Chapter 1

The Framework of Contemporary Business

Learning Goals

1. Distinguish between business and not-for-profit organizations.
2. Identify and describe the factors of production.
3. Describe the private enterprise system.
4. Identify the six eras of business and explain the relationship era.
5. Explain how today’s business workforce is changing.
6. Describe how the nature of work is changing.
7. Identify skills and attributes of 21st-century managers.
8. Outline the characteristics that make a company admired.
WHAT IS BUSINESS?

Business

Profit

Not-for-Profit Organizations

- Businesslike establishments that have primary objectives other than returning profits to owners.

- Examples: Ohio State’s athletics departments, U.S. Postal Service, American Heart Association

- Face many of the same challenges as for-profit organizations.
Factors of Production

Four basic inputs an economic system requires:

Natural Resources

Capital

Human Resources

Entrepreneurship
THE PRIVATE ENTERPRISE SYSTEM

Private Enterprise System  An economic system that rewards firms for their ability to see and meet the needs and demands of consumers. Also called capitalism.

Competition  Battle among businesses for customer acceptance; Adam Smith’s “invisible hand” that requires firms to engage in competitive differentiation to set themselves apart from competitors.

• To succeed, firms must adjust to market changes and competitors’ actions
• Example: Kellogg’s adaptations to consumers’ preference for healthier cereal help it succeed in its battle against General Mills for the breakfast cereal market.
Basic Rights in the Private Enterprise System
Entrepreneur A risk taker in the private enterprise system. Also called capitalism.

Entrepreneurship fuels the growth of the U.S. economy:

- One in every seven firms in the United States began operations in the last year.
- Of the 20 million U.S. businesses currently in operation, 15 million are self-employed people without any employees.
- Nearly 12 million U.S. employees currently work for a business with fewer than ten employees.
- Small companies tend to be more flexible and innovative in their use of the factors of production.
- Large firms adopt entrepreneurial approaches to enhance flexibility, improve innovation, and open new market opportunities.
SIX ERAS IN THE HISTORY OF U.S. BUSINESS

The Colonial Period (pre-1776)

• Emphasized rural and agricultural production.
• Colonists depended on England for finished products and financial backing.

The Industrial Revolution (1760-1850)

• Move from one-by-one production of goods by skilled laborers to factory systems and mass production.
• Factories profited from savings realized through large-scale production.
The Age of Industrial Entrepreneurs (late 1800s)

- Inventors created an endless array of commercially useful products and new production methods.
  - Eli Whitney introduced concept of interchangeable parts.
  - Robert McCormick introduced horse-drawn reaper than reduced the labor involved in harvesting wheat.
  - Vanderbilt (railroads), Morgan (banking), and Carnegie (steel) started new businesses and reaped great benefits.

The Production Era (through the 1920s)

- Emphasis on efficient production of goods through huge, labor-saving factories.
- Focus on internal processes rather than external influences, e.g., Henry Ford’s assembly lines.
The Marketing Era (since 1950s)

• Drop in income during Great Depression focused businesses on marketing goods and services through sales and advertising.

• Development of consumer orientation, a marketing approach that focuses on determining what consumers want and need and developing products to satisfy those needs

• Businesses increasingly distinguished their products from competitors’ through branding, e.g., the McDonald’s “golden arches.”
The Relationship Era (began in 1990s)

- Businesses take a long-term approach to interactions with customers to build loyalty and improve customer retention.
Managing Relationships through Technology

Relationship Management Collection of activities that build and maintain ongoing, mutually beneficial ties with customers and other parties.

• Involves gathering knowledge of customer needs and preferences and applying this understanding.

• Many of these activities are based on technology, the business application of knowledge based on scientific discoveries, inventions, and innovations.

• Communication with customers often aided by technology, particularly the Internet, e.g., Stonyfield Farm’s use of blogs to reinforce customer relationships.

  • Bovine Bugle
Strategic Alliances and Partnerships

• Businesses affiliate with each other through **partnerships** to take advantage of new opportunities.

• Firms form a **strategic alliance** to create a competitive advantage.

• Example: A partnership between an online company such as **eBay** and traditional retailers such as Bloomingdale’s, Home Depot, and Motorola.
  • Traditional retailers contribute expertise in buying and distribution.
  • Online company sells outdated or excess merchandise.
  • Everyone wins: Customers get good prices, retailers get better return on their dollar, and eBay gets a cut of sales.

• Example: Pepsi and Apple partnering in short-term promotion of Pepsi’s soft drinks and Apple’s iTunes Music Store.
TODAY’S BUSINESS WORKFORCE

A skilled and knowledgeable workforce

• Fosters strong ties with customers and partners
• Improves efficiency and quality
• Promotes innovation

All of these provide a foundation for competitive differentiation.
Changes in the Workforce

Aging of the Population The number of Americans 65 and older will double by 2030; trend is similar globally.

• More workers at the younger and older ends of the age spectrum.
• Companies developing incentives to keep older employees longer.

Shrinking Labor Pool The U.S. may face a shortage of 10 million workers by 2010.

• Technology requires workers with advanced skills.
• Immigrants represent one of every seven workers, one of every two new workers.
Changes in the Workforce

*Increasingly Diverse Workforce* Immigration and growing Hispanic and Asian populations are major factors contributing to a more diverse workforce.

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

- Offer firms varied perspectives and experiences that foster innovation and creativity.
Changes in the Workforce

**Outsourcing and the Changing Nature of Work** U.S. output is shifting from manufacturing to services such as financial management and communications.

- Different work lifestyles, e.g., telecommuting, scheduling flexibility.
- **Outsourcing** Using outside vendors to do work formerly done inside the company.
- Increased use of **offshoring**, relocation of business processes to lower-cost locations overseas, and **nearshoring**, outsourcing near the firm’s home base.
Changes in the Workforce

New Employer-Employee Partnership Lifetime employment with one company is largely a thing of the past. Today’s model is partnership.

• Companies recognize value of a partnership with employees and many routinely share financial data with them.

• Companies offer stock, profit-sharing, and employee training geared toward career advancement.

“They Said It”

“The most important thing any company can do is hire the smartest people possible and then give them the resources to transform their ideas into reality.”

—Bill Gates (b. 1955)
Chairman and chief software architect, Microsoft
THE 21ST-CENTURY MANAGER

Importance of Vision

Vision

Importance of Critical Thinking and Creativity

Critical thinking is
Creativity is

Ability to Steer Change
WHAT MAKES A COMPANY ADMIRED?

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

Social responsibility—management philosophy that includes contributing resources to promote the well-being of the general public.

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### Fortune’s Top Ten Most Admired U.S. Companies

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<th>Rank</th>
<th>Company</th>
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<tbody>
<tr>
<td>1</td>
<td>General Electric</td>
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<td>2</td>
<td>FedEx</td>
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<td>3</td>
<td>Southwest Airlines</td>
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<td>4</td>
<td>Proctor &amp; Gamble</td>
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<td>5</td>
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<td>10</td>
<td>Microsoft</td>
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**Source:** Data from [http://www.timeinc.net/fortune/information/Presscenter/0,,20060221_mostadmired,00.html](http://www.timeinc.net/fortune/information/Presscenter/0,,20060221_mostadmired,00.html), accessed June 13, 2006.

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