**CHAPTER 1**

**THE CHANGING FACE OF BUSINESS**

**Chapter Overview**

Business is the nation’s engine for growth. To succeed, companies must intuitively understand what customers want so that they can supply it quickly and efficiently. Firms can *lead* in advancing technology and other changes. They have the resources, know-how, and the financial incentive to bring about innovation.

Businesses require physical inputs as well as the accumulated knowledge and experience of managers and employees. Yet, they also rely on their ability to change with the marketplace. Flexibility is a key to long-term success—and to growth.

This book explores the strategies that allow companies to grow and compete in today’s interactive marketplace, along with the skills that you will need to turn ideas into action for your own success in business. This chapter defines business and its role in society. It illustrates how the private enterprise system encourages competition and innovation while preserving business ethics.

**Glossary of Key Terms**

**Brand:** name, term, sign, symbol, design, or some combination that identifies the products of one firm and differentiates them from competitors’ offerings

**Branding:** process of creating an identity in consumers’ minds for a good, service, or company; a major marketing tool in contemporary business **Business:** all profit-seeking activities and enterprises that provide goods and services necessary to an economic system

**Capital:** production inputs consisting of technology, tools, information, and physical facilities

**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

**Consumer orientation:** business philosophy that focuses first on determining unmet consumer wants and needs and then designing products to satisfy those needs

**Creativity:** capacity to develop novel solutions to perceived organizational problems

**Critical thinking:** ability to analyze and assess information to pinpoint problems or opportunities

**Diversity:** blending individuals of different genders, ethnic backgrounds, cultures, religions, ages, and physical and mental abilities to enhance a firm’s chances of success

**Entrepreneur:** person who seeks a profitable opportunity and takes the necessary risks to set up and operate a business

**Entrepreneurship:** willingness to take risks to create and operate a business

**Factors of production:** four basic inputs for effective operation: natural resources, capital, human resources, and entrepreneurship

**Human resources:** production inputs consisting of anyone who works, including both the physical labor and the intellectual inputs contributed by workers

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

**Nearshoring:** outsourcing production or services to locations near a firm’s home base

**Not-for-profit organizations:** organizations that have primary objectives such as public service rather than returning a profit to their owners

**Offshoring:** relocation of business processes to lower-cost locations overseas

**Outsourcing:** using outside vendors to produce goods or fulfill services and functions that were previously handled in-house or in-country

**Private enterprise system:** economic system that rewards firms for their ability to identify and serve the needs and demands of customers

**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

**Profits:** rewards for businesspeople who take the risks involved to offer goods and services to customers

**Relationship era:** the business era in which firms seek ways to actively nurture customer loyalty by carefully managing every interaction

**Relationship management:** collection of activities that build and maintain ongoing, mutually beneficial ties with customers and other parties

**Social era:** a new approach to the way businesses and individuals interact, connect, communicate, share, and exchange information with each other in virtual communities and networks around the world.

**Strategic alliance:** partnership formed to create a competitive advantage for the businesses involved; in international business, a business strategy in which a company finds a partner in the country where it wants to do business

**Transaction management:** building and promoting products in the hope that enough customers will buy them to cover costs and earn profits

**Vision:** the ability to perceive marketplace needs and what an organization must do to satisfy them

**Annotated Lecture Outline**

**Learning Objective 1:**

**Define business.**

*Business consists of all profit-seeking activities that provide goods and services necessary to an economic system. Not-for-profit organizations are business-like establishments whose primary objective is public service over profits.*

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| **Opening Vignette:** **Energy Production Comes Home**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 to 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.  | *Lecture Enhancer: Discuss the benefits and drawbacks of increased domestic oil and gas production.*  |
| ***WHAT IS BUSINESS?*** | **PowerPoint Slide 3** |
| **1. Business*** 1. The term “business” refers to a broad concept.
 | *Lecture Enhancer: Since business provide the bulk of employment opportunities, discuss some of the most common employment opportunities available to new graduates today (they include: healthcare, social services, and business sectors).* |
| * 1. Business consists of all profit-seeking activities and enterprises that provide goods and services necessary to an economic system.
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| * + 1. Businesses produce tangible goods or provide services.
 | *Class Activity: Discuss the impact of technology on a citizen’s standard of living.* |
| * + 1. Business drives economics and improves the standard of living.
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| * 1. At the heart of every business endeavor is an exchange between a buyer in need of a good or service and a seller who makes a profit.
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| * 1. Profits are rewards for businesspeople who risk blending people, technology, and information to create and market goods or services.
 | **PowerPoint Slide 4**  |
| * + 1. Profits are incentives for people to start companies, expand, and provide competitive products.
 | *Lecture Enhancer: With today’s pervasive media reports on twenty-something instant billionaires, it’s hard to ignore the attention being paid to the powerful forces of business, entrepreneurship, profits, and technology.*  |
| * + 1. In accounting, profit is the difference between a firm’s revenues and the expenses it incurs in generating these revenues.
 | *Class Activity: Are all business people driven by profits? Provide examples of those in the for-profit arena who may not be entirely driven by profits. Beyond profits, what is their responsibility?* |
| iii. A company cannot survive without profits. |  |
| 1. **Not-for-Profit Organizations**
 | **PowerPoint Slide 5** |
| * 1. Not-for-profit organizations are business-like establishments that have primary objectives other than profits.
 | *Lecture Enhancer: Name examples of private-sector and public-sector not-for-profit organizations. Does your school fall into a private-sector or public-sector not-for-profit organization?* |
| * 1. They place public service over profits but need money to achieve their goals.
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| * + 1. In the private sector they include museums, libraries, trade associations, charitable organizations, and religious organizations.
 | *Lecture Enhancer: What possible risks do not-for-profits face if they choose to sell merchandise or to share advertising with a business in order to raise funds?* |
| * + 1. In the public sector, they include government agencies, political parties, and labor unions.
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| * 1. Not-for-profits are a major part of the U.S. economy.
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| * + 1. More than 1.5 million not-for-profit organizations operate in the United States, controlling more than $2.9 trillion in assets.
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| * + 1. They employ more workers than all federal and state government agencies combined and have millions of unpaid volunteers.
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| * 1. They face many of the same challenges as businesses when it comes to raising money.
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| * + 1. Without funds, they cannot provide services.
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| ii. Some not-for-profits sell merchandise or set up profit-generating arms. | *Lecture Enhancer: Explain three objectives of a not-for-profit organization.*  |

**Assessment Check Answers**

**1.1 What activity lies at the center of every business endeavor?**

*At the center of every business endeavor is an exchange between a buyer and a seller*.

**1.2 What is the primary objective of a not-for-profit organization?**

*Not-for-profit organizations place public service above profits, although they need to raise money in order to operate and achieve their social goals.*

**Learning Objective 2:**

**Identify and describe the factors of production.**

*The factors of production consist of four basic inputs: natural resources, capital, human resources, and entrepreneurship. Natural resources include all productive inputs that are useful in their natural states. Capital includes technology, tools, information, and physical facilities. Human resources include anyone who works for the firm. Entrepreneurship is the willingness to take risks to create and operate a business.*

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| ***FACTORS OF PRODUCTION*** | **PowerPoint Slide 6** |
| 1. Factors of production are inputs required for the successful operation of an economic system. |  |
| 2. The four basic factors of production are natural resources, capital, human resources, and entrepreneurship. | Table 1.1: Factors of Production and Their Factor Payments*Lecture Enhancer*: *Name one factor of production and its method of payment. Think of a business in which this factor plays a major part.*  |
| **1. Natural Resources**  |  |
| * 1. Natural resources include all production inputs that are useful in their natural states; the basic inputs required in any economic system.
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| * 1. Examples are agricultural land, building sites, forests, and mineral deposits.
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| 1. **Capital**
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| * 1. Capital includes technology, tools, information, and physical facilities.
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| * 1. Technology refers to machinery and equipment, including computers and software, telecommunications, and inventions.
 | *Class Activity: Discuss competitive differentiation among students as it relates to the college application and acceptance process.*  |
| * 1. Technology improves products and provides timely and accurate information.
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| * 1. To remain competitive, a firm needs to continually acquire, maintain, and upgrade a firm’s capital, which requires money.
 | *Lecture Enhancer: Categorize each of the following according to a factor of production: a truck, a professor, Jay Z, coffee, ATM machine, Reed Hastings, crude oil, computer programmer, cotton, someone who develops an app to monitor blood sugar levels for diabetics, mineral deposits, robotics for car manufacturing, an inventory control system.* |
| * 1. Those who supply capital to firms earn payment in the form of interest.
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| 1. **Human Resources**
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| * 1. Human resources include everyone who works for an organization.
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| * 1. Human resources encompass both physical labor and intellectual inputs.
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| * + 1. Employees are a source of ideas and innovation.
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| * + 1. Talented, motivated employees provide a competitive edge.
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| 1. **Entrepreneurship**
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| * 1. Entrepreneurship is the willingness to take the risks necessary to create and operate a business.
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**Assessment Check Answers**

**2.1 Identify the four basic inputs to an economic system.**

*The four basic inputs are natural resources, capital, human resources, and entrepreneurship*.

**2.2 List four types of capital**.

*Four types of capital are technology, tools, information, and physical facilities.*

**Learning Objective 3: Describe the private enterprise system.**

*The private enterprise system is an economic system that rewards firms for their ability to perceive and serve the needs and demands of customers. Competition in the private enterprise system ensures success for firms that satisfy consumer demands. Citizens in a private enterprise economy enjoy the rights to private property, profits, freedom of choice, and competition. Entrepreneurship drives economic growth.*

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| ***THE PRIVATE ENTERPRISE SYSTEM*** | **PowerPoint Slide 7** |
| **1. Private Enterprise**  |  |
| a. No business operates in a vacuum—each is part of an economic system. |  |
| b. The economic system of a society determines how goods and services are produced, distributed, and consumed in a society, as well as patterns of resource use. |  |
| c. The private enterprise system is an economic system that rewards businesses for their ability to perceive and serve the needs and demands of customers. |  |
| * + 1. It minimizes government interference.
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| * + 1. Businesses that satisfy customers acquire the factors of production and earn profits.
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| d. Capitalism is another name for the private enterprise system. |  |
| * + 1. Adam Smith in 1776, said that an economy is best regulated by the “invisible hand” of competition—the battle for consumer acceptance.
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| * + 1. Competition leads to the best goods and services as weaker producers leave the marketplace.
 | *Lecture Enhancer*: *How does the Coca-Cola Company differentiate itself from PepsiCo? How do German carmakers, BMW and Mercedes-Benz, differentiate themselves from one another?*  |

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| e. Competitive differentiation is the unique combination of organizational abilities, products, and approaches that sets a company apart from competitors, in the minds of customers. | *Lecture Enhancer: Discuss competitive differentiation among students as it relates to college acceptance.***Hit & Miss: Live Nation Connects Superstar Artists and Fans** |
| 1. **Basic Rights in the Private Enterprise System**
 | **PowerPoint Slide 8** *Lecture Enhancer: Greece, a country which has suffered an economic crisis of historic proportions, does not have a land registry. The impact: no foreign investment, no private assets, no property tax collection, and no incentive to work towards owning land in the form of a home. Property ownership in third world countries is still nonexistent.*  |
| * 1. The right to private property means that every person has the right to own, use, buy, sell, and bequeath property.
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| * + 1. This is the most basic freedom under the private enterprise system.
 | *Lecture Enhancer: Ask students to imagine (and discuss) what it might be like to be limited, upon graduation, of employment choices.*  |
| * 1. Business owners have the right to all profits—after taxes—earned through their activities.
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| * 1. Citizens in private enterprise system are free to choose their own employment, purchases, and investments.
 | Figure 1.1 Basic Rights within a Private Enterprise System |

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| * 1. Other economic systems sometimes limit freedom of choice to accomplish government goals.
 | *Lecture Enhancer: For each of the four basic rights in the private enterprise system, have students provide examples of how each benefits a business and its owner(s).*  |
| * 1. The private enterprise system ensures fair competition by allowing the public to set rules.
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| i. The U.S. government prohibits excessively aggressive competitive practices. |  |
| ii. There are laws against price discrimination, fraud, and deceptive advertising and packaging. |  |
| 1. **The Entrepreneurship Alternative**
 | **PowerPoint Slide 9** |
| * 1. Entrepreneurs are risk takers who recognize marketplace opportunities and use their capital, time, and talents to pursue profits.
 | *Lecture Enhancer: Why are smaller companies more likely to innovate and find creative solutions than their larger counterparts? Discuss the ways smaller organizations are attempting to be more innovative.* |
| * 1. Entrepreneurship drives economic growth and keeps pressure on existing companies to satisfy customers.
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| * 1. Data regarding U.S. entrepreneurship:
 | *Class Activity: Ask how many class members (or their family members) hope to, or have plans to start a small business. Discuss the various ideas of the current or future entrepreneurial pursuit.* |

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| * + 1. About 1 of every 7 businesses started in the past year and created 1 of every 5 new jobs.
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| * + 1. Of the current 27.5 million U.S. small businesses, 21 million are self-employed people without any employees.
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| * + 1. 24 percent of respondents in a survey of small-business owners had college degrees, and 19 percent had postgraduate degrees.
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| * 1. Entrepreneurship provides innovation.
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| * + 1. Start-up companies tend to innovate most in areas of new technology.
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| * + 1. Small companies are more flexible, so they can make changes quickly.
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| * + 1. Entrepreneurs often find new ways to use the four factors of production.
 | *Lecture Enhancer: Why are smaller companies more likely to find innovative ways to use the factors of production?* |
| * 1. Larger or existing businesses also can encourage entrepreneurial thinking among their employees and customers in order to gain improved innovation and new market opportunities.
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| * 1. Education Levels of Small Business Owners (Figure 1.2)
 | **PowerPoint Slide 10** Figure 1.2 Education Levels of Small-Business Owners*Lecture Enhancer:There are over 200 colleges nationwide with majors in entrepreneurship or small business.*  |

**Hit & Miss:**

**Live Nation Connects Superstar Artists and Fans**

Beverly Hills-based powerhouse, Live Nation Entertainment is 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.
**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?**

*Ticketmaster realized that reselling tickets on its site allows content owners, venues and other participants to benefit when tickets are resold for higher prices. Live Nation has its TicketsNow business, which focuses on the secondary market. Because there are profits in the secondary ticket market, Ticketmaster has employed an attitude of “if you can’t beat ‘em, join ‘em.” Although Live Nation and Ticketmaster have testified in the past about the evils of ticket scalping, and how it should be outlawed, the company has changed its stance by committing to and providing as many “fan-friendly” ticket options as possible.*

**2. Live Nation anticipates double-digit growth in the number of concert goers worldwide over the next several years. What factors could contribute to such a healthy increase in attendance?**

*The company claims its growth has been organic -- there have been no acquisitions, but an improved economy and the growth of EDM (Electronic Dance Music) have contributed. The company’s festival base is poised for growth.*

**Assessment Check Answers**

**3.1 What is an alternative term for *private enterprise system*?**  Capitalism *is an alternative term for private enterprise system.*

**3.2 What is the most basic freedom under the private enterprise system?**

*The most basic freedom is the right to private property*.

**3.3 What is an entrepreneur?**

*An entrepreneur is a risk taker who is willing to start, own, and operate a business*.

**Learning Objective 4:**

**Identify the seven eras in the history of business.**

*The seven historical areas are the Colonial period, the Industrial Revolution, the age of industrial entrepreneurs, the production era, the marketing era, and the relationship era. In the Colonial period, businesses were small and rural, emphasizing agricultural production. The Industrial Revolution brought factories and mass production to business. The age of industrial entrepreneurs built on the Industrial Revolution through an expansion in the number and size of firms. The production era focused on the growth of factory operations through assembly lines and other efficient internal processes. During and following the Great Depression, businesses concentrated on finding markets for their products through advertising and selling, giving rise to the marketing era. In the relationship era, businesspeople focus on developing and sustaining long-term relationships with customers and other businesses. Technology promotes innovation and communication, while alliances create a competitive advantage through partnerships. Concern for the environment also helps build strong relationships with customers. The social era of business is a new approach to the way businesses and individuals interact, using technology to connect, communicate, share, and exchange information with each other in virtual communities and networks around the world.*

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| ***SEVEN ERAS IN THE HISTORY OF BUSINESS***The six eras of U.S. business include the Colonial period, the Industrial Revolution, the age of industrial entrepreneurs, the production era, the marketing era, and the relationship era. | **PowerPoint Slide 11**Figure 1.3 Seven Eras in Business History |
| 1. **The Colonial Period**
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| * 1. The Colonial period focused on rural and agricultural production.
 | *Class Activity: Ask students to provide examples of people today who currently earn their income by the making of crafts or handmade items.*  |
| * + 1. The success or failure of crops influenced every aspect of the economy.
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| * + 1. Colonial towns were marketplaces for farmers and craftspeople.
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| * 1. Colonists depended on England for manufactured items and funding industries.
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| * 1. Even after the Revolution, British investors financed U.S. industries well into the 19th century.
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| 1. **The Industrial Revolution**
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| * 1. The Industrial Revolution marked a transformation into manufacturing, starting in England around 1750 and spreading to the United States by the mid-1800s.
 | *Class Activity: Lead a discussion to identify the oldest companies in the local area or state whose operations continue today.*  |
| * 1. In the past, specialized, skilled workers built products one by one.
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| * 1. Now a factory system mass-produced items using semiskilled workers.
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| * + 1. Factories profited from the savings of large-scale production, bolstered by machines.
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| * + 1. Raw materials were purchased cheaply.
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| * + 1. Specialization of labor led to faster and more efficient production.
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| * 1. U.S. business rapidly became industrialized.
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| * + 1. Agriculture became mechanized.
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| * + 1. Factories sprang up.
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| * + 1. A railroad system increased the pace of industry.
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| 1. **The Age of Industrial Entrepreneurs**
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| * 1. The age of industrial entrepreneurs led to new inventions and innovations, starting in the late 1800s.
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| * 1. Inventors created useful products and new production methods.
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| * + 1. Eli Whitney (interchangeable parts)
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| * + 1. Robert and Cyrus McCormick (farm machines)
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| * + 1. Cornelius Vanderbilt (railroads)
 |  |
| * + 1. J. P. Morgan (banking)
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| * + 1. Andrew Carnegie (steel)
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| c. This era raised the overall standard of living in the United States. |  |
| d. New prosperity increased demand for manufactured goods. |  |

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| 1. **The Production Era**
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| * 1. Demand for manufactured goods increased through the 1920s.
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| * + 1. Huge, labor-intensive factories dominated U.S. business growth.
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| * + 1. Work became increasingly specialized for each laborer.
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| * + 1. Managers focused on producing more goods at a faster pace.
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| * 1. The assembly line, introduced by Henry Ford, became commonplace.
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| * 1. Businesses focused on internal processes rather than external influences.
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| * + 1. Marketing was minimal, with a focus on producing and distributing goods.
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| * + 1. Little attention was paid to consumer wants or needs.
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| * + 1. Businesses decided what the market would get.
 | *Lecture Enhancer: Compare the options available to buyers of a Ford automobile today compared to the production era.* |
| 1. **The Marketing Era**
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| * 1. The marketing era, starting in the 1930s, shifted focus to customers’ wants and needs.
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| * 1. During the Great Depression, the focus shifted to marketing, selling, and advertising.
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| * 1. After World War II, demand for consumer goods exploded.
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| * + 1. Firms focused on *consumer orientation* as they determined what people wanted, then designed products to satisfy those needs.
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| * + 1. Consumer choices skyrocketed.
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| * + 1. Branding created an identity in consumers’ minds for a good, service, or company.
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|  iv. A brand is a name, term, sign, symbol, design, or some combination that identifies the products of one firm and differentiates them from competitors’ offerings. | *Lecture Enhancer: Give 3 examples of different brands of athletic shoes. How does each brand differentiate itself within the market?* |
| 1. **The Relationship Era**
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| * 1. *Transaction management* had dominated since the 1800s, as businesses concentrated on manufacturing products and then hoping customers would buy them.
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| * 1. The relationship erais the business era in which firms seek ways to build long-term customer loyalty by carefully managing every interaction.
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| * 1. Businesses earn enormous paybacks for nurturing customer loyalty.
 | *Class Activity: Inquire students about how many “frequent buyer” or loyalty cards they carry in their wallet.*  |
| * + 1. Expenses are cut because it costs less to keep loyal customers than to find new ones.
 |  |
| * + 1. Firms discover the needs and preferences of customers, which leads to improved competitive differentiation.
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| * 1. The relationship era is now based on connections between:
 | **Career Kickstart: Tips for Social Networking** |
| * + 1. businesses and customers
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| * + 1. employers and employees
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| * + 1. technology and manufacturing
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| * + 1. separate companies
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| 1. **The Social Era**
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| * 1. The social era of business is a new approach to the way businesses and individuals interact, using technology to connect, communicate, share, and exchange information with each other in virtual communities and networks around the world by using technology.
 | *Class Activity: Have students discuss the various social media tools used, and the benefits of each.*  |
| * 1. The social era is based on the premise that organizations create value through connections with groups or networks of people with similar goals and interests.
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| * 1. Social media tools and technologies include weblogs, blogs, podcasts, and microblogs (such as Twitter); social and professional networks (such as Facebook and LinkedIn); picture-sharing platforms (such as Instagram and Tumblr); and content communities (such as YouTube), to name a few.
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| * 1. Through the use of technology and relationship management tools, the social era creates businesses opportunities.
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| 1. **Strategic Alliances**
 | **PowerPoint Slide 12** |
| * 1. Strategic alliances are partnerships formed to create a competitive advantage for both firms.
 | *Lecture Enhancer: Companies create strategic alliances to share risk, costs, and knowledge. They also do so to create growth opportunities, to get to market quicker, to access markets, and to pool expertise and knowledge.*  |
| * 1. E-business has created a new type of strategic alliance.
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| * + 1. A firm that does business completely online connects with a traditional retailer.
 | *Lecture Enhancer: Using the example of the strategic alliance between Barnes and Noble and Starbucks, have students come up with a list of other strategic alliances.*  |
| * + 1. The experienced firm shares expertise in purchasing and distribution with a partner.
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| 1. **The Green Advantage**
 | **PowerPoint Slide 13** |
| a. Developing environmentally friendly products is a major force in business. | *Lecture Enhancer: Greenwashing is when a company or organization spends more time and advertising dollars with claims of being “green” than actually implementing business practices that minimize environmental impact*. |
| b.Energy is among a firm’s biggest costs, and carbon-based fuels such as coal add carbon dioxide to the atmosphere.  |  |

**Career Kickstart:**

**Tips for Social Networking**

Online social networking is an effective business strategy for building contacts in your chosen career field. Each site has a different vibe, and the internet’s informality can be tricky. While Facebook is known to be more informal, LinkedIn is a more professional networking tool. Regardless, as a businessperson, your profile on social networking sites should remain both friendly and professional. A few tips include: know the purpose of the social network you are choosing, be watchful of what you post, keep in mind the image you wish to present, keep your posts brief and not overly personal, posting interesting information about your profession or career will help build relationships.

**Assessment Check Answers**

**4.1 What was the Industrial Revolution?**

*The Industrial Revolution began around 1750 in England and moved business operations from an emphasis on independent, skilled workers to a factory system that mass-produced items.*

**4.2 During which era was the idea of branding developed?**

*The idea of branding began in the marketing era.*

**4.3 What is the difference between transaction management and management in the relationship era?**

*Transaction management focuses on building, promoting, and selling enough products to cover costs and earn profits. In the relationship era, businesses seek ways to actively nurture customer loyalty by carefully managing every interaction.*

**Learning Objective 5:**

**Explain how today business workforce and the nature of work itself is changing.**

*The workforce is changing in several significant ways: (1) it is aging and the labor pool is shrinking, and (2) it is becoming increasingly diverse. The nature of work has shifted toward services and a focus on information. More firms now rely on outsourcing, offshoring, and nearshoring to produce goods or fulfill services and functions that were previously handled in-house or in-country. In addition, today’s workplaces are becoming increasingly flexible, allowing employees to work from different locations and through different relationships. And companies are fostering innovation through teamwork and collaboration.*

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| ***TODAY’S BUSINESS WORKFORCE*** | **PowerPoint Slide 14** |
|  **1. Workforce** | **Going Green** Internet Billionaire’s Goal: Help China Breathe Easier |
| * 1. A skilled and knowledgeable employee base, or workforce, is essential.
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| * 1. It is the foundation of a firm’s competitive differentiation.
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| 1. **Changes in the Workforce**
 | **PowerPoint Slide 15***Lecture Enhancer: Create a list of some of the companies where employees most want to work. Are there specific industries which dominate the list?* |
| * 1. Challenges result from recent changes in the workforce.
 |  |
| b. These include aging of the population, a shrinking labor pool, diversity, the changing nature of work, the need for flexibility and mobility, and the use of collaboration to innovate. |  |
| 1. **Aging of the Population and Shrinking Labor Pool**
 | **PowerPoint Slide 16** |
| * 1. U.S. workers age 65 and older will double by 2030, to 72 million.
 | **PowerPoint Slide 17**Table 1.2: Aging of the Population |
| * 1. Generation X members (born from 1965 to 1981) and Generation Y (born from 1982 to 2005) are launching and building their careers.
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| i. Employers find more generations in the workforce simultaneously than ever before. | *Lecture Enhancer: What unique skills might each generation bring to the workplace?* |
| ii. The U.S. labor pool could fall short by 10 million people as Baby Boomers retire. |  |
| c. Technology demands workers with sophisticated skills. | *Lecture Enhancer: Using the Best Companies to Work For list, most of these companies are known for being “learning organizations” – which provide ongoing training and employee development.*  |
| i. The demand for college graduates is greater than the supply. |  |
| ii. Companies hire talent at the extreme ends of the working-age spectrum. |  |
| d. Employers must administer retirement planning and disability programs, retraining, and insurance benefits.  |  |
| **4. Increasingly Diverse Workforce** | **PowerPoint Slide 18** |
| * 1. Diversity in the workforce is growing, with Asian and Hispanic groups representing the fastest-growing populations in the United States.
 |  |
| * 1. Managers need to learn to work effectively with people of from various ethnic groups, cultures, and lifestyles.
 |  |
| * 1. Diversity means blending individuals of different genders, ethnic backgrounds, cultures, religions, ages, and physical and mental abilities to enhance a firm’s chances of success.
 |  |
| * 1. Diverse workforces perform tasks more effectively and develop better solutions to business problems than homogeneous employee groups.
 | *Lecture Enhancer: Why might diverse workforces offer more innovative solutions to business problems than homogeneous workforces?* |
| * 1. Practicing managers also know that attention to diversity can help them avoid damaging legal battles.

  | *Class Activity: Have students provide a list of examples of the benefits of their experiences working with people of different races, genders, and backgrounds.*  |
| **5. Outsourcing and the Changing Nature of Work** | **PowerPoint Slide 19** |
| * 1. The nature of work is shifting in today’s companies. Services over manufacturing, dominates most of the U.S. workload.
 | *Class Activity: Have students list specific services within each of the following industries: hospitality, entertainment, financial services, law, travel, and tourism.* |
| * + 1. The Internet has made outsourcing possible—using outside vendors to produce goods or fulfill services and functions that were previously handled in-house or in-country.
 |  |
| * 1. Outsourcing reduces costs while gaining access to expertise.
 |  |
| * 1. Offshoring is the relocation of businesses overseas in order to lower costs.
 |  |
| * + 1. China is dominant for production offshoring, whereas India is important for offshoring services.
 | *Lecture Enhancer:Ask students about a recent experience with technical support or support of any kind over the phone. Were they able to determine anything about the company’s approach to outsourcing and its use of call centers?* |
| * + 1. Some firms create entire functions overseas, so offshore jobs are never in the United States.
 |  |
| * 1. Nearshoring outsources production or services to locations near a firm’s home base.
 | *Class Activity: Have students list the benefit of goods, products and services which are still produced in the U.S.A.*  |
| **6. Flexibility and Mobility**  | **PowerPoint Slide 20** |
| a. Workers explore arrangements such as telecommuting and job sharing. | *Class Activity: Survey the class to see how many students work on a flexible or part-time basis.* |

|  |  |
| --- | --- |
|  b. Employers hire more temporary and part-time employees. |  |
| c. Networking and virtual teams allow people to work across the globe and share knowledge and ideas. |  |
| d. Managers and employees need to be flexible and responsive to change. |  |
| **7. Innovation through Collaboration**   | **PowerPoint Slide 21** |
|  a. Businesses use teamwork in a creative environment where members solve problems or seize opportunities.  | *Lecture Enhancer: Most of the companies on the Best Companies to Work For list, are known for being “learning organizations” – those providing ongoing training and employee development. Naturally, it is companies like these that hire the brightest and the best.*  |
|  b. Employees no longer remain with a single company throughout their careers. |  |
|  c. Firms value a partnership with employees that encourage creativity and rewards risk taking and innovation. |  |

**Going Green**

**Internet Billionaire’s Goal: Help China Breathe Easier**

Less than two decades ago, Jack Ma founded Alibaba in his Hangzhou apartment. Alibaba Group includes an online payment system, Alipay, and two e-commerce sites, Tmall and Taobao. The company has been described as the Chinese version of eBay, Amazon, and PayPal. Its most recent sales exceed the combined sales of eBay and Amazon. The Financial Times recently named Ma its Person of the Year, referring to him as the “godfather of China’s scrappy entrepreneurial spirit.”

Ma, in his late forties, commands a cult-like following among the younger

Chinese generation and is the face of China’s new age of entrepreneurs. **Questions for Critical Thinking**

1. **How can Ma enlist other business owners to get involved in his environmental causes?**

*It may be difficult because of the fact that many Chinese business owners have made their fortunes in the shadows of a socialist country, and they’re less likely to become public (think: Bill Gates and Warren Buffet) about their wealth. Having said that, the creation of Ma’s philanthropic trusts should, as he says, “wake people up.”As private philanthropy begins to take off in China, hopefully others can see Ma as someone who leads by example.*

1. **What are some of the issues that can arise in a country experiencing substantial economic prosperity among segments of its population?** *Economic prosperity among segments of a population can be known to create economic divides – the same which exist in the United States as middle income earners shrink, and the gap widens between the very rich and the very poor.*

**Assessment Check Answers**

**5.1 Define *outsourcing*, *offshoring*, and *nearshoring*.**

*Outsourcing involves the use of outside vendors to produce goods or fulfill services and functions that were once handled in-house or in-country. Offshoring is the relocation of business processes to lower-cost locations overseas. Nearshoring is the outsourcing of production or services to locations near a firm’s home base*.

**5.2 Describe the importance of collaboration and employee partnership.**

*Businesses are increasingly focused on collaboration rather than on individuals working alone. No longer do employees just put in their time at a job they hold their entire career. The new employer-employee partnership encourages teamwork, creative thinking, and problem solving.*

**Learning Objective 6:**

**Identify the skills and attributes needed for the 21st-century manager.**

*Today’s managers need vision—the ability to perceive marketplace needs and the way their firm can satisfy them. Critical-thinking skills and creativity allow managers to pinpoint problems and opportunities and plan novel solutions. Finally, managers are dealing with rapid change, and they need skills to help lead their organizations through shifts in external and internal conditions.*

|  |  |
| --- | --- |
| ***THE 21st-CENTURY MANAGER*** | **PowerPoint Slide 22** |
| * 1. Today’s companies need intelligent, motivated managers who can create and sustain a vision of success for the organization.
 | *Lecture Enhancer: Netflix and Amazon are two companies able to perceive marketplace needs and satisfy customers.*  |
| * 1. Managers need to apply critical thinking and creativity to challenges and lead change.
 |  |
| 1. **Importance of Vision**
 |  |

|  |  |
| --- | --- |
| Vision is the ability to perceive market needs and understand what a firm can do to satisfy them. |  |
| 1. **Importance of Critical Thinking and Creativity**
 | **Hit & Miss:** Twitter’s Dorsey: 140 Characters at a Time |
| * 1. Critical thinking is the ability to analyze and assess information to pinpoint problems or opportunities.
 |  |
| * + 1. It includes determining the authenticity, accuracy, and worth of information, knowledge, and arguments.
 | *Class Activity: Have students come up ways which enhance their creative thinking.*  |
| * + 1. It involves looking beneath the surface for deeper meanings and connections.
 |  |
| * 1. Creativity is the capacity to develop novel solutions to perceived problems.
 | *Class Activity: Lead a class “brainstorming” discussion asking students for a name for a new oil and lubrication business that will also sell coffee and snacks while customers wait in a comfortable lounge area.* |
| * + 1. It involves seeing different and better ways of doing things.
 |  |
|  ii. Creativity must lead to action. |  |
| **4. Ability to Lead Change** |  |
|  a. Managers must be able to lead business through changes driven by technology, marketplace demands, and global competition. |  |
|  b. Managers must recognize employee strengths and motivate workers toward common goals. |  |
| * 1. Change comes from both external and internal forces.
 |  |
| * + 1. External forces include customer feedback, international developments, economic trends, and new technologies.
 | *Lecture Enhancer: Have students discuss Uber and Lyft, two ridesharing companies who have used technology to respond to change.*  |
| * + 1. Internal forces include new goals, employee needs, labor union demands, or production problems.
 |  |

 **Hit & Miss**

**Twitter’s Dorsey: 140 Characters at a Time**Twitter began as an interoffice microblogging platform created by programmers from a defunct company started by Jack Dorsey. When a small earthquake shook San Francisco, word of the quake spread quickly via Twitter—and a new company was born. Square, Dorsey’s most recent business venture, allows credit card payments to be made to individuals and businesses by attaching a small device to a smart phone or tablet. Dorsey is guided by three principles--simplicity, constraint, and craftsmanship--still very much part of Twitter’s culture today.

**Questions for Critical Thinking**

**1. How can businesses apply Dorsey’s three guiding principles to create a strategic vision?***Dorsey believes in restraint, which is symbolic of the limitation of 140 characters. Businesses applying Dorsey’s three guiding principles to create a strategic vision should be purposeful, courageous, understanding of customers’ needs, kind, open and honest (especially when it comes to failure).*

**2. What lessons can be learned from Jack Dorsey about perseverance, technology, and starting a business?** *Some of Dorsey’s lessons include:*

*“Play, wait for your big idea’s time to come, be the unexpected, career paths aren’t always in straight lines, look for inspiration in everyday life, embrace routine, don’t be a jerk, achieve perfection through simplicity.” These lessons translate to being kind and patient.*

**Assessment Check Answers**

**6.1 Why is vision an important managerial quality?**

*To thrive in the 21st century, managers need vision, the ability to perceive marketplace needs and to determine what an organization must do to satisfy those needs.*

**6.2 What is the difference between creativity and critical thinking?**

*Creativity is the capacity to develop novel solutions to perceived organizational problems. Critical thinking is the ability to analyze and assess information to pinpoint problems or opportunities*.

**Learning Objective 7:**

**Outline the characteristics that make a company admired.**

*A company is usually admired for its solid profits, stable growth, a safe and challenging work environment, high-quality goods and services, and business ethics and social responsibility.*

|  |  |
| --- | --- |
| ***WHAT MAKES A COMPANY ADMIRED?*** | **PowerPoint Slide 23** |
| Every year, publications and organizations release lists of companies that are most admired. | Table 1.3: *FORTUNE’S* Top Ten Most Admired Companies |
| 1. Factors that make a company admired include solid profits, stable growth, a safe and challenging work environment, high-quality goods and services, and business ethics and social responsibility.
 | *Lecture Enhancer: What other criteria would you include on the list?*  |
| 1. Business ethics refers to standards of conduct and moral values involving decisions made in the workplace.
 | *Class Activity:Is there a trend in the types of industries represented in the World’s Most Admired Companies?* |
| 1. Social responsibility refers to a management philosophy that includes:
 | **Solving an Ethical Controversy:****Can Fair Trade Be Ethical and Flexible?**  |
| * 1. contributing resources to the community
 |  |
| * 1. preserving the natural environment
 |  |
| * 1. developing or participating in nonprofit programs that benefit the general public.
 |  |

**Solving an Ethical Controversy: Can Fair Trade Be Ethical and Flexible?**

Fair Trade USA (FTUSA), the U.S. national fair trade organization, recently rocked the $6 billion fair trade world by splitting from the parent organization, the Fairtrade Labeling Organization (FLO). FTUSA will now set its own ethical standards, certifying coffee, cocoa, and fruit from large plantations employing seasonal workers, as well as from the small, FLO-approved cooperative farms practicing democratic

management and ethical treatment of employees. Some fear the split will undermine the fair trade movement. Can fair trade practices extend to larger producers that don’t fit the model of small-farm, participative management?

**Assessment Check Answers**

**7.1 Identify three criteria used to judge whether a company might be considered admirable.**

*Criteria in judging whether companies are admirable include any three of the following: solid profits, stable growth, a safe and challenging work environment, high-quality goods and services, and the demonstration of business ethics and social responsibility*.

**7.2 Define *business ethics* and *social responsibility*.**

*Business ethics refers to the standards of conduct and moral values involving decisions made in the work environment.*

*Social responsibility is a management philosophy that includes contributing resources to the community, preserving the natural environment, and developing or participating in nonprofit programs designed to promote the well-being of the general public*.

**Answers to Review Questions**

**1. Why is business so important to a country’s economy?**

*Business provides the bulk of employment opportunities, as well as the products and services that people need. Business drives the economic pulse of a nation.*

**2. What challenges faced by not-for-profit organizations are similar to those faces by profit-seeking businesses? What unique challenges do not-for-profits face?**

*Although not-for-profit organizations have goals other than generating profits, managers of not-for-profit organizations face many of the same challenges as executives of profit-seeking businesses. Without initial funding, they cannot do research, obtain raw materials, or provide services.*

 *Not-for-profits face many of the same challenges as profit-seeking businesses. Without operating capital, they cannot do research, obtain raw materials, or provide services. For capital, they rely on donations from private sources and government sources. When the economy sees a downturn, donations may decrease.*

**3. Identify and describe the four basic inputs that make up factors of production. Give an example of each factor of production that an auto manufacturer might use.**

*The four basic inputs are natural resources (steel and other raw materials needed to make a car), capital (factories, technology), human resources (management, factory workers), and entrepreneurship (company founder).*

**4. What is a private enterprise system?What four rights are critical to the operation of capitalism? Why would capitalism function poorly in a society that does not ensure these rights for its citizens?**

*A private enterprise system is an economic system that rewards firms for their ability to perceive and serve the needs and demands of consumers. It minimizes government interference in economic activity.*

 *The rights include rights to private property, profits, freedom of choice, and competition.*

*A business would not be able to earn a profit, and individuals would have fewer choices for employment, purchases, and investments.*

**5. Describe how entrepreneurship enhances innovation for the private enterprise system.**

*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 that are new and uncrowded with competitors, making new products available to businesses and consumers. Because small companies are more flexible, they can make changes to products and processes more quickly than larger corporations. Entrepreneurs often find new ways to use natural resources, technology, and other factors of production. Often, they do this because they have to—they may not have enough money to build an expensive prototype or launch a nationwide ad campaign.*

**6. Identify the seven eras of business in the United States. How did business change during each era?**

*The six eras of business in the United States are the Colonial period, the Industrial Revolution, the age of industrial entrepreneurs, the production era, the marketing era, and the relationship era. The Colonial period was primarily agricultural, so the economic focus was on rural areas. Manufactured items came from England. The Industrial Revolution was the beginning of mass production by semiskilled workers using machines. Factories were built in cities and railroads were constructed to move goods. The age of industrial entrepreneurs saw advances in technology and increased demand for manufactured goods, leading to entrepreneurial opportunities. The production era emphasized producing more goods faster, leading to production innovations. The marketing era resulted when businesses found they could no longer automatically sell everything they produced. Competition demanded a new consumer orientation. In the relationship era, businesses take a longer-term approach to customer management. They benefit from nurturing relationships with customers, employees, suppliers, and other businesses. The social era of business is a new approach to the way businesses and individuals interact, using technology to connect, communicate, share, and exchange information with each other in virtual communities and networks around the world.*

**7. Describe the focus of the most recent era of U.S. business. How is this different from previous eras?**

*The relationship era requires better communication between businesses and customers and employees, and better connections between technology and manufacturing.* *The focus is on the long-term relationships a business has with various entities, instead of the past product focus.*

**8. Define *partnership* and *strategic alliance.* Provide an example of two businesses that might form a strategic alliance and briefly describe how this would benefit each business.**

*A partnership is an affiliation of two or more companies that help each other achieve common goals. One such form of partnership is a strategic alliance, a partnership formed to create a competitive advantage for the businesses involved.* *An example of two businesses that could form a strategic alliance is a local deli and a farmer’s market. The deli could use all natural, local produce in their sandwiches and inform customers that that’s where their ingredients came from, while the farmer’s market could sell things like baked goods and other snacks that the deli staff prepared to promote both their natural, local ingredients and the deli’s cooking/baking expertise.*

**9. Identify the major changes in the workforce that will affect the way managers build a world-class workforce in the 21st century. Why is brainpower so important?**

*An aging population, a shrinking labor pool, the growing diversity of the workforce, and the new employer-employee relationships will challenge managers. Managers will need creativity* *and vision to stay on top of rapidly changing technology and to manage the complex relationships in the global business world of the 21st century.* *The brainpower of the employees plays a vital role in the firm’s ability to stay on top of new technologies and innovations. A first-class workforce can be the foundation of a firm’s competitive differentiation, providing important advantages over competing businesses.*

**10. Identify four qualities that managers of the 21st century must have. Why are these qualities important in a competitive business environment?**

*Managers need vision, critical thinking, creativity, and the ability to steer change. Vision gives businesspeople the ability to perceive marketplace needs and determine what an organization must do to satisfy them. Critical thinking and creativity enable businesspeople to look at a wide variety of situations, draw connections between disparate information, and develop future-oriented solutions. Business owners must be able to guide their employees and organizations through the changes brought about by technology, marketplace demands, and global competition.*

Projects and Teamwork Applications

1. The entrepreneurial spirit fuels growth in the U.S. economy. Choose a company that interests you—one you have worked for or dealt with as a customer—and read about the company in the library or visit its Web site. Learn what you can about the company’s early history: Who founded it and why? Is the founder still with the organization? Do you think the founder’s original vision is still embraced by the company? If not, how has the vision changed?
2. Brands distinguish one company’s goods or services from those of its competitors. Each company you purchase from hopes that you will become loyal to its brand. Some well-known brands are Taco Bell, Pepsi, Marriott, and Gap. Choose a type of good or service you use regularly and identify the major brands associated with it. Are you loyal to a particular brand? Why or why not?
3. More and more businesses are forming strategic alliances to become more competitive. Sometimes, businesses pair up with not-for-profit organizations in a relationship that is beneficial to both. Choose a company whose goods or services interest you, such as REI, FedEx, Kashi, or Sam’s Club. On your own or with a classmate, research the firm on the Internet to learn about its alliances with not-for-profit organizations. Then describe one of the alliances, including goals and benefits to both parties. Create a presentation for your class.
4. This chapter describes how the nature of the workforce is changing: the population is aging, the labor pool is shrinking, the workforce is becoming more diverse, the nature of work is changing, the workplace is becoming more flexible and mobile, and employers are fostering innovation and collaboration among their employees. Form teams of two to three students. Select a company and research how that company is responding to changes in the workforce. When you have completed your research, be prepared to present it to your class. Choose one of the following companies or select your own: Allstate, Cargill, Staples, or Microsoft.
5. Many successful companies today use technology to help them improve their relationship management. Suppose a major supermarket chain’s management team asked you to assess its use of technology for this purpose. On your own or with a classmate, visit one or two local supermarkets and also explore their corporate websites. Note the ways in which firms in this industry already use technology to connect with their customers, and list at least three ideas for new ways or improvements to existing ones. Present your findings to the class as if they were the management team.

Web Assignments

*Note:* Internet Web addresses change frequently. If you do not find the exact sites listed, you may need to access the organization’s home page and search from there or use a search engine.

1. **Using search engines.** Gathering information is one of the most popular applications of the Web. Using two of the major search engines, such as Google and Bing, search the Web for information pertaining to brand and relationship management. Sort through your results—you are likely to gets thousands of “hits”—and identify the three most useful. What did you learn from this experience regarding the use of a search engine?
<http://www.google.com>
<http://bing.com>
2. **Companies and not-for-profits.** In addition to companies, virtually all not-for-profit organizations have Web sites. Four Web sites are listed below, two for companies (Alcoa and Sony) and two for not-for-profits (Cleveland Clinic and National Audubon Society). What is the purpose of each Web site? What type of information is available? How are the sites similar? How are they different?
<http://www.aloca.com>
<http://www.sony.com>
<http://www.mayoclinic.org>
<http://www.audubon.org>
3. **Characteristics of U.S. workforce.** Visit the Web site listed below. It is the home page for the *Statistical Abstract of the United States*. Published annually by the U.S. Census Bureau, the *Statistical Abstract* is a good source of basic demographic and economic data. Click on “Labor Force, Employment, and Earnings.” Use the relevant data tables to prepare a brief profile of the U.S. workforce (gender, age, educational level, and so forth). How is this profile expected to change during the next 10 years?
http://www.bls.gov

**Case 1.1**

**Mars, Inc.: A Sweet Place to Work**

Stricken with polio as a child, Frank C. Mars learned the art of hand dipping chocolate in his mother’s kitchen. Today, the company’s brands include its iconic M&s, LifeSavers, Skittles, and Juicy Fruit and Orbit chewing gum. Mars recently made it on to Fortune’s roster of 100 Best Companies to Work For. In its fourth generation of leadership, the privately held company, which boasts 5 percent annual turnover, is known for its internal advancement and reward opportunities. They develop and encourage cross-division talent and expect employees to follow their five guiding principles of quality, responsibility, mutuality, efficiency, and freedom.

**Answers to Questions for Critical Thinking**

**1. Explain how tying employee compensation to company financial results helps keep Mars’s employee turnover rate low.**

*Tying employee compensation to company financial results allows employees to be given goals which match revenue targets. In addition, ongoing employee evaluations against company goals are proven to produce better results. When employees are aware of the impact of their work on the company’s results, improvements can be made. It also creates better transparency.*

**2. Known for its secrecy to the outside world, how can Mars leverage its “Best Company” award to attract new employees and customers?**

*Many employees in job search mode may conduct research by looking at the criteria used to determine what makes a company a “Best Company.” Compelling to a prospective employee may be, in addition to a fun place to work, the internal advancement and reward opportunities offered by Mars. Mars may also want to include the award information on its recruiting information or on the careers page of its website.*

**Case 1.2**

**Nordstrom Rides High***Despite its aversion to price markdowns, high-end clothing retailer, Nordstrom, continues to grow. Still family-run, Nordstrom has high expectations for its burgeoning online operations and has begun expanding overseas, but cautiously, to nearby Canada. The best known differentiators of the Nordstrom chain happen to be its commitment to outstanding customer service, which some say the company practically invented.*

**Answers to Questions for Critical Thinking**

1. **How does Nordstrom differentiate itself from other clothing retailers?**

*Nordstrom is devoted to outstanding customer service, which is proven to be successful through positive customer feedback surveys and the company’s ability to stay afloat during the economic recession while competitors like Macy’s and Gap struggled. They have recently revamped their inventory system, allowing retail associates to quickly locate items that customers are looking for.*

1. **What makes Nordstrom salespeople stay with the company?**

*With excellent training programs, Nordstrom has a tradition of promoting from within. Sales associates who exhibit superb customer service skills are also rewarded with generous pay.*

**Case 1.3**

**New Harvest Coffee Roasters Brews Up Fresh Business***A self-proclaimed coffee fanatic, Rik Kleinfeldt, president of New Harvest Coffee Roasters, dwells on the aroma and flavor of coffee. Kleinfeldt started New Harvest Coffee Roasters over a dozen years ago in an effort to pay homage to fresh coffee. The movement toward locally grown or produced foods has been a big help in establishing and building support for his business. Strategic alliances with wholesalers and numerous other companies is the basis for New Harvest’s growth as a business.*

**Answers to Questions for Critical Thinking**

**1. Give examples of each of the four factors of production that New Harvest must rely on to be a successful operation. How does each contribute to the firm’s success?**

* *Natural resources: New Harvest Coffee is brewed from coffee beans that are grown in Costa Rica, and the company’s own Rhode Island facility roasts them. This draws customers who are committed to the idea of supporting and buying locally produced goods.*
* *Capital: Kleinfeldt uses technology, like New Harvest Coffee’s Facebook page, to connect to customers by documents his trips that help him discovery the success to growing and roasting coffee beans. Capital also includes physical locations. Kleinfeldt has the coffee beans roasted at a company site.*
* *Human resources: New Harvest Coffee partners with Blue State Coffee in order to gain local support from customers who believe in the value of supporting local business.*
* *Entrepreneurship: Kleinfeldt is an entrepreneur, as he had a vision of bringing coffee shops back to the art of drinking freshly brewed coffee, and he was willing to take a risk and following this vision to start a business.*

**2. Visit New Harvest’s Facebook page. Note specific examples of the ways in which the firm is using social media to manage its relationships.**

*New Harvest’s Facebook page has several status updates that promote fellow local businesses they support. For example, they mention any community events they will be attending, and what products other vendors will have to offer. The company’s status updates also document pictures and notes regarding trips to Costa Rica, which draws customer interest as it shows their dedication to using fresh natural resources.*

**3. Rik Kleinfeldt notes the importance of strategic alliances with firms like Blue State Coffee. Describe how you think New Harvest benefits from alliances with not-for-profit organizations such as Rainforest Alliance, New England GreenStart, and Rhode Island PBS.**

*By forming a strategic alliance, New Harvest Coffee and the other organizations can support each other. Customers appreciate hearing the story behind the coffee product at New Harvest Coffee, while the not-for-profit organizations can gain local support, and in return, possible funding donations that will help sustain their projects.*

**4. New Harvest builds much of its reputation on its efforts toward environmental sustainability. How does this reputation affect its relationship with consumers?**

*It is a growing trend for customers to prefer knowing where their products originated and that their purchase is supporting the environment. Customers also appreciate doing business with places like New Harvest that guarantee freshness and organic products that are not only of better quality, but also more healthy.*

**Collaborative Learning Exercises**

## 1 - Business as a Career

**Learning Objective:** 1

**Purpose:** To help students connect their own interests and desires with the class material, and to allow them to relate to each other on a personal level.

**Background:** Introductory business students come from a wide range of backgrounds, some with focused goals and broad experience, and others with little interest and even less knowledge. This exercise is designed to help them understand how business can be personally relevant from a career standpoint.

**Relationship to Text:** Business and Not-for-Profit Organizations – Learning Objective 1

**Estimated Class Time:** Approximately 20 minutes

**Preparation/Materials:** Paper and pen/pencil

**Exercise:** Divide your class into groups of three to five students.

Direct students to write their names on their papers and jot down three things that they love to do. Encourage them to be honest, while keeping it clean (listening to music, for example, is perfectly fine).

Ask them to pass their papers to another student in their group.

This is the creative part: Ask students to choose one of the passions on the list they received and to write down five business careers—both for-profit ventures and not-for-profit ideas that could relate to that area of interest. (For example, hanging out with friends and going to parties could translate into a career in event-planning; taking care of your dogs and cats could mean a career with a not-for-profit veterinary association or humane society.)

Return papers to original students and allow a moment or two for the groups to read their papers and discuss among themselves.

Reconvene to discuss as a class. Possible topics:

* Were there any surprises? (Typically, there are several.)
* Ask for sample passions. Brainstorm additional career possibilities for each.
* Ask for volunteers to share their passion and related career option.

# **2 – The Green Advantage**

**Learning Objective:** 4

**Purpose:** To understand the emphasis in our society for companies to be more environmentally aware and more environmentally friendly with regard to their products and/or production processes.

**Background:** The factors of production consist of natural resources, capital, human resources entrepreneurship, and according to some experts, knowledge. Through the factors of production, the creation of wealth occurs.

**Relationship to Text:** The Green Advantage – Learning Objective 2

**Estimated Class Time:** Less than 10 minutes

**Preparation/Materials:** None needed

**Exercise:** Can you name ten business opportunities or business types that are the result of green initiatives? Compare and contrast answers between groups to determine the number of unique answers found. A few might include: solar panels, hybrid and electric automobiles, green cleaning products, and so on.

# **3 – The Entrepreneurship Alternative**

**Learning Objective:** 3

**Purpose:** To brainstorm about the qualities of successful entrepreneurs.

**Background:** More and more business students are interested in starting their own companies. This quick discussion exercise is designed to tap into that interest and to encourage potential entrepreneurs to develop the qualities that would facilitate their success.

**Relationship to Text:** The Entrepreneurship Alternative – Learning Objectives 3 and 6

**Estimated Class Time:** Less than 10 minutes

**Preparation/Materials:** None needed

**Exercise:** The following Winston Churchill quotation is clearly relevant to aspiring entrepreneurs:

*“I am certainly not one of those who need to be prodded. In fact, if anything, I am the prod.”*

Simply sharing this quotation usually sparks discussion, but if not, here are some questions to stimulate thinking:

What did Winston Churchill mean by these words?

* How many of you consider yourselves the “prod”?
* Is it possible—or even desirable—to learn to become the “prod”?
* How does this relate to starting your own business?
* How could it help? How could it hurt?

**4 - History of Business**

**Learning Objective:** 4

**Purpose:** To encourage critical thinking about the evolution of business in the United States, and its continued change.

**Background:** The rise of business clearly led the United States to its powerhouse economic status. Although each era has fueled prosperity for many, some have paid a significant price. Students seem to appreciate the opportunity to identify which group has paid the price for change and growth within the overall economy.

**Relationship to Text:** Seven Eras in the History of Business – Learning Objective 4

**Estimated Class Time:** Approximately 10 minutes

**Preparation/Materials:** None needed

**Exercise:** As you review each of the seven eras, ask students to identify the potential downside of each stage in the evolution of U.S. business. (Afterwards, ask if they can think of current businesses that may show traces of these periods or similarities in philosophy as to their management style, treatment of employees, and methods of operation.) Possibilities include:

Colonial period: Business was limited to those who could produce crops or manage a skilled trade, and goods needed to be hauled to the cities to be sold.

Industrial Revolution: Mass movement to cities led to major health issues for people accustomed to the fresh food and regular exercise associated with agrarian life.

Age of Industrial Entrepreneurs: Although this period created enormous wealth, significant problems began to fester: unsafe working conditions, child labor, violent union-busting, and environmental degradation.

Production era: Highly specialized manual labor—especially with the emergence of the assembly line—led to the standardization of mind-numbing jobs, still in existence today.

Marketing era: As businesses aimed to provide the best consumer value, overseas sweatshops began to emerge as a significant problem for several high-profile brands (e.g., Nike).

Relationship era: Small businesses may not be able to secure the attention that they need to grow from their business partners.

Social era: a new approach to the way businesses and individuals interact, connect, communicate, share, and exchange information with each other in virtual communities and networks around the world.

Other discussion possibilities:

* How did one era lead to the next?
* What is the next step in the evolution of business?

**5 - The Best Companies to Work For**

**Learning Objectives:** 5 and 7

**Purpose:** To highlight the need for businesses to develop and sustain a world-class workforce.

**Background:** As today’s’ employers recognize that their workforce can provide a significant competitive advantage, many are taking proactive steps to nurture their employees.

##### This discussion exercise is designed to highlight those companies—both as potential employers and as examples for aspiring entrepreneurs. A secondary goal is to underscore the importance of creating positions that employees find personally meaningful.

**Relationship to Text:** What Makes a Company Admired – Learning Objectives 5 and 7

**Estimated Class Time:** Approximately 10 minutes

**Preparation/Materials:** None needed

**Exercise:** Every year, *Fortune* magazine compiles a list of the top 100 companies to work for. In 2014, this list included the following companies that would probably be familiar to most students:

1. Google
2. SAS
3. The Boston Consulting Group
4. Edward Jones
5. Quicken Loans
6. Genentech
7. Salesforce.com
8. Intuit
9. Robert W. Baird & Co.
10. DPR Construction

Discussion questions could include:

* Did any of these companies come immediately to mind when you read the words, “top 100 companies”?
* Did any surprise you?
* What are some of the attributes that make a company “good to work for”?
* Why should a company strive to satisfy its employees?
* All of these firms have built top-quality, high-profile brands. What else do they seem to have in common?

Ask students to cite positive and negative examples from their own experience. Is a small or large company more likely to be “good to work for”? Why?

Compare these firms to those listed in Table 1.3, *Fortune’*s Top Ten Most Admired Companies. What is the difference between being “good to work for” and “most admired”?

*Source:* “100 Best Companies to Work For 2014,” *FORTUNE*, February 8, 2014, <http://fortune.com>, accessed July 8, 2014.

**6 – Factors of Production**

**Learning Objective:** 2

**Purpose:** To stimulate ideas and discussion about why some countries have enjoyed great wealth and economic growth, whereas others have struggled or have great societal poverty.

**Background:** This activity is designed to enable students to better understand the connection between the four factors of production and the economic success of a society and country.

The **four factors of production** refer to the four basic inputs: *natural resources, capital, human resources,* and *entrepreneurship.*

Note: This exercise is best performed in a room or computer lab in which students have access to computer and Internet use.

In the event this is not feasible, then the instructor should:

1. Provide “printouts” for each assigned country for students to review and discuss.
2. Alternatively, teams can be assigned “homework” to conduct their own research then have the team discussion the following class meeting.

**Relationship to Text:** Factors of Production – Learning Objective 2

**Estimated Class Time:** This activity requires a presentation by each team for an estimated time of 15 minutes per team, so total class time will vary by class size.

**Preparation/Materials:** Web sites as noted

**Exercise:** Assign students to pairs or teams. Assign each pair/team a country (a country other than the United States is recommended so that students will need to learn how to analyze new information and develop their research skills).

Note: The exercise is more provocative for discussion if a mix of more successful growing economies and poorer countries is assigned to the class. Assignments might include one or more of the fast growing “BRIC” (Brazil, Russia, India, and China) countries, as well as struggling countries (such as Liberia, Guatemala, Somalia, Afghanistan, Palestine, etc.).

Share the following guidelines for this exercise:

Students should refer to two Web sites for their research.

The first is the *Central Intelligence Agency (CIA) World Factbook*, a comprehensive resource containing a wide variety of information on every country in the world:

<https://www.cia.gov/library/publications/the-world-factbook/>

The second resource students can use is *NationMaster.com,* which provides a wealth of statistics and information (including rankings) on countries, gleaned from many varying databases:

<http://www.nationmaster.com/index.php>

Each team should research the factors of production in the assigned country.

Examine areas such as infrastructure, size of the population, education levels, types of crops and agriculture, and other natural resources, etc. What conclusions can they draw from their research? Each team can present its findings.

The instructor should provide incentives to make this a lively exercise. Perhaps each team member of the winning team concept receives three bonus points for the best concept and another three bonus points is awarded for the best and most creative name. It should be possible for the same team to “win” both the concept and name bonuses. This activity generates lively discussion and student involvement.