

CHAPTER

1

Business Now: Change Is the Only Constant

LEARNING OBJECTIVES

After studying this chapter, you will be able to...

- L01** Define business and discuss the role of business in the economy
- L02** Explain the evolution of modern business
- L03** Discuss the role of nonprofit organizations in the economy
- L04** Outline the core factors of production and how they impact the economy
- L05** Describe today's business environment and discuss each key dimension
- L06** Explain how current business trends might impact your career choices



Playing it safe is the most dangerous thing we can do. We have to get bolder.

—Steve Jobs, CEO of Apple



LO1 Business Now: Moving at Breakneck Speed

Day by day, the business world simply spins faster. Producers pump out better goods more quickly and cheaply than ever before. Industries transform with the click of a mouse. Technologies forge instant connections across the globe. And powerful new trends surface and submerge, sometimes within a matter of months. In this fast-paced, fluid environment, change is the only constant.

Successful firms lean forward and embrace the change. They seek the opportunities and avoid the pitfalls. They take reasonable risks. They completely understand their market. Their core goal is to generate long-term profits by delivering unsurpassed **value** to their customers.

Business Basics: Some Key Definitions

While you can certainly recognize a business when you see one, more formal definitions may help as you read through this book. A **business** is any activity that provides goods and services in an effort to earn a profit. **Profit** is the financial reward that comes from starting and running a business. More specifically, a profit is the money that a business earns in sales (or revenue), minus expenses such as the cost of goods, and the cost of salaries. But clearly, not every business earns a profit all of the time. When a business brings in less money than it needs to cover expenses, it incurs a **loss**. If you launch a music label, for instance, you'll need to pay your artists, buy or lease a studio, and purchase equipment, among other expenses. If your label generates hits, you'll earn more than enough to cover all your expenses and make yourself rich. But a series of duds could leave you holding the bag.

Just the possibility of earning a profit provides a powerful incentive for people of all backgrounds to launch their own enterprise. A recent survey reported that 47% of American adults have already taken steps to start their own business or supplement their income, and 21% have crafted a specific business plan. The numbers among your peers are probably even higher, since two-thirds of college students plan to launch their own business at some point in their career. People who risk their time, money, and other resources to start and manage a business are called **entrepreneurs**.¹

The Forbes list of the richest Americans highlights the astounding ability of the entrepreneurial spirit to build wealth. The top ten—featured in exhibit 1.1—includes five members of the Walton family who were not themselves entrepreneurs: their money comes from retail powerhouse, Wal-Mart, founded by brilliant, eccentric entrepreneur Sam Walton.

business Any activity that provides goods and services in an effort to earn a profit.

profit The money that a business earns in sales (or revenue), minus expenses, such as the cost of goods, and the cost of salaries.
 $Revenue - Expenses = Profit (or Loss)$

loss When a business incurs expenses that are greater than revenue.

entrepreneurs People who risk their time, money, and other resources to start and manage businesses.



standard of living
The quality and quantity of goods and services available to a population.

quality of life The overall sense of well being experienced by either an individual or a group.

Exhibit 1.1 The Richest Americans, *Forbes* Magazine²

Name	Net Worth	Source of Wealth
Bill Gates	\$48,000,000,000	Microsoft
Warren Buffet	\$41,000,000,000	Berkshire-Hathaway
Paul Allen	\$20,000,000,000	Microsoft, investments
Alice Walton	\$18,000,000,000	Wal-Mart
Helen Walton	\$18,000,000,000	Wal-Mart
Jim Walton	\$18,000,000,000	Wal-Mart
John Walton	\$18,000,000,000	Wal-Mart
Robson Walton	\$18,000,000,000	Wal-Mart
Michael Dell	\$14,200,000,000	Dell
Larry Ellison	\$13,700,000,000	Oracle

Interestingly, as entrepreneurs create wealth for themselves, they produce a ripple effect that enriches everyone around them. For instance, if your new music label becomes the next Interscope Records, who will benefit? Clearly, *you* will. And you'll probably spend at least some of that money enriching your local clubs, clothing stores, and car dealerships. But others will benefit, too, from the artists on your label, to the staff members who support them, to the contractors who build your facilities, to the government that collects your taxes. The impact of one successful entrepreneur can extend to the far reaches of the economy. Multiply the impact times thousands of entrepreneurs—each working in his or her own self-interest—and you can see how the profit motive benefits virtually everyone.

From a bigger picture perspective, business drives up the **standard of living** for people worldwide, contributing to a higher **quality of life**. Not only do businesses provide the products and services that people enjoy, but they also provide the jobs that people need. Beyond the obvious, business contributes to society through innovation—think cars, TVs, and personal computers. Business also helps raise the standard of living through taxes, which the government spends on projects that range from streetlights to environmental clean-up. And socially responsible firms contribute even more, actively advocating for the well being of the society that feeds their success.

LO2 The Evolution of Business: Putting It All in Context

You may be surprised to learn that—unlike today—business hasn't always been focused on

what the customer wants. In fact, business in the United States has changed rather dramatically over the past 200 to 300 years. Business historians typically divide the history of American business into five distinct eras, which overlap during the periods of transition.

- **The Industrial Revolution:** Technological advances fueled a period of rapid industrialization in America from the mid-1700s to the mid-1800s. As mass production took hold, huge factories replaced skilled artisan workshops. The factories hired large numbers of semiskilled workers, who specialized in a limited number of tasks. The result was unprecedented production efficiency, but also a loss of individual ownership and personal pride in the production process.
- **The Entrepreneurship Era:** Building on the foundation of the industrial revolution, large-scale entrepreneurs emerged in the second half of the 1800s, building business empires. These industrial titans created enormous wealth, raising the overall standard of living across the country. But many also dominated their markets, forcing out competitors, manipulating prices, exploiting workers, and decimating the environment. Toward the end of the 1800s, the government stepped into the business realm, passing laws to regulate business and protect consumers and workers, creating more balance in the economy.
- **The Production Era:** In the early part of the 1900s, major businesses focused on further refining the production process and creating greater efficiencies. Jobs became even more specialized, increasing productivity and lowering costs and prices. In 1913 Henry Ford

“
The things we fear most in organizations—fluctuations, disturbances, imbalances—are the primary sources of creativity.
—Margaret Wheatley, management consultant and speaker
”

introduced the assembly line, which quickly became standard across major manufacturing industries. With managers focused on efficiency, the customer was an afterthought. But when customers tightened their belts during the Great Depression and World War II, businesses took notice. The hard sell emerged: aggressive persuasion meant to separate consumers from their cash.

- **The Marketing Era:** After World War II, the balance of power shifted away from producers and toward consumers, flooding the market with enticing choices. To differentiate themselves from their competitors, businesses began to develop brands, or distinctive identities to help consumers understand the differences among various products. The *marketing concept* emerged: a consumer orientation began to permeate successful companies in every department, at every level. This approach continues to influence business decisions today as global competition heats up to unprecedented levels.
- **The Relationship Era:** Building on the marketing concept, leading-edge firms now look beyond each immediate transaction with a customer and aim to build long-term relationships. Satisfied customers can become advocates for a business, spreading the word with more speed and credibility than even the best promotional campaign. And cultivating current customers is more profitable than constantly seeking new ones. A key tool is technology. Using the Web and other digital resources, businesses gather detailed information about their customers, and use this data to serve them better.

L03 Nonprofits and the Economy: The Business of Doing Good

Nonprofit organizations also play a critical role in the economy, often working hand in hand with business to improve the quality of life in our society. Focusing in areas such as health, human services, education, art, religion, and culture, **nonprofits** are business-like establishments, but their primary goals do

not include profits. Chuck Bean, executive director of the Nonprofit Roundtable, explains: “By definition, nonprofits are not in the business of financial gain. We’re in the business of doing good. However, nonprofits are still businesses in every other sense—they employ people, they take in revenue, they produce goods and services and contribute in significant ways to our region’s economic stability and growth.” Nationwide, nonprofits employ about 1 in 14 workers, accounting for nearly 50% more paid workers than the entire construction industry, and three times as many as agriculture. And nonprofit museums, schools, theaters, and orchestras have become economic magnets for many communities, drawing additional investment.³

nonprofits
Business-like establishments that employ people and produce goods and services with the fundamental goal of contributing to the community rather than generating financial gain.

factors of production
Four fundamental elements—natural resources, capital, human resources, and entrepreneurship—that businesses need to achieve their objectives. Some combination of these factors is crucial for an economic system to create wealth.

L04 Factors of Production: The Basic Building Blocks

Both businesses and nonprofits rely on **factors of production**—four fundamental resources—to achieve their objectives. Some combination of these factors is crucial for an economic system to work and create wealth. As you read through the factors, keep in mind that they don’t come free of charge. Human resources, for instance, require wages, while entrepreneurs need a profit incentive.

- **Natural resources:** This factor includes all inputs that offer value in their natural state, such as land, fresh water, wind, and mineral deposits. Most natural resources must be extracted, purified, or harnessed; people cannot actually create them. (Note that agricultural products, which people do create through planting and tending, are not a natural resource.) The value of all natural resources tends to rise with high demand, low supply, or both.

One Step Ahead

Retail powerhouse Urban Outfitters has mastered the art of managing change: this trendy chain sets the pace rather than playing catch-up. According to *Business 2.0* magazine, Urban Outfitters delivers small batches of new merchandise to each store every day, ordering much of it from boutiques and bazaars around the world. And twice a month, visual display teams—typically four artists per outlet—completely revamp the look and feel of each store. They aim to create a treasure-hunt vibe that encourages customers to stop by and see what’s new on a regular basis. And once customers arrive, they tend to linger more than twice as long as they do in other clothing stores. Urban Outfitters supports this tendency by cleverly placing X-Boxes and vintage arcade games in the menswear sections of the stores to keep boyfriends busy while their gal pals shop. The constant reinvention has yielded consistently strong results. Sales have grown an average of 30% per year for the past 5 years, and 2004 net income shot up 87%. If the past can predict the future, chances are good that a healthy bottom line is the only thing that won’t change at Urban Outfitters.⁴

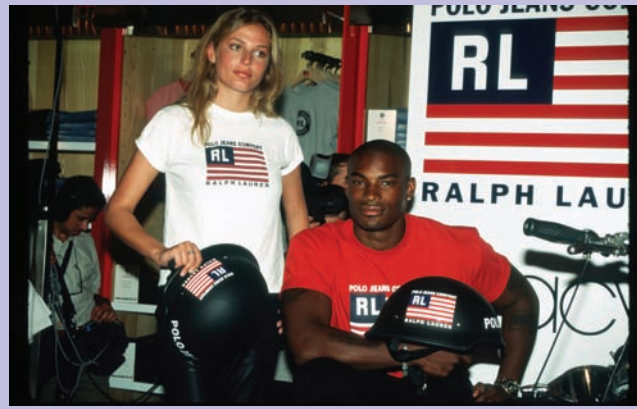
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Partners with a Purpose

A growing number of firms have developed nonprofit partnerships with a profit-minded approach: using the same investment dollars to improve society and to support their own strategic mission. The key is finding the right fit. Here are three examples of business–nonprofit partnerships that represent a double win:

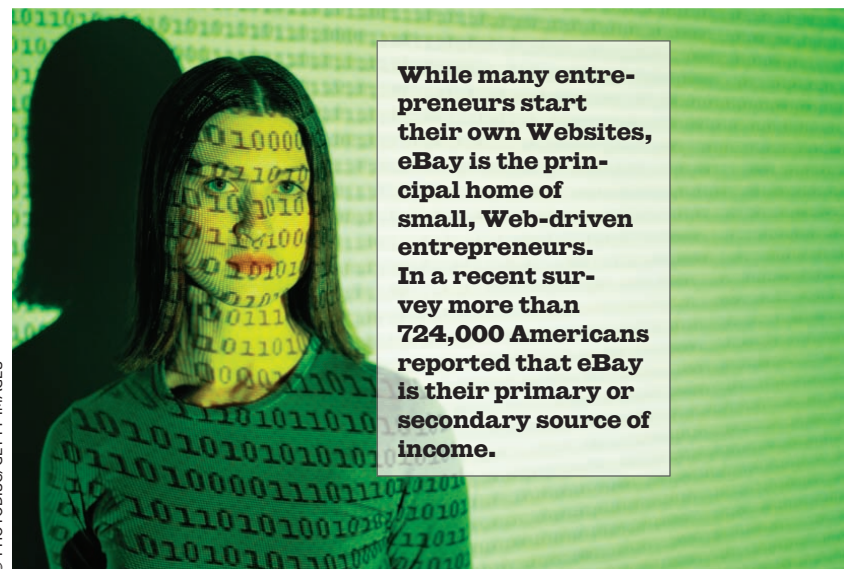
- **Kraft Foods:** The Kraft vision, spelled out on their Website, is “Helping people around the world eat and live better.” In support of that mission, Kraft has partnered with America’s Second Harvest, a nonprofit organization that aims to create a hunger-free America. In 2005 Kraft donated \$400,000 to America’s Second Harvest, mitigating the impact of a devastating social issue while raising their public profile...all in complete alignment with their fundamental vision.
- **Polo Ralph Lauren:** Ralph Lauren is known for its all-American image and its American flag logo, so investing in the flag itself made sense on a number of levels. The company recently donated \$10 million to restore and promote the flag that inspired Frances Scott Key to write the national anthem. Promotion of the project supports the Ralph Lauren brand as it preserves an American treasure for the benefit of everyone.
- **Los Angeles Times:** No paper will survive without readers, yet California literacy rates are shockingly low. In a smart strategic move, the *L.A. Times* stepped in to meet the need with a focus on their future. They launched the Reading by 9 program, designed to ensure that all southern California students are reading at grade level by the age of 9. By nurturing stronger readers, the *L.A. Times* is working to improve literacy, while building its own potential customer base.⁵



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- **Capital:** This factor includes machines, tools, buildings, information, and technology—the synthetic resources that a business needs to produce goods or services. Computers and telecommunications capability has become a pivotal element of capital across a surprising range of industries, from financial services to professional sports. You may be surprised to learn that in this context, capital does not include money, but clearly, businesses *use* money to acquire, maintain, and upgrade their capital.
- **Human Resources:** This factor encompasses the physical, intellectual, and creative contributions of everyone who works within an economy. As technology replaces a growing number of manual labor jobs, education and motivation have become increasingly important to human resource development. Given the importance of knowledge to workforce effectiveness, some business experts, such as management guru Peter Drucker, break out knowledge as its own category, separate from human resources.
- **Entrepreneurship:** Entrepreneurs are people who take the risk of launching and operating their own businesses, largely in response to the profit incentive. They tend to see opportunities where others don’t, and they use their own resources to capitalize on that potential. Entrepreneurial enterprises can kick-start an economy, creating a tidal wave of opportunity by harnessing the other factors of production. But entrepreneurs don’t thrive in an environment that doesn’t support them. The key ingredient is economic freedom: freedom of choice (who to hire, for instance, or what to produce), freedom from excess regulation, and freedom from too much taxation. Protection from corruption and unfair competition is another entrepreneurial “must.”

Clearly, all of these factors must be in place for an economy to thrive. But which factor is *most* important? One way to answer that question is to examine current economies around the world. Russia and China are both rich in natural resources and human resources. And both countries have a solid level of capital (growing in China and deteriorating in Russia). Yet neither country is wealthy; both rank relatively low in terms of gross national income per person. The missing ingredient seems to be entrepreneurship, limited in Russia largely through corruption and in China through government interference and taxes. Contrast those examples to, say, Hong Kong. The population is small and the natural resources are severely limited, yet Hong Kong has consistently ranked among the richest regions in Asia. One key reason is that Hong Kong operated for many years under the British legal and economic system, which actively encouraged entrepreneurship,



While many entrepreneurs start their own Websites, eBay is the principal home of small, Web-driven entrepreneurs. In a recent survey more than 724,000 Americans reported that eBay is their primary or secondary source of income.

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fueling, in turn, the creation of wealth. Recognizing the potential of entrepreneurship, China has recently done more to relax regulations and support free enterprise. The result has been tremendous growth, which may yet bring China into the ranks of the wealthier nations.⁶

L05 The Business Environment: The Context for Success

No business operates in a vacuum. Outside factors play a vital role in determining whether each individual business succeeds or fails. Likewise, the broader **business environment** can make the critical difference in whether an overall economy thrives or disintegrates. The five key dimensions of the business environment are the economic environment, the competitive environment, the technological environment, the social environment, and the global environment as shown in exhibit 1.2.

The Economic Environment

The U.S. economy is a global powerhouse, largely because the government takes active steps to reduce the risks of starting and running a business. As a result, free enterprise and fair competition flourish. One of the government policies that supports business is the relatively low federal tax rate, both for individuals and businesses. A number of states—from Alabama to Nevada—make their local economies even more attractive by providing special tax deals to attract new firms. The federal government also runs entire agencies that support business, such as the Small Business Administration. Other branches of the government, such as the Federal Trade

Exhibit 1.2

Each dimension of the business environment impacts both individual businesses and the economy overall.



Commission, actively promote fair competitive practices, which help give every enterprise a chance to succeed.

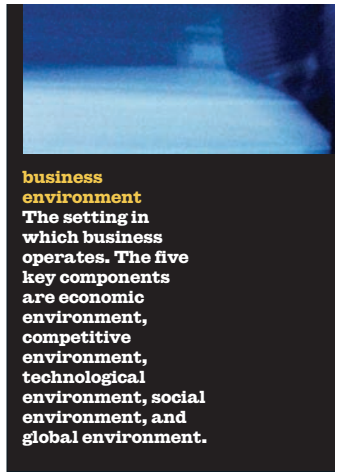
Another key element of the U.S. economic environment is legislation that supports enforceable contracts. For instance, if you contract a company to supply your silk screening business with 1,000 blank tee shirts at \$4.00 a piece, that firm must comply or face legal consequences. The firm can't wait until a day before delivery and jack up the price to \$8.00 per piece because you would almost certainly respond with a successful lawsuit. Many U.S. residents take enforceable contracts for granted, but in a number of developing countries—which offer some of today's largest business opportunities—contracts are often not enforceable (at least not in day-to-day practice).

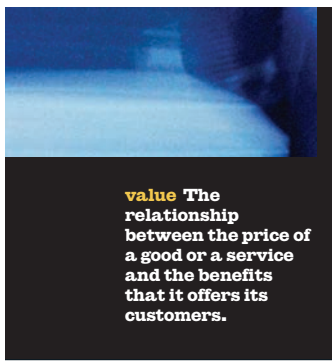
Corruption also plays a role in the economic environment. A low level of corruption and bribery dramatically reduces the risk of running a business. Fortunately, U.S. laws keep domestic corruption mostly—but not completely—at bay. Other ethical lapses can also increase the cost of doing business for everyone involved. But in the wake of ethical meltdowns at major corporations such as Enron and WorldCom, the federal government has passed tough-minded new regulations to increase corporate accountability. If the new legislation effectively curbs illegal and unethical practices, every business will have a fair chance at success.

Despite its overall strength, underlying issues threaten the U.S. economy. Personal income has grown, but economist Robert Gordon points out that “a lot of the goodies that we think of as raising living standards have gone to the people at the top at the expense of the broad mass of Americans in the middle.” The growing pay gap between corporate CEOs and the average employees only highlights the inequity: in 1980 the average CEO earned **42** times more than the average worker, but by 2004 the average CEO earned **431** times more than the average worker. The national savings rate, another indicator of economic health, dipped to the lowest point since the Great Depression, falling below zero in 2005. That means that on average, we spend more than we earn each month, which helps to explain the skyrocketing consumer debt. Meanwhile, the federal debt has ballooned. All of these issues suggest that the U.S. economy has noteworthy weak spots that may severely impact business over the next decade. Upcoming chapters on economics and ethics will address these issues and their significance in more depth.⁷

The Competitive Environment

As global competition intensifies yet further, leading-edge companies have focused on customer satisfaction as never before. The goal is to develop long-term, mutually beneficial relationships with customers. Getting current customers to buy more of your product is a lot less





value The relationship between the price of a good or a service and the benefits that it offers its customers.

expensive than convincing potential customers to try your product for the first time. And if you transform your current customers into loyal advocates—vocal promoters of your product or service—they'll get those new customers for you more effectively than any advertising or discount program. Companies such as Southwest Airlines, Toyota, and

Google lead their industries in customer satisfaction, which translates into higher profits even when the competition is tough.⁹

Customer satisfaction comes in large part from delivering unsurpassed **value**. The best measure of value is the size of the gap between product benefits and price. A product has value when its benefits to the customer are equal to or greater than the price that the customer pays. Keep in mind that the cheapest product doesn't necessarily represent the best value. If a 99-cent toy from Big Lots breaks in a day, customers may be willing to pay several dollars more for a similar toy from somewhere else. But if that 99-cent toy lasts all year, customers will be delighted by the value and will likely encourage their friends and family to shop at Big Lots. The key to value is quality, and virtually all successful firms offer top-quality products relative to their direct competitors.

Jack Trout, author, consultant, and 40-year veteran of marketing wars, sums up the current competitive environment by pointing out that markets he used to think were intensely competitive look like a tea party by today's standards. He recommends that companies cope by following four basic principles:

1. Avoid your competitors' strengths and exploit their weaknesses. Don't even try to beat them at their own game—instead, start a new one.

2. Always be a little bit paranoid about competition. This means never, ever underestimating your competitors.
3. Remember that competitors will usually get better if pushed. So don't assume that they won't fix their problems.
4. Don't forget that competitors are sometimes irrational when threatened. They may sacrifice their own profits to drive you out of business.¹⁰

A recent ranking study by *BusinessWeek* magazine and Interbrand consulting firm highlights brands that use imagination and innovation to deliver value to their customer. Exhibit 1.3 shows the winners and the up-and-comers in the race to capture the hearts, minds, and dollars of consumers around the world.

Leading Edge versus Bleeding Edge **Speed-to-market**—the rate at which a firm transforms concepts into actual products—can be another key source of competitive advantage. And the pace of change just keeps getting faster. In this tumultuous setting, companies that stay ahead of the pack often enjoy a distinct advantage. But keep in mind that there's a difference between the leading edge and the bleeding edge. Bleeding edge firms launch products that fail because they're too far ahead of the market. During the late 1990s, for instance, in the heart of the dot-com boom, WebVan, a grocery delivery service launched to huge fanfare. But the firm went bankrupt in 2001, partly because customers weren't yet ready to dump traditional grocery stores in favor of cyber-shopping. Leading edge firms, on the other hand, offer products just as the market becomes ready to embrace them.¹²

Creativity Counts!

For the past decade, economists have touted the Knowledge Economy—a new world order where nothing matters more than information and analysis, math and science, bits and bytes. But knowledge has become a commodity faster than anyone predicted. White-collar jobs have followed blue-collar jobs out of the country to far corners of the globe, landing with highly trained experts in places such as India, China, Russia, Argentina, and Hungary. In response, *BusinessWeek* magazine reports that the U.S. economy has shifted focus, concentrating on innovation and imagination to generate growth. American firms such as Procter & Gamble have demonstrated an uncanny ability to tap into consumer culture, generating breakthrough new products—such as the blockbuster Swiffer or the Tide-to-Go bleach stick—by figuring out what consumers want even before they do. The U.S. lead in consumer-focused creativity isn't surprising, given the enormous domestic market for consumer goods and the American tendency to think outside the box. But as other economies flex their creative muscles—and leverage firsthand knowledge of their local cultures—competition will clearly be fierce.⁸



Exhibit 1.3

Global brand champions and the ones to watch, *BusinessWeek* and Interbrand¹¹

Most Valuable Brands	Biggest Gainers	Percentage Gain
1. Coca-Cola	1. Google	+46%
2. Microsoft	2. Starbucks	+20%
3. IBM	3. eBay	+18%
4. GE	4. Motorola	+18%
5. Intel	5. Hyundai	+17%
6. Nokia		
7. Toyota		
8. Disney		
9. McDonald's		
10. Mercedes-Benz		

Apple computer provides an excellent example of a leading edge company. You may be surprised to learn that Apple—which owns about 75% of the digital music player market—did not offer the first MP3 player. Instead, they surveyed the existing market to help develop a new product, the iPod, which was far superior in terms of design and ease-of-use. But Apple didn't stop with one successful MP3 player. Racing to stay ahead, they soon introduced the colorful, more affordable iPod mini. And before sales reached their peak, they launched the iPod Nano, which essentially pulled the rug from under the blockbuster iPod mini just a few short months before the holiday selling season. Why? If they didn't do it, someone else may well have done it instead. And Apple is almost maniacally focused on maintaining its competitive lead.¹³

The Workforce Advantage Employees can contribute another key dimension to a firm's competitive edge. A recent study found that investing in worker satisfaction can bring bottom line results. The researchers evaluated the stock price of 28 companies employing 920,000 people. In 2004, the stock price for companies with high morale rose an average of 16%, while the increase for their competitors with average morale was just 6%, and the jump for those with low morale was only 3%. A sense of fairness, a chance for achievement, and a team-oriented atmosphere seemed to be the three crucial sources of employee satisfaction.¹⁴

Finding and holding the best talent will likely become a crucial competitive issue in the next decade, as the baby boom generation begins to retire. The 500 largest U.S. companies anticipate losing about half of their senior managers over the next 5 to 6 years. Replacing them will be tough: baby boomers include about 77 million people, while the generation that follows includes only 46 million. Firms that cultivate human resources now will find themselves better able to compete as the market for top talent tightens.¹⁵

The Technological Environment

The broad definition of **business technology** includes any tools that businesses can use to become more efficient and effective. But more specifically, in today's world, business technology usually refers to computers, telecommunications, and other digital tools. Over the past few decades, the impact of digital technology on business has been utterly transformative. New industries have emerged, while others have disappeared. And some fields—such as travel, banking, and music—have changed dramatically. Even in categories with relatively unchanged products, companies have leveraged technology to streamline production and create new efficiencies. Examples include new processes such as computerized billing, digital animation, and robotic manufacturing. For fast-moving firms, the technological environment represents a rich source of competitive advantage, but it can clearly be a major threat for companies that are slow to adapt or to integrate new approaches.

The creation of the **World Wide Web** has transformed not only business, but also people's lives. Anyone,

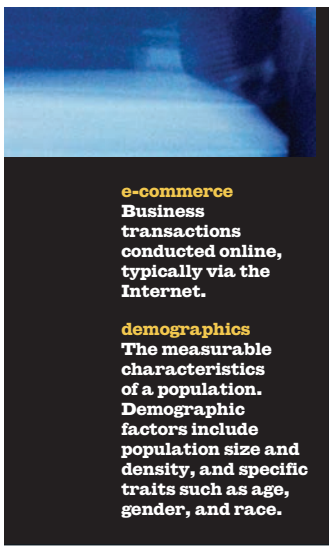
speed-to-market
The rate at which a new product moves from conception to commercialization.

business technology
Any tools—especially computers, telecommunications, and other digital products—that businesses can use to become more efficient and effective.

World Wide Web
The service that allows computer users to easily access and share information on the Internet in the form of text, graphics, video, and animation.



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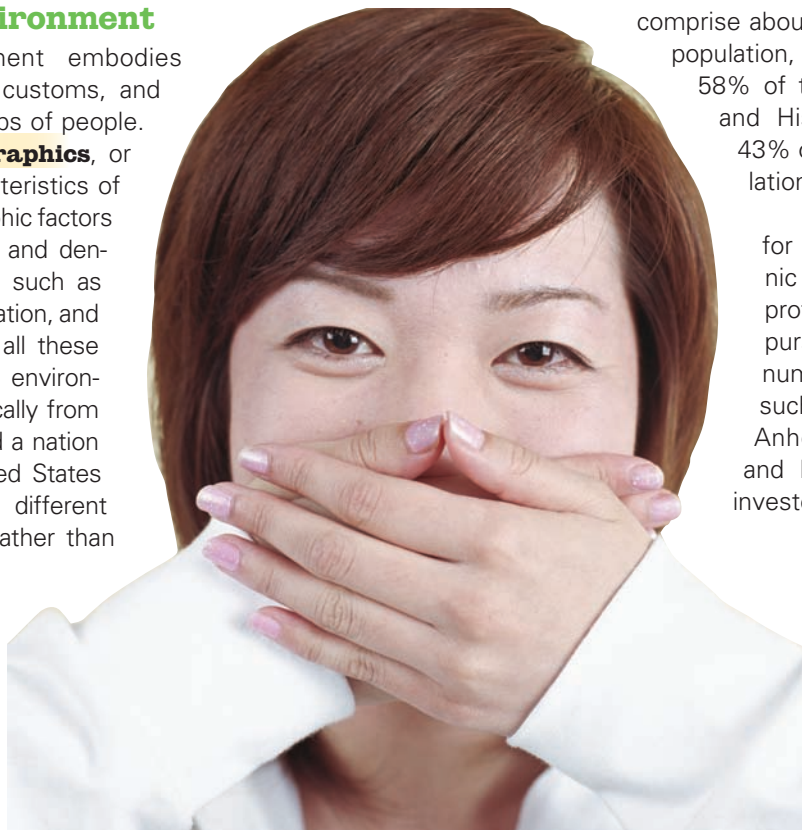
anywhere, anytime can use the Web to send and receive images and data. One result is the rise of e-commerce or online sales. Growing more than 23% per year for the past 5 years, retail **e-commerce** taps into a worldwide community of potential customers. Business-to-business selling is even more robust, comprising the vast majority of total e-commerce sales (and an even larger share of the profits). A growing number of businesses have also connected their digital networks with suppliers and distributors to create a more seamless flow of goods and services.¹⁶

Alternative selling strategies thrive on the Internet, giving rise to a more individualized buying experience. If you've browsed seller reviews on eBay or received shopping recommendations from Amazon, you'll have a sense of how personal Web marketing can feel. Online technology also allows leading edge firms to offer customized products at prices that are comparable to standardized products. On the Scion Website, for instance, customers can build their own car and "see it inside and out, with full rotation and zooming" while sitting at home in their pajamas.

As technology continues to evolve at breakneck speed, the scope of change—both in everyday life and business operations—is almost unimaginable. In this environment, companies that welcome change and manage it well will clearly be the winners.

The Social Environment

The social environment embodies the values, attitudes, customs, and beliefs shared by groups of people. It also covers **demographics**, or the measurable characteristics of a population. Demographic factors include population size and density, and specific traits such as age, gender, race, education, and income. Clearly, given all these influences, the social environment changes dramatically from country to country. And a nation as diverse as the United States features a number of different social environments. Rather than cover the full spectrum, this section will focus instead on the broad social trends that most strongly impact American business. Understanding the various dimensions

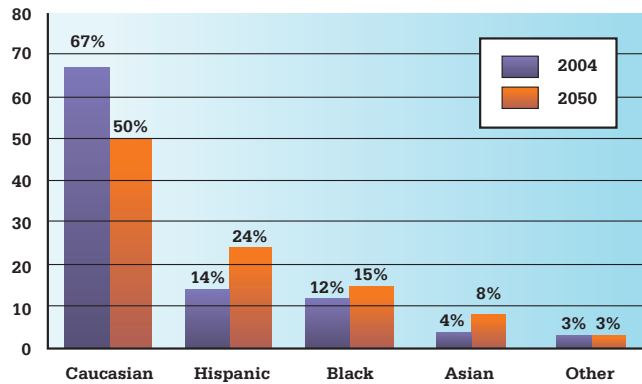


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of the social environment is crucial, since successful businesses must offer goods and services that respond to it.

Diversity The American population has always included an array of different cultures, but the United States has become more ethnically diverse in recent years. Caucasians continue to represent the largest chunk of the population at nearly 70%, but the Hispanic and Asian populations are growing faster than any other ethnic groups. Looking ahead, the U.S. Census Bureau projects that those two groups will nearly double their size by 2050, while the Caucasian population will drop to only half of the U.S. population. The overall population breakdown would be as follows:

U.S. Population Estimates¹⁸



But the national statistics are somewhat misleading, since ethnic groups tend to cluster together. African Americans, for example, currently comprise about 36% of the Mississippi population, Asians comprise about 58% of the Hawaiian population, and Hispanics comprise about 43% of the New Mexico population.¹⁹

So what does this mean for business? Growing ethnic populations offer robust profit potential for firms that pursue them. For instance, a number of major corporations such as AutoZone, Kellogg, Anheuser-Busch, PepsiCo, and Procter & Gamble have invested heavily in the Hispanic market over the past 5 years. A recent study shows that these heavy-hitters have realized an impressive \$4 return on each \$1 that they invested in Hispanic marketing. Targeting an ethnic

market can also yield remarkable results for products that cross over into mainstream culture. Music mogul and entrepreneur Russell Simmons, for example, initially targeted his music and clothing to the black market, but his success quickly spilled over to mainstream culture, helping him build a hip-hop empire.²⁰

Growing diversity also impacts the workforce. A diverse staff—one that reflects an increasingly diverse marketplace—can yield a powerful competitive advantage in terms of both innovation and ability to reach a broad customer base. From global behemoths such as General Electric to local corner stores, companies have taken proactive steps to hire and nurture people from a broad range of backgrounds. And that doesn't just reflect racial or ethnic roots. True diversity also includes differences in gender, age, religion, and nationality among others. Leading edge firms have also taken proactive steps to train their entire workforce to manage diversity for top performance.²¹

Effectively managing diversity should only become easier as time goes by. Multiple studies demonstrate that young American adults are the most tolerant age group, and they are moving in a more tolerant direction than earlier generations regarding racial differences, immigrants, and homosexuality. As this generation gathers influence and experience in the workforce, they are likely to leverage diversity in their organizations to hone their edge in a fiercely competitive marketplace.²²

Aging Population As life spans increase and birth-rates decrease, the American population is rapidly aging. Its current median age is 35.9 years, and it's increasing month by month. Over the next 20 years, the size of our working population will shrink, while the number of retirees will explode. And the United States isn't alone in this trend. The population is aging across the developed world, from Western Europe to Japan. China faces the same issue, magnified by its huge population. Demographers estimate that by the middle of the 22nd century, China will be home to more than 400 million people age 65 or older.²³

The rapidly aging population brings opportunities and threats for business. Companies in fields that cater to the elderly—such as healthcare, pharmaceuticals, travel, recreation, and financial management—will clearly boom. But creative companies in other fields will capitalize on the trend as well by re-imagining their current products to serve older clients. Possibilities include books, movies—maybe even videogames—with mature characters, low-impact fitness programs such as water aerobics, and cell phones and PDAs with more readable screens. Again, the potential payoff of age diversity is clear: companies with older employees are more likely to find innovative ways to reach the aging consumer market.

But surging retirement rates also pose significant threats to overall business success. With a smaller labor pool, companies will need to compete even harder for top talent, driving up recruitment and payroll costs. As state

TechNotes

Look Out...It's a Google Bomb!

If you searched the term "miserable failure"—or even just "failure"—on Google in 2004 or 2005, chances are that President Bush's White House bio would have popped up as the top link (and you'd likely get the same results on the other big search engines, from Yahoo to Ask.com).

Does this reflect the genuine opinion of the masses, or is it simply a silly prank? Either way, it represents deliberate manipulation of the search process. What people link to—and how they describe those links—plays a key role in search software that ranks Websites. Computer savvy tricksters figured this out pretty quickly and began to influence search results by getting relatively small Web communities to all link to a targeted site, using the same words to describe their links. As a result, rankings of the targeted site go up...sometimes way up.

This process of search ranking influence is called Google-bombing (although it impacts virtually all key search engines). And practitioners don't just use it to make political statements. Blogger Adam Mathes started the practice in 2001, when he used it to link the phrase "talentless hack" to a friend's Website. Since then, several Websites have sponsored Google-bombing contests, challenging enthusiasts to make their sites the top link for obscure phrases such as "nigritude ultramarine," and "crystalline incandescence."

In response to Google-bombing, the official Google blog posted a message in September 2005 saying, "We don't

condone the practice of Google-bombing, or any other action that seeks to affect the integrity of our search results, but we're also reluctant to alter our results by hand in order to prevent such items from showing up." They attribute Google-bombing to "determined pranksters." This is a far cry from Google's response in 2003, which claimed that nothing is wrong with the public using the search engine in this way, since it just reflects "the opinion on the Web, for better or for worse."

What do you think Google should do? If they alter algorithm-based search results "by hand" in one case, do they open themselves to changing the results in every case that someone complains? What happens when Google-bombing pushes aside another relevant site? And what happens when unscrupulous Web experts manipulate search results for financial gain?

For the time being, Google has addressed the issue by posting an explanation of Google-bombing next to search results for "miserable failure." But as technology uses (and misuses) continue to mutate, Google's response will surely evolve as well.¹⁷

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and federal governments stretch to serve the aging population, taxes may increase, putting an additional burden on business. And as mid-career workers spend more on elder care, they may find themselves with less to spend on other goods and services, shrinking the size of the consumer market.

Rising Worker Expectations

Workers of all ages continue to seek flexibility from their employers. Moreover, following massive corporate layoffs of the early 2000s, employees are much less apt to be loyal to their firms. A recent survey shows that only 59% of employees say they are loyal to their companies, and only 26% believe that their companies are loyal to them. As young people today enter the workforce, they bring higher expectations for their employers in terms of salary, job responsibility, and flexibility—and less willingness to pay dues by working extra long hours or doing a high volume of “grunt work.” Smart firms are responding to the change in worker expectations by forging a new partnership with their employees. The goal is a greater level of mutual respect through open communication, information sharing, and training. And the not-so-hidden agenda, of course, is stronger long-term performance.²⁴

“

We believe humor is essential to success. We applaud irreverence and don't take ourselves too seriously. We yodel.

—Yahoo Core Value

”

hits nearly 90% at companies that support social causes.²⁵

Ethics and Social Responsibility With high-profile ethical meltdowns dominating the headlines in the past few years, workers, consumers, and government alike have begun to hold businesses—and the people who run them—to a higher standard. Recent federal legislation, passed in the wake of the Enron fiasco, demands transparent financial management and more accountability from senior executives. And recognizing their key role in business success, a growing number of consumers and workers have begun to insist that companies play a proactive role in making their communities—and often the world community—better places. Nearly 80% of consumers, for example, consider corporate citizenship when making investment and purchasing decisions. And employee loyalty

The Global Environment

The U.S. economy operates within the context of the global environment, interacting continually with other economies. In fact, over the last two decades, technology and free trade have blurred the lines between individual economies around the world. Technology has forged

Are You Part of Generation C?

The C stands for *content*, but it could just as easily stand for *creative* or *control*. Generation C, identified by the widely respected *Trendwatching* Website, embodies a flood of consumers creating content for the Web, and customizing—even coproducing—the products they consume. According to the Pew Internet and American Life Survey, 44% of U.S. adult Internet users have created cyber content by building or contributing to Websites, creating blogs, and sharing files. This number will only increase as today's digitally literate kids hit age 18.

Savvy companies actively encourage Generation C to unleash the artist within by developing and promoting tools that make it easy. Canon ensures snap-happy amateurs that “professional digital photography is no longer just for the professionals.” HP tells consumers that YOU should take pictures about YOU, and you should share them, and forward them, and print them, and (of course) post them on the Web. Xingtone lets consumers compose their own ring tones. Trekshare.com encourages travelers to post tips and travelogues. San Francisco's KYOU Radio receives about 15 listener-created podcasts each day. And Apple's blockbuster GarageBand program turns computer-based wannabes into virtual rock stars.

Business opportunities abound in this highly charged setting. Successful companies will delight Generation C with new tools, the training to use them, and the forum to showcase their efforts. And who knows? With so many resources, you might find yourself with more than just 15 minutes of fame.²⁶



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Starbucks aims to create a consistent environment for their customers, whether they're in China, Switzerland, or their hometown Starbucks.

unprecedented links among countries, making it cost effective—even efficient—to establish computer help centers in Bombay to service customers in Boston, or to hire programmers in Buenos Aires to make Websites for companies in Stockholm. Not surprisingly, jobs have migrated to the lowest bidder with the highest quality—regardless of where that bidder is based.

Often, the lowest bidder is based in China or India. Both economies are growing at breakneck speed, largely because they attract enormous foreign investment. China has been a magnet for manufacturing jobs because of its large population and low wages—an average of 64 cents per hour versus \$21.11 per hour in the United States. And India has been especially adept at attracting high-tech jobs, in part because of their world-class, English-speaking university graduates who are willing to work for less than their counterparts around the globe.²⁷

The migration of jobs relates closely to the global movement towards **free trade**. In 1995, a renegotiation of the **General Agreement on Tariffs and Trade (GATT)**—signed by 125 countries—took bold steps to lower tariffs (taxes on imports) and to reduce trade restrictions worldwide. The revised agreement also established the **World Trade Organization (WTO)** to enforce its provisions and to further promote free trade. As a result, goods move more freely than ever across international boundaries. Individual groups of countries have gone even further, creating blocs of nations with virtually unrestricted trade. Mexico, Canada, and the United States have laid the groundwork for a free trade mega-market through the North American Free Trade Agreement (NAFTA), and 27 European countries have created a powerful free trading bloc through the European Union. The free trade movement has lowered prices and increased quality across virtually every product category, as competition

“They must be very tall and very rich. But beyond that, I can't picture what their lives are like.”

—Chinese garment industry worker, speculating about who wears the Timberland jackets she makes

becomes truly global. We'll discuss these issues and their implications in more depth in Chapter 3.

A Multipronged Threat In the past decade alone, war, terrorism, disease, and natural disasters have taken a horrific toll in human lives across the globe. The economic toll has been devastating as well, impacting businesses around the world. The 9/11 terrorist attacks in New York and Washington, D.C., decimated the travel industry, and led to multibillion dollar government outlays for Homeland Security. More recently, hurricane Katrina destroyed homes and businesses alike and brought the Gulf Coast oil industry to a virtual standstill. In 2002 a terrorist bombing at an Indonesian nightclub killed nearly 200 people, destroying tourism on the holiday island of Bali. The 2003 deadly epidemic of the SARS flu dealt a powerful blow to the economies of Hong Kong, Beijing, and Toronto. Less than 2 years later the Indian Ocean tsunami wiped out the fishing industry on long swaths of the Indian and Sri Lankan coastline and crippled the booming Thai tourism industry. And the war in Iraq—while a boon to the defense industry—has dampened the economic potential of the Middle East. With nationalism on the rise, and growing religious and ethnic tensions around the world, the global economy may continue to suffer collateral damage.²⁸

L06 Business and You: Making It Personal

Whatever your career choice—from videogame developer, to real estate agent, to Web designer—business will impact your life. Both the broader economy and your own business skills will influence the level of your personal financial success. In light of these factors, making the right career choice can be a bit scary. But the good news is that experts advise graduating students to “Do what you love.” And this is a hard-headed strategy, not soft-hearted puffery. Following your passion makes dollars and sense in today's environment, which values less routine abilities such as creativity, communication, and caring. Exercising these abilities tends to be more rewarding for most people than using routine, programmable skills that computers can easily emulate. Following your passion doesn't guarantee a fat paycheck. But it does boost your chances of both financial and personal success.²⁹

free trade An international economic and political movement designed to help goods and services flow more freely across international boundaries.

General Agreement on Tariffs and Trade (GATT) An international trade agreement that has taken bold steps to lower tariffs and promote free trade worldwide.