Chapter 01

Taking Risks and Making Profits within the Dynamic Business Environment
MONIF CLARKE
Monif C. Contemporary Plus Sizes

- Plus-sized woman wanted luxurious and feminine clothing.
- Borrowed $30,000 to start her own clothing line.
- Took classes at New York’s Fashion Institute of Technology to make business contacts.
- Adapted products and prices to meet the changing needs of her customers after economic downturn.
LEARNING GOALS

1. Describe the relationship between profit and risk, and show how businesses and nonprofits can raise the standard of living for all.

2. Compare and contrast being an entrepreneur and working for others.

3. Analyze the effects of the economic environment and taxes on businesses.

4. Describe the effects of technology on businesses.
5. Demonstrate how businesses can meet and beat competition.

6. Analyze the social changes affecting businesses.

7. Identify what businesses must do to meet global challenges, including war and terrorism.

8. Review how past trends are being repeated in the present and what those trends mean for tomorrow’s college graduates.
This microlending organization provides small loans to entrepreneurs too poor to qualify for traditional loans. The person who started this organization has started 30 of what he calls social businesses that do not have profit as their goal.

Name that organization and its founder!
• **Goods** -- *Tangible products such as computers, food, clothing, cars and appliances.*

• **Services** -- *Intangible products (that can’t be held in your hand) like education, healthcare, insurance, recreation and travel.*

• Successfully filling a market need means you could make money for yourself and provide jobs for others.
Business -- *Any activity that seeks to provide goods and services to others while operating at a profit.*

Entrepreneur -- *A person who risks time and money to start and manage a business.*

Success in business is often based on the strategy of finding a need and filling it.
REVENUE, PROFIT AND LOSS

• **Revenue** -- *The total amount of money a business takes in during a given period by selling goods and services.*

• **Profit** -- *The amount of money a business earns above and beyond what it spends for salaries and other expenses.*

• **Loss** -- *Occurs when a business’s expenses are more than its revenues.*
• **Risk** -- *The chance an entrepreneur takes of losing time and money on a business that may not prove profitable.*

• Not all businesses make the same amount of profit.

• Businesses take risks, but with great risks could come great profit.
HOW is TAX MONEY USED?

Taxes are used to provide:

- Hospitals
- Schools
- Libraries
- Playgrounds
- Roads
- Fire Protection
- Police Protection
- Environmental Programs
- Support for People in Need
• **Standard of Living** -- *The amount of goods and services people can buy with the money they have.*

• The U.S. has one of the highest standards of living in the world.

• Workers in other countries may make more money, but prices for products are higher.
Quality of Life -- The general well-being of a society in terms of its political freedom, natural environment, education, healthcare, safety, amount of leisure and rewards that add to personal satisfaction.

QUALITY of LIFE

Businesses Add to the Standard of Living and Quality of Life

LG1
Responding to the Various Business Stakeholders

**STAKEHOLDERS**

- **Stakeholders** — *All the people who stand to gain or lose by the policies and activities of a business and whose concerns the businesses need to address.*

- **Who are Stakeholders?**
  - Customers
  - Employees
  - Stockholders
  - Suppliers
  - Dealers
  - Community Members
  - Media
  - Elected Officials
  - Bankers
  - Environmentalists
OUTSOURCING and INSOURCING

- **Outsourcing** -- *Contracting with other companies (often in other countries) to do some of the firm’s functions, like production or accounting.*

- **Insourcing** -- *Foreign companies opening offices and factories in the United States.*
NONPROFIT ORGANIZATIONS

• Nonprofit Organization -- An organization whose goals do not include making a personal profit for its owners or organizers.
WELL-KNOWN NONPROFITS in the UNITED STATES

United Way
Salvation Army
American Red Cross
American Heart Association
American Cancer Society
KEEPING STRONG EMPLOYEES at NONPROFITS

1. Set ambitious, but realistic goals.

2. Allow all employees to work with the groups they are serving.

3. Give employees a break. Nonprofit work is draining.

SOCIAL ENTREPRENEURS

- Social entrepreneurs use business principles to start and manage not-for-profit organizations to address social issues.

- Muhammad Yunus won the Nobel Prize for starting Grameen Bank.
• What’s the difference between revenue and profit?

• What’s the difference between standard of living and quality of life?

• What’s risk? How is it related to profit?

• What do the terms stakeholders, outsourcing and insourcing mean?
## THE UPS and DOWNS of ENTREPRENEURSHIP

<table>
<thead>
<tr>
<th><strong>The UPS</strong></th>
<th><strong>The DOWNS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The freedom to succeed.</td>
<td>The freedom to fail.</td>
</tr>
<tr>
<td>Make your own decisions.</td>
<td>No paid vacations.</td>
</tr>
<tr>
<td>High possibility of wealth.</td>
<td>No health insurance.</td>
</tr>
<tr>
<td>Hire your own staff.</td>
<td>No daycare.</td>
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</table>
Opportunities for Entrepreneurs

Millions of people have started businesses and succeeded.

The number of Hispanic-owned businesses in the U.S. has grown dramatically.

Women now own one-third of all businesses.
Carol’s Daughter, a company that creates and sells hair care and beauty products, was started by Lisa Price.

Price experimented with fragrances in her Brooklyn kitchen.

Through networking, Price found investors like Will Smith and Jay-Z.
The Importance of Entrepreneurs to the Creation of Wealth

FIVE FACTORS of PRODUCTION

1. Land
2. Labor
3. Capital
4. Entrepreneurship
5. Knowledge

• Entrepreneurs use what they’ve learned to grow their businesses and increase wealth.
What are some of the advantages of working for others?

What benefits do you lose as an entrepreneur, and what do you gain?

What are the five factors of production? Which ones seem to be the most important for creating wealth?
WHAT is the BUSINESS ENVIRONMENT?

- **GLOBAL BUSINESS ENVIRONMENT**
  - The Economic and Legal Environment
    1. Freedom of ownership
    2. Contract laws
    3. Elimination of corruption
    4. Tradable currency
    5. Minimum taxes and regulation
  - The Technological Environment
    1. Information technology
    2. Databases
    3. Bar codes
    4. The Internet

- **GLOBAL COMPETITION AND FREE TRADE**
  - The Competitive Environment
    1. Customer service
    2. Stakeholder recognition
    3. Employee service
    4. Concern for the environment

- **THE QUALITY IMPERATIVE**
  - The Social Environment
    1. Diversity
    2. Demographic changes
    3. Family changes
GOVERNMENT’S ROLE in BUSINESS

Government can promote business by…

1. Minimizing spending and keeping taxes and regulations to a minimum.
2. Allowing private ownership of businesses.
3. Minimizing interference with the free exchange of goods and services.
4. Passing laws that enable businesspeople to write enforceable contracts.
5. Establishing a currency that’s tradable in world markets.
<table>
<thead>
<tr>
<th>Least Corrupt</th>
<th>Most Corrupt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Denmark</td>
<td>1. Somalia</td>
</tr>
<tr>
<td>2. New Zealand</td>
<td>2. Myanmar</td>
</tr>
<tr>
<td>3. Singapore</td>
<td>3. Afghanistan</td>
</tr>
<tr>
<td>4. Finland</td>
<td>4. Iraq</td>
</tr>
<tr>
<td>5. Sweden</td>
<td>5. Uzbekistan</td>
</tr>
</tbody>
</table>

The number of employees calling in sick has reached a five-year high. 3/5 of all callers were not even sick. Others conduct personal business at work, play video games and check their Facebook pages while at work.

What is the problem with this situation?
What are the alternatives?
What are the consequences of each alternative?
What path would you choose?
Is it ethical?
BENEFITS of TECHNOLOGY

• **Technology** -- *Everything from phones to copiers and the various software programs that make businesses more effective, efficient and productive.*

• **Effectiveness** -- *Producing the desired result.*

• **Efficiency** -- *Producing goods and services using the least amount of resources.*

• **Productivity** -- *The amount of output you generate given the amount of input (example: hours you work).*
• To reach the 18-35 year old demographic, J.C. Penney incorporated Twitter and Facebook into their Spring ad campaign.

• Company’s Facebook page included a “Shop Like a Celebrity” sweepstakes.

• Company’s Twitter feed contained fashion trivia.
E-COMMERCE

• E-Commerce -- *The buying and selling of goods on the Internet.*
  - *B2C:* Business to Consumer
  - *B2B:* Business to Business
DATABASES and IDENTITY THEFT

• **Database** -- *An electronic storage file for information.*

• **Identity Theft** -- *The obtaining of individuals’ personal information, such as Social Security and credit card numbers, for illegal purposes.*

Photo courtesy of Jack Spade
PROTECT YOURSELF from IDENTITY THEFT

Follow these steps to help protect yourself:

• Protect your Social Security Number.
• Shred financial documents and items with personal information.
• Don’t give out personal information unless you know whom you are dealing with.
• Use strong passwords.
• Never click links in suspicious emails.
• Monitor your credit report.

Customers want quality products at a good price with excellent customer service.

Because business is more customer-driven, some managers give frontline employees more decision-making power.

**Empowerment** -- *Giving frontline workers the responsibility, authority, and freedom to respond quickly to customer requests.*
DEMOGRAPHY

- Demography --
  The statistical study of the population in terms of size, density and characteristics like, age, race, gender and income.
DEMOGRAPHY of the U.S. by AGE

% by Age Group
- Under 18 - 23.7%
- 18 to 24 - 10%
- 25 to 34 - 12.7%
- 35 to 44 - 13%
- 45 to 54 - 14.5%
- 55 to 64 - 12.3%
- 65 and Over - 13.8%

The Social Environment

PROJECTED DEMOGRAPHY of the U.S. by RACE in 2050

The RISE of the U.S. HISPANIC POPULATION

### LARGEST Hispanic Populations

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>New Mexico</td>
<td>46.3%</td>
</tr>
<tr>
<td>2</td>
<td>California</td>
<td>37.6%</td>
</tr>
<tr>
<td>2</td>
<td>Texas</td>
<td>37.6%</td>
</tr>
<tr>
<td>4</td>
<td>Arizona</td>
<td>29.6%</td>
</tr>
<tr>
<td>5</td>
<td>Nevada</td>
<td>26.5%</td>
</tr>
</tbody>
</table>

### SMALLEST Hispanic Populations

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>46</td>
<td>Mississippi</td>
<td>2.7%</td>
</tr>
<tr>
<td>47</td>
<td>North Dakota</td>
<td>2.0%</td>
</tr>
<tr>
<td>48</td>
<td>Vermont</td>
<td>1.5%</td>
</tr>
<tr>
<td>49</td>
<td>Maine</td>
<td>1.3%</td>
</tr>
<tr>
<td>50</td>
<td>West Virginia</td>
<td>1.2%</td>
</tr>
</tbody>
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U.S. POPULATION CHANGES

• Diversity has grown from just recruiting minority and female workers.

• Population shifts are creating opportunities for some and limiting others.

• Growth of single-parent households have encouraged businesses to implement programs such as family leave and flextime.
WHO WILL SUPPORT SOCIAL SECURITY?
Number of Workers per Retiree

WORRIED ABOUT SOCIAL SECURITY?

% of Those Surveyed

- In Serious Trouble: 43%
- In Crisis: 26%
- In Some Trouble: 6%
- Not in Trouble: 1%
- No Answer: 24%

IMPORTANT CHANGES to the GLOBAL ENVIRONMENT

2. Increase of free trade among nations.
3. Development of efficient distribution systems.
4. Advances in communication systems.
## WORLD’S LARGEST CITIES BACK in the DAY and TODAY

<table>
<thead>
<tr>
<th>City</th>
<th>1950 Population</th>
<th>City</th>
<th>2010 Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York/Newark</td>
<td>12.34 million</td>
<td>Tokyo</td>
<td>36.67 million</td>
</tr>
<tr>
<td>Tokyo</td>
<td>11.27 million</td>
<td>New Delhi</td>
<td>22.16 million</td>
</tr>
<tr>
<td>London</td>
<td>8.36 million</td>
<td>São Paulo</td>
<td>20.26 million</td>
</tr>
<tr>
<td>Paris</td>
<td>6.52 million</td>
<td>Mumbai</td>
<td>20.04 million</td>
</tr>
<tr>
<td>Moscow</td>
<td>5.36 million</td>
<td>Mexico City</td>
<td>19.46 million</td>
</tr>
</tbody>
</table>

Wars, like those in Iraq and Afghanistan, cost billions of dollars.

Tax money is diverted.

Cost of security goes up.

Cost of insurance goes up.
GLOBAL GREENING

- **Climate Change** -- Movement of the temperature of the planet up or down over time.

- **Greening** -- Trend toward saving energy and producing products that cause less harm to the environment.

- Many companies like GE, Coca-Cola, British Airways and Shell are adopting green practices.
GETTING INVOLVED PERSONALLY
(Thinking Green)

It’s not necessary to radically change your lifestyle to make an ecological difference. Here are a few ways you can make small changes to help.

- Buy a reusable grocery bag.
- Buy energy efficient light bulbs.
- Recycle more.
- Drive fewer miles or ride your bike.
- Use less water.
- Run less electrical equipment.
- Buy local produce.
- Buy a hybrid car.
What are four ways the government can foster entrepreneurship?

What’s the difference between effectiveness, efficiency and productivity?

What’s empowerment?

What are some of the major issues affecting the economy today?
The EVOLUTION of BUSINESS

Agriculture Era

Manufacturing Era

Service Era

Information-Based Era
In the 1800s, the agricultural industry led economic development.

Technology, like the harvester and cotton gin, changed the farming industry making it more efficient.

This led to fewer farmers with larger farms.
The MANUFACTURING ERA

• Industrialization in the 19\textsuperscript{th} and 20\textsuperscript{th} centuries moved jobs from farms to factories.

• As technology improved productivity, fewer workers were needed in factories.
The SERVICE ERA

• Make up about 70% of the U.S. economy.

• Since the mid-1980s, the service industry generated almost all the increases in employment.

• More high-paying jobs in service industries.
The INFORMATION TECHNOLOGY ERA

- IT affects:
  - Agriculture
  - Industry
  - Service
PROGRESS ASSESSMENT

- What major factor caused people to move from farming to manufacturing and from manufacturing to the service sector?
- What does the future look like for tomorrow’s college graduates?