government as Regulator

Federal and provincial governments in Canada regulate many aspects of business activity through administrative boards, tribunals, and commissions, but there is a continuing debate about how much influence government regulators have and how much they *should* have. From 1935 until 2012, the Canadian Wheat Board regulated the price of wheat and prohibited farmers from selling their wheat directly to U.S. elevators. Instead, farmers were required to sell their wheat through the Wheat Board. That monopoly ended when the government introduced legislation to allow farmers to sell direct. The last step in the process occurred in 2015, when 50.1 percent of the organization was sold for US\$250 million to the Global Grain Group (G3), a joint venture between the food company Bunge Ltd. and a unit of Saudi Agricultural and Livestock Investment Co. known as SALIC Canada Ltd. The rest of the shares were made available to farmers who chose to work with the organization, which has now promised to open new markets for farmers.¹²

The reasons for regulating business activity include protecting competition, protecting consumers, achieving social goals, and protecting the environment.

Promoting Competition Competition is crucial to a market economy, so government regulates business activity to ensure that healthy

TABLE 1.1 The Competition Act

Section 45	Prohibits conspiracies and combinations formed to unduly lessen competition in the production, transportation, or storage of goods. Persons convicted may be imprisoned for up to five years, fined up to \$1 million, or both.
Section 50	Prohibits illegal trade practices. A company may not, for example, cut prices in one region of Canada while selling at a higher price everywhere else if this substantially lessens competition. A company may not sell at “unreasonably low prices” if this substantially lessens competition. (This section does not prohibit credit unions from returning surpluses to their members.)
Section 51	Prohibits giving allowances and rebates to buyers to cover their advertising expenses, unless these allowances are made available proportionally to other purchasers who are in competition with the buyer given the rebate.
Section 52	Prohibits marketing (promotion) activities that are false or misleading. Includes telemarketing activities.
Section 53	Prohibits the deceptive notice that a person has won a prize if the recipient is asked to pay money as a condition of winning the prize.
Section 54	Prohibits charging the higher price when two prices are shown on a product.
Section 55.1	Prohibits pyramid selling (a participant in the plan receives compensation for recruiting other individuals into the plan).
Section 61	Prohibits resale price maintenance. No person who produces or supplies a product can attempt to influence upward, or discourage reduction of, the price of the good in question. It is also illegal for the producer to refuse to supply a product to a reseller simply because the producer believes the reseller will cut the price.
Section 74	Prohibits bait-and-switch selling. No person can advertise a product at a bargain price if there is no supply of the product available to the consumer. (This tactic baits prospects into the store, where salespeople switch them to higher-priced goods.) This section also controls the use of contests to sell goods and prohibits the sale of goods at a price higher than the advertised one.

competition exists among business firms. Without these restrictions, a large company with vast resources could cut its prices and drive smaller firms out of the market. The guidelines for Canada’s competition policy are contained in the **Competition Act**, which prohibits a variety of practices (see Table 1.1).

The Act prohibits agreements among companies that are designed to reduce competition. Formerly, the government had to prove that such agreements reduced competition, but recent changes to the legislation mean that the mere existence of a conspiracy is assumed to be proof that competition has been reduced.¹³ Another major change is the dramatically increased fines for misleading marketing practices by corporations (formerly \$100 000 for the first offence, now \$10 million).¹⁴

In recent years, Loblaw’s has been under the microscope as it relates to the issue of competitive fairness. First, when Loblaw’s acquired Shoppers Drug Mart, the Competition Bureau imposed limits on how much the company could squeeze Shoppers’ suppliers by demanding that those suppliers reduce their prices. Loblaw was also required to sell 18 stores and 9 pharmacies because the Bureau was concerned about anticompetitive practices.¹⁵ Second, in 2018, Loblaw’s along with six other companies including Metro., Walmart, and Sobeys were accused of conspiring to inflate the price of bread for a period stretching back over a decade. According to the Competition Bureau, these companies committed illegal activities that violated the Competition Act.¹⁶ Loblaw’s, for its part, has apologized and also offered its customers a \$25 gift card in an attempt to recover some goodwill from upset customers. Accepting the gift card did not remove the legal rights of those customers to participate in a class action lawsuit against the company.¹⁷ This story will surely be in the news for a few years to come as more legal actions are taken.

Businesses often complain that the Competition Bureau is too slow in making decisions and that it makes decisions that are unfriendly to business. One highly visible recent case has pitted the Competition Bureau against the Canadian Real Estate Association (CREA). The dispute began in 2010 when the Bureau alleged that CREA was acting in an anticompetitive manner because it was refusing to allow online, low-cost real estate brokers access to its Multiple Listing Service (MLS). The Bureau also told

the Toronto Real Estate Board (TREB) that its practices were anticompetitive because brokers weren’t being allowed to share information over the internet. TREB appealed, but in 2017, the courts upheld the initial ruling.¹⁸

Protecting Consumers The federal government has initiated many programs that protect consumers. Consumer and Corporate Affairs Canada administers many of these. Important legislation includes the *Tobacco Act* (which prohibits cigarette advertising on billboards and in stores), the *Weights and Measures Act* (which sets standards of accuracy for weighing and measuring devices), the *Consumer Packaging and Labelling Act* (which stipulates labelling requirements for products), the *Textile Labelling Act* (which regulates the labelling, sale, importation, and advertising of consumer textile articles), and the health care *Food and Drug Act* (which prohibits the sale of food that contains any poisonous or harmful substances).

Achieving Social Goals Social goals, which promote the well-being of Canadian society, include things such as universal access to health care, safe workplaces, employment insurance, and decent pensions. All these goals require the interaction of business firms and the Canadian government. But the decisions of foreign governments—as they pursue their own social goals—can also affect Canadian businesses.

Protecting the Environment Government legislation designed to protect the environment includes the *Canada Water Act* (which controls water quality in fresh and marine waters), the *Fisheries Act* (which controls the discharge of any harmful substance into water), and the *Environmental Contaminants Act* (which establishes regulations for airborne substances that are a danger to human health or the environment).

COMPETITION ACT Prohibits a variety of business practices that lessen competition.