

UNIT 1 • BUSINESS AND ITS ENVIRONMENT

CHAPTER 1 CHARACTERISTICS OF BUSINESS

Content	Teaching Suggestions
I. NATURE OF BUSINESS	<p><i>Reinforcement</i> Ask students to identify different names for a garage sale in which people sell old or worn personal objects that may have value to others. Answer: Lawn sale, porch sale, barn sale, attic sale, and other terms may be used in your geographic area.</p> <p><i>Enrichment</i> Require students to make a list of company names that make products found in their personal possession, such as pencils, pens, bookbags, wallets, purses, combs, shoes, and watches. List the number of various companies represented.</p>
A. Types of Businesses	
B. Changing Nature of Business	
II. IMPACT OF GLOBAL COMPETITION ON BUSINESS	
A. Focusing on the Right Things	
B. Achieving Effectiveness	
C. Achieving Efficiency	<p><i>Extension</i> Assume Business A has 100 workers who make ten of the same product each day and with no defects. Business B has 110 workers who make 11 of the same items each day but usually there are 2 defective products with flaws that cannot be corrected. Which firm has the better productivity rate? Answer: It is clear that the defective products must be subtracted, which means Firm A daily produces 100 marketable products, whereas Firm B produces 99 and has ten more workers than Firm A.</p> <p><i>Background Note</i> In companies that use empowerment, such as Prudential Insurance Company, Compaq Com-</p>

puter Corporation, and Omni Hotels, the results are the same. Workers become motivated and act as if they were owners who are trying to improve on producing products and services efficiently.

III. BUSINESS GROWTH AND PROSPERITY

A. Gross Domestic Product

Background Note

No one knows what the actual size of the underground economy is. The outside range is from 3 to 33 percent. Many unemployed workers are engaged in doing informal work, some of whom form small home-based businesses. Even major firms sometimes hire outside contractors who do not report all their earnings to tax authorities. In many other countries, the underground economy is far larger than in this country.

B. Individual Well-Being

IV. ENTREPRENEURSHIP

Background Note

Almost no restrictions exist that prevent a highly motivated person with adequate capital and an idea to form a business. Only illegal activities are forbidden. Some businesses may need to get a license or other forms of approval, but these are very limited.

A. Popularity of Small Business

Reinforcement

Ask students how many of their family members work for businesses with fewer than 10, 50, or 100 employees.

Background Note

Small businesses contribute the greatest number of new jobs during declining and slow-growth economic periods.

Enrichment

Have students work in small groups to name businesses in the community that may be run by one person only. Possible answers might include individuals who clean homes, sell umbrellas on streets, do carpentry work, and run newspaper stands.

B. Growth of Small Business

C. Growth of Franchise Business

D. Risks of Ownership

E. Obligations of Ownership

V. INTRAPRENEURSHIP

Enrichment

Determine whether any of the employed students would like to share ideas they might have about experimenting with new ways to perform their jobs that might benefit their employers. These ideas could be shared with the class in the form of an oral report.

VI. IMPORTANCE OF STUDYING BUSINESS PRINCIPLES AND MANAGEMENT

BUSINESS INNOVATION (P. 12)

EFFICIENCY AND EFFECTIVENESS—DELL DIRECT

1. Buyers who know what they want can order easily by using a phone, fax, or Internet. The company has low prices, well-regarded and highly rated products, solid guarantees, customer help lines, product catalogs, and is on the cutting-edge of the computer field.

2. Dell provides effectiveness by offering what customers want: convenience in ordering, computers tailored to customer needs, fast delivery, competitive prices, and computer repair service.

3. To provide efficiency, Dell keeps inventories low, does not assemble computers until orders are received, does not sell through stores where prices would be higher, and uses inexpensive marketing methods: toll-free telephone number and the Internet.

4. Student answers will vary.

BUILD VOCABULARY POWER (P. 23)

1. **business:** an organization that produces or distributes a good or service for profit.

2. **production:** making a product or providing a service.

3. **manufacturing firms:** businesses that produce goods.

4. **service firms:** businesses that provide assistance to satisfy specialized needs through skilled workers.

5. **finance:** all money matters related to running a business.

6. **industrial businesses:** firms that produce goods that are used by other businesses or organizations to make things.

7. **third world nations:** countries that have few manufacturing firms and a population that is generally poor.

8. **commercial businesses:** firms engaged in marketing, in finance, and in furnishing services.

9. **services:** intangible products that use mostly labor to satisfy consumer needs.

10. **industry:** all businesses within a category.

11. **global competition:** the ability of profit-making organizations to compete with other businesses in other countries.

12. **effectiveness:** occurs when an organization makes the right decisions about what products or services to offer customers and how to produce and deliver them.

13. **efficiency:** occurs when an organization produces needed goods or services quickly and at low cost.

14. **domestic goods:** products made by firms in the United States.

15. **foreign goods:** products made by firms in other countries.

16. **total quality management (TQM):** a commitment to excellence that is accomplished by teamwork and continual improvement.

17. **output:** the quantity produced within a given time.

18. **productivity:** producing the largest quantity in the least amount of time by using efficient methods and modern equipment.

19. **mass production:** use of up-to-date equipment and assembly line methods to produce large quantities of identical goods.

20. **downsize:** cutting back on the goods and services provided and the number of employees.

21. **empowerment:** letting workers decide how to perform their work tasks and offer ideas on how to improve the work process.

22. **gross domestic product (GDP):** the total market value of all goods and services produced in a country in a year.

23. **underground economy:** income that escapes being recorded in the GDP.

24. **entrepreneur:** a person who starts, manages, and owns a business.

25. **small business:** any business that is operated by one or a few individuals.

26. **franchise:** a legal agreement in which a distributor buys the right to sell the franchising company's product or service under the company's name and trademark.

27. **franchisor:** the parent company of a franchise agreement that provides the product or service.

28. **franchisee:** the distributor of a franchised product or service.

29. **intrapreneur:** an employee who is given funds and freedom to create a special unit or department within a company in order to develop a new product, process, or service.

30. **employee stock ownership plan (ESOP):** permits employees to directly own the company in which they work by allowing them to buy shares in it.

REVIEW FACTS (P. 23)

1. About 22 million.
2. Production, marketing, and finance.
3. General services and wholesale and retail trade.
4. Service businesses.
5. Specialization including mass production, technology and innovation, and reorganization.
6. The quality of employees' work improves and they do it faster, but there is less need for managers, which means fewer levels of management are needed. Workers, however, must receive greater training and make more decisions.
7. The GDP provides a measure of economic success and economic growth. It allows for comparisons from year to year and comparisons among countries.
8. Some possible answers might include that the large majority own refrigerators, color TVs, microwave ovens, clothes washers, and cordless phones. Over half of all U.S. households have answering machines and a third own personal computers. In addition, over 65 percent of all families live in homes they own. Also, family savings are substantial, and most Americans travel in this country and abroad.
9. It is relatively easy. Nearly anyone is permitted to start a small firm.

10. About half of the GDP, and over half the total number of workers are employed by small businesses with fewer than 500 employees.

11. Some franchisee advantages include (a) exclusive rights to sell the franchised product or service in a specified geographical area, (b) help in selecting a location, (c) training and advice in how best to operate the business, and (d) benefiting from or receiving advertising and promotional materials. In addition, the chance of succeeding with a franchise is better than with a firm starting totally on its own.

12. One danger is failing, which can happen through fraudulent franchisors that may require higher fees, the purchase of supplies from the franchisor at higher prices than available elsewhere, and the possibility of a competing franchise opening nearby.

13. Economic causes and financial causes.

14. Intrapreneurship enables a company to keep valuable employees who provide the company with innovative products and services.

15. A company obtains funds when employees buy shares. Also, having part ownership in the company motivates workers to increase productivity to make their company a success.

DISCUSS IDEAS (P. 24)

1. An industrial firm makes goods that are sold to other businesses for their use in making goods, whereas a manufacturing firm makes goods that are typically sold to customers through stores.

2. Computers have increasingly influenced the way businesses do business. Computers help businesses produce products as well as keep track of billing, inventory, and customer information. Computers are now involved in most key business functions. Use of the Internet has also had a significant impact on business operations.

3. a. In recent years, manufacturing has been growing at a slower rate than the other four categories. These firms are continuing to downsize, and if change does not soon occur, the extent of manufacturing in the country will continue to decline.

b. The cause of the decline is global competition and a slow economy.

c. Manufacturing firms are becoming more effective and efficient, so they may not only regain their former strength but also become more dominant in global manufacturing. The figures look bleak, but changes in how manufacturing firms operate have been occurring and should soon show more growth than in the past.

4. Both effectiveness and efficiency are of great importance to the long-run survival of any firm. However, authorities say that effectiveness is more important because it is the first item that needs to be addressed. If a firm is not doing the right thing, its products or services will not be in demand and will, therefore, lack customers. However, many firms can inefficiently make products when demand is strong and supply is weak and still do well. When supply is readily available and is larger than or equal to demand, inefficient firms are driven out by efficient ones who can charge less and still make a profit. During hard economic times, experts usually agree that effectiveness is more important than efficiency.

5. Different groups of workers could specialize in making each of the following parts: wheels, tires, pedals, handlebars, frame, engine, chain, sprockets, and any other of the basic parts of a motorcycle plus accessories.

6. No. A major problem in a global economy is that although America has produced many fine inventions and created new processes for getting things done, there is no guarantee that some other country cannot make the products or use the processes more efficiently. In fact, the Japanese invent far fewer products than the United States, but in the past they sometimes produced higher-quality products at lower prices.

7. People with less education who need little training and do not wish to accept the responsibility of decision making might prefer to be specialists on an assembly line. They would neither have to think about their jobs before and after work nor worry about going to training programs. When problems arise, they tell a manager or another specialist who solves the problem. People who like empowerment are usually those with more education, like being involved in decision making, and like working closely with others to solve problems. Often they desire training in order to better solve problems.

8. Business transactions that occur in the underground economy do not get included in the GDP. As a result, the actual GDP is larger than the amount reported. Solving this problem is difficult. Better enforcement by state and federal authorities of the tax reporting law is one possibility; another is to educate people about moral and ethical conduct. Avoiding paying taxes is unfair to everyone.

9. A person might not want to pay a high monthly percentage of sales to the parent company, might not want the management expertise provided by the parent company, may not like the heavy controls exercised by some franchisors, and may feel highly confident about succeeding on their own.

10. Risks of a service station owner include the opening of a new service station nearby; a decaying neighborhood that increases the chance of theft and loss of customers; gas leaking from underground tanks that cause the station to be closed by officials; the death of a partner; shortage of capital to cover costs; an accident that kills the owner; making a two-way street a one-way street, etc.

11. Employers are obligated to insure that the welfare of their workers will not be sacrificed for the benefit of others, and in their employment relations, their rights will be respected. Employers are also obligated to pay the employee a reasonable wage for services performed, to provide healthy working conditions, and to respect the employee's rights. Employees should realize that a business cannot operate successfully, and thereby provide jobs, unless each worker is properly trained and eager to work. Employees should also render reasonable services for the pay received, to be loyal, and to respect the rights of the employer and other employees.

12. Employees, consumers, and citizens need to understand how business operates in order to become competent workers, to become supervisors or executives of companies, or to contribute as employees in the business world. No matter what they do in life, all people interact with business. Everyone is a stakeholder in one form or another and is affected by business behavior. Consequently, each individual can influence business when voting at the polls and when buying goods and services. Knowledgeable people make better decisions when deciding what careers to enter, when applying for jobs, when selecting products and services to purchase, and when voting. Some believe that all students should have a course on understanding business.

ANALYZE INFORMATION (p. 25)

1. a. Production industries: $8.320 + .634 + .634 = 9.6$ employees (in millions); other industries: $46.393 + 26.777 + 5.738 + 9.208 = 88.1$ employees (in millions).

b. $88.1 - 9.6 = 78.5$. Then $78.5 \div 9.6 = 8.177 = 817.7\%$.

2. a. \$1,036,000,000,000.

b. 1970-1980: $2.784 - 1.036 = 1.748$; $1.748 \div 1.036 = 1.6873 = 168.73\%$. 1980-1990: $5.744 - 2.784 = 2.96$; $2.96 \div 2.784 = 1.063 = 106.3\%$. 1990-1997: $8.080 - 5.744 = 2.336$; $2.336 \div 5.744 = .40668 = 40.7\%$.

c. $8.080 - 1.036 = 7.044$; $7.044 \div 1.036 = 6.7992 = 679.9\%$.

d. $679.9\% \div 28 \text{ years} = 24.282 = 24.3\%$ per year.

3. a. $\$25,000 + \$600 = \$25,600$.

b. $\$12,500 + \$21,500 = \$34,000$ [sale of car = $\$31,000 - \$3,500 - \$6,000 = \$21,500$].

c. $\$25,600 + \$34,000 = \$59,600$; $\$34,000 \div \$59,600 = .5705 = 57.05\%$.

d. Yes. His total earnings should have been reported as the basis for calculating last year's income taxes. Every citizen has a responsibility to obey the law. Ramon did not, but he should file a corrected income tax return for last year.

4. The intent is to engage students to think about questions and answers that need to be resolved when one considers starting a new business. This is also an opportunity for critical and creative thinking. Group work is important, and students should be challenged to work as a group in productive ways—no going along with the crowd, raising tough questions, challenging ideas, etc.

5. Global competition is the focus of the task. Points to be covered include the extent of global competition, problems firms face, what they have done such as downsize, merge, etc. Look for key chapter points when reviewing student results.

SOLVE BUSINESS PROBLEMS (P. 26)

Case 1-1

1. Kirk did not adapt to change in time. It continued to use old management methods; it did not seek information from or about customers; and it ignored the two main guidelines of focusing on effectiveness and efficiency. (Note: The well-known Schwinn Company had characteristics similar to this firm.)

2. Kirk managers must become more customer- and dealer-focused, which it can do by getting feedback from customers directly after they have used the bikes for awhile, learning what customers like and dislike about the bikes, providing for customer service once customers buy bikes, and listening to dealers who are in daily contact with customers.

3. The company can empower workers, use work teams to improve productivity, make a com-

mitment to total quality management, consider applying for a Malcolm Baldrige National Quality Award, experiment with new technology and innovative bike-making processes, improve how the work flows in the company, and consider joint agreements with other firms.

4. Answers will vary and may contain one of several themes: adaptation to change, failure to listen to customers, or inability of the firm to reinvent itself.

5. Answers will vary.

Case 1-2

1. Emi and Rosa did not thoroughly investigate the company. They might have talked with other franchisees, for example, and have asked the franchisor about future branch openings in the area. Additionally, they could have contacted organizations that analyze franchise operations for weaknesses in the company. Considering they are new at this, however, they have done reasonably well. They appear to be making a profit and thus are successful, but not to the extent they had desired.

2. Answers will differ, but critical thinking should occur. Students are now forced to see the franchisor's problem. Franchisees, however, complained extensively about the practices of franchisors who follow this pattern.

3. Students may suggest a variety of actions, including joining with other area franchisees to complain to the franchisor with letters and meetings, writing editorials for local business publications, complaining to the Better Business Bureau or Chamber of Commerce, and forming or joining a national organization to lobby against the franchisor's actions. Students may also offer other possible solutions.

4. Read your franchise agreement carefully, compare it to other similar franchise contracts, talk with at least three other franchisees, hire an attorney to assist you, check on reviews from various written reports about the company, and ask questions about the projected future of the firm. Students may also provide other valuable responses.