CHAPTER ONE

UNDERSTANDING ECONOMIC SYSTEMS AND BUSINESS

CHAPTER OVERVIEW

A business is an organization that strives for a profit by providing goods and services desired by its customers. Goods are tangible items manufactured by businesses, such as laptops. Services are intangible offerings of businesses that can't be held, touched, or stored. A not-for-profit organization is an organization that exists to achieve some goal other than the usual business goal of profit.

Organizations require inputs in the form of resources called factors of production; including natural resources, labor (human resources),capital, and entrepreneurship. The external business environment is composed of seven key sub-environments: economic, political and legal, demographic, social, competitive, global, and technological. Each of these sectors creates a unique set of challenges and opportunities for businesses.

Economics is the study of how a society uses scarce resources to produce and distribute goods and services. A nation's economic system consists of the combination of policies, laws, and choices made by its government to establish the systems that determine what goods and services are produced and how they are allocated. Today the world's major economic systems fall into two broad categories: free market, or capitalism; and planned economies, which include communism and socialism.

Economics has two main subareas. Macroeconomics is the study of the economy as a whole. It looks at aggregate data for large groups of people, companies, or products. In contrast, microeconomics focuses on individual parts of the economy, such as households or firms. Economists classify unemployment into four types: frictional, structural, cyclical, and seasonal.

Government tries to guide the economy to a sound balance of growth, employment, and price stability through monetary policy and fiscal policy. Demand is the quantity of a good or service that people are willing to buy at various prices. Supply is the quantity of a good or service that businesses will make available at various prices.
Economists identify four types of market structures: (1) perfect competition, (2) pure monopoly, (3) monopolistic competition, and (4) oligopoly.

Trends in the business and economic environment include changing workforce demographics, global energy demands, and competitive challenges.

LEARNING OUTCOMES

- **1. How do businesses and not-for-profit organizations help create our standard of living?**

  Businesses attempt to earn a profit by providing goods and services desired by their customers. Not-for-profit organizations, though not striving for a profit, still deliver many needed services for our society. Our standard of living is measured by the output of goods and services. Thus, businesses and not-for-profit organizations help create our standard of living.

  Businesses require the factors of production—natural resources, labor (human resources), capital, and entrepreneurship, and knowledge—to produce foods and services and manage the business. The companies that will succeed in this new era will be those that learn fast, use knowledge effectively, and develop new insights.

- **2. What are the sectors of the business environment, and how do changes in them influence business decisions?**

  The external business environment consists of economic, political and legal, demographic, social, competitive, global, and technological sectors. Managers must understand how the environmental changes the impact of those changes on the business. When economic activity is strong, unemployment rates are low and income levels rise. The political environment is shaped by the amount of government intervention in business affairs, the types of laws it passes to regulate both domestic and foreign businesses, and the general political stability of a government.

  Demography is the study of people's vital statistics; such as their age, gender, race and ethnicity, and location. Demographics help companies define the markets for their products and determine the size and composition of the workforce, so they are very important to consider when making business decisions. Businesses today must develop different marketing approaches, goods, and services to meet the unique preferences of Generations X and Y, Millennials, and the Baby Boomers.

  The population is becoming increasingly diverse. Minorities' buying power has increased significantly as well, and companies are developing products and marketing campaigns that target different ethnic groups. Minorities now represent more than 38 percent of the total population, with immigration bringing millions of new residents to the country over the past several decades.

By 2060 the U.S. Census Bureau projects the minority population to increase to 56 percent of the total U.S. population.

Social factors—our attitudes, values, and lifestyles—influence what, how, where, and when people purchase products. They are difficult to predict, define, and measure because they can be very subjective. They also change as people move through different life stages.

Global competition is basically an uncontrollable element in the external environment, but firms can influence external events through its strategies. For example, firms often spent money lobbying activities in the nation's capital to help policy makers understand their industry.

Technology is the application of science and engineering skills and knowledge to solve production and organizational problems. New equipment and software that improve productivity and reduce costs can be among a company's most valuable assets.

- **3. What are the primary features of the world's economic systems, and how are the three sectors of the economy linked?**

Economics is the study of how individuals, businesses, and governments use scarce resources to produce and distribute goods and services. A business's success depends in part on the economic systems of the countries where it is located and where its sells its products. A nation's economic system is the combination of policies, laws, and choices made by its government to establish the systems that determine what goods and services are produced and how they are allocated.

In recent years, more countries have shifted toward free-market economic systems and away from planned economies.

Capitalism, also known as the *private enterprise system*, is based on competition in the marketplace and private ownership of the factors of production (resources). A capitalist system guarantees certain economic rights: the right to own property, the right to make a profit, the right to make free choices, and the right to compete. The right to own property is central to capitalism.

In a communist economy, the government owns virtually all resources, and economic decision-making is done by central government planning. Governments have generally moved away from communism because it is inefficient and delivers a low standard of living. Socialism is another centralized economic system in which the basic industries are owned by the government or by the private sector under strong government control. Other industries may be privately owned. The state is also somewhat influential in determining the goals of business, the prices and selection of products, and the rights of workers. Most national economies today are a mixed economy; that is, they use more than economic system.

The two major areas in economics are macroeconomics, the study of the economy as a whole; and microeconomics, the study of households and firms. The individual, business, and government sectors of the economy are linked by a series of two-way flows. The government provides public goods and services for the other two sectors and receives income in the form of taxes. Changes in one flow affect the other sectors.

- **4. How do economic growth, full employment, price stability, and inflation indicate a nation's economic health?**

A nation's economy is growing when the level of business activity, as measured by gross domestic product (GDP), is rising. GDP is the total value of all goods and services produced in a year. The goal of full employment is to have a job for all who can and want to work. How well a nation is meeting its employment goals is measured by the unemployment rate. There are four types of unemployment: frictional, structural, cyclical, and seasonal. With price stability, the overall prices of goods and services are not moving very much either up or down. Inflation is the general upward movement of prices. When prices rise, purchasing power falls. The rate of inflation is measured by changes in the consumer price index (CPI) and the producer price index (PPI). There are two main causes of inflation. If the demand for goods and services exceeds the supply, prices will rise. This is called demand-pull inflation. With cost-push inflation, higher production costs, such as expenses for materials and wages, increase the final prices of goods and services.

- **5. How does the government use monetary policy and fiscal policy to achieve its macroeconomic goals?**

Monetary policy refers to actions by the Federal Reserve System (the Fed) to control the amount of money circulating in the economy and interest rates. When the Fed restricts the money supply, interest rates rise, the inflation rate drops, and economic growth slows (contractionary policy). By expanding the money supply, the Fed stimulates economic growth (expansionary policy).

The government also uses fiscal policy—changes in levels of taxation and spending—to control the economy. Reducing taxes or increasing spending stimulates the economy; raising taxes or decreasing spending does the opposite. When the government spends more than it receives in tax revenues, it must borrow to finance the federal budget deficit. Some economists favor deficit spending to stimulate the economy; others worry about our high level of national debt.

- **6. What are the basic microeconomic concepts of demand and supply, and how do they establish prices?**

  Demand is the quantity of a good or service that people will buy at a given price. Supply is the quantity of a good or service that firms will make available at a given price. When the price increases, the quantity demanded falls, but the quantity supplied rises. A price decrease leads to increased demand but a lower supply. At the point where the quantity demanded equals the quantity supplied, demand and supply are in balance. This equilibrium point is achieved by market adjustments of quantity and price.

- **7. What are the four types of market structure?**

  Market structure is the number of suppliers in a market. Perfect competition is characterized by many buyers and sellers, very similar products, good market information for both buyers and sellers, and ease of entry and exit into the market. In a pure monopoly, there is a single seller in a market. In monopolistic competition, many firms sell close substitutes in a market that is easy to enter. In an oligopoly, a few firms produce most or all of the industry's output. An oligopoly is also difficult to enter and what one firm does will influence others.

- **8. Which trends are reshaping the business, microeconomic, and macroeconomic environments and competitive arena?**

  To remain competitive, businesses must identify and respond to trends in the various sectors of the business environment. As the population ages, large numbers of baby boomers are approaching retirement age. Companies must plan for this exodus of employees and find ways to retain the vast amounts of knowledge they represent. Many older workers are choosing to continue working after traditional retirement age, creating a five-generation workforce.

  Worldwide demand for energy, especially from China and India, is challenging oil companies to increase supplies or to find alternative technologies to produce more oil, such as fracking. U.S. vulnerability to disruptions in energy supply became painfully apparent when Hurricane Katrina put Gulf Coast refineries and offshore drilling rigs out of commission. Companies are using relationship management and strategic alliances to compete effectively in the global economy.

LECTURE OUTLINE

I. The Nature of Business > Learning Outcome 1

A **business** is an organization that strives for a profit by providing goods and services desired by its customers. **Goods** are tangible items manufactured by businesses; **services** are intangible offerings of businesses. Goods and services are the basis of our **standard of living**, which is measured by the output of goods and services people can buy with the money they have.

A. Not-for-Profit Organizations

A **not-for-profit organization** is an organization that exists to achieve some goal other than the usual business goal of profit.

What constitutes a not-for-profit organization?
The not-for-profit must be organized and operate to achieve some goal other than the usual business goal of profit. For example, a not-for-profit organization might seek to feed the poor, preserve the environment, increase attendance at the ballet, or prevent drunk driving. Not-for-profit organizations do not complete directly with one another in the same manner as for-profit companies. However, they do complete for talented employees, people's limited volunteer time, and donations. **Source**: Masters, Terry. "The Major Accounting Differences Between Profit & Non Profit Organizations." Small Business - Chron.com, Chron.com, 27 June 2018, smallbusiness.chron.com/major-accounting-differences-between-profit-non-profit-organizations-26257.html.

B. Factors of Production: The Building Blocks of Business

Factors of production are the resources used to create goods and services. Factors of production include the following: natural resources, labor (human resources), capital, entrepreneurship, and knowledge.

1. **Natural Resources.** Natural resources, including farmland, forests, mineral and oil deposits, and water, are commodities that are useful inputs in their natural state.

2. **Labor.** The human resource element in business, **labor**, encompasses the economic contributions of people working with their minds and muscle.

3. **Capital.** The tools, machinery, equipment, and buildings used to produce goods and services and get them to the consumer are known as capital.

4. **Entrepreneurship.** Entrepreneurs are people who combine the inputs of natural resources, labor, and capital to produce goods and services with the intention of making a profit or accomplishing a not-for-profit goal.

5. **Knowledge.** Knowledge is the combined talents and skills of the workforce and has become a primary driver of economic growth.

II. Understanding the Business Environment > Learning Outcome 2

Businesses operate in a dynamic environment that has a direct influence on how they operate and whether they will achieve their objectives. The external environment is composed of seven key sub-environments: economic, political and legal, demographic, social, competitive, global, and technological.

Business owners and managers have more control over the internal environment of the business, which includes the day-to-day decisions that are made. The internal environment includes sub-environments as entrepreneurs, managers, workers, and customers.

A. Economic Forces

Economic forces are highlighted since it is one of the most important external influences on businesses. Fluctuations in the level of economic activity create *business cycles* that affect businesses and individuals in many ways. Some examples include inflation, interest rates, unemployment rates, taxes, and supply and demand.

B. Political and Legal Factors

The political climate of a country is another critical factor for managers to consider. The amount of government activity, the types of laws it passes, and the general political stability of a government all affect a business. The legal environment is discussed in greater detail in the Appendix.

C. Demographic Factors

Demography is the study of people's vital statistics; such as their age, gender, race and ethnicity, and location. Demographic factors are an uncontrollable factor in the business environment yet extremely important to managers since they define the markets for their products and determine the size and composition of the workforce. Today's workforce spans five generations: recent college graduates (Generation Z); people in their 30s and 40s (millennials and Generation X); baby boomers; and traditionalists (people in their 70s).

Lecture Tidbit: The labor force will continue to age, with the average annual growth rate of the 55-years-and-older group projected to be 1.8 percent, more than 3 times the rate of growth of the overall labor force. The group's share of the labor force is anticipated to increase to nearly 25 percent in 2024.
Source: *Labor force projections to 2024: the labor force is growing, but slowly*. (December 2015). Retrieved August 9, 2018, from https://www.bls.gov/opub/mlr/2015/article/labor-force-projections-to-2024.htm.

How can a manager deal with the ever-increasing age differences among employees found in the workplace as people live longer and choose to stay in the workforce?

The key is to remember each of the five generations is motivated by different things.

Gen Zers are motivated by social rewards. They value meaningful work and responsibility. Motivate them by opportunities for personal growth.

Gen Yers have a global and diverse perspective that other generations did not have. They are driven by a need for instant gratification. A challenge is motivating them to get involved and retain them for a sustained period. Money is an attraction to Gen Yers. Some ways to motivate them are to give continuous feedback so that they feel they are working in an environment where there is open communication and that they are valued.

A manager's goal with Gen Xers is to have them work with you and not for you. Avoid judging and demonstrate competence to earn their respect. Accommodate individual needs whenever possible.

Baby Boomers tend to get involved because it is the right thing to and because they believe in giving back to their community. Boomers value tradition, competition, and loyalty. They like being the star of the show; to have the big idea and get credit for it.

A few traditionalists remain in the workforce. It's important that they are respected for their loyalty, and they value money.

Source: Rampton, John. "Different Motivations for Different Generations of Workers: Boomers, Gen X, Millennials, and Gen Z." *Inc.com*, Inc., 17 Oct. 2017, www.inc.com/john-rampton/different-motivations-for-different-generations-of-workers-boomers-gen-x-millennials-gen-z.html.

Lecture Tidbit: Minorities represent more than 38 percent of the total population, with immigration bringing millions of new residents to the United States over the past several decades. By 2060, the U.S. Census Bureau projects the minority population to increase to 56 percent of the total U.S. population.

Source: The United States Census Bureau. (2015). Retrieved August 8, 2018, from https://www.census.gov/newsroom/press-releases/2015/cb15-tps16.html.

D. Social Factors

Social factors include our attitudes, values, and lifestyles. Because social factors are very subjective, they are often difficult to define and measure. They change as we move through different life stages. Social factors influence the products people buy, the prices they pay, the effectiveness of specific promotions, and how, where, and when people expect to purchase products. Changing roles have brought more women into the workforce. A renewed emphasis on ethical behavior within organizations has managers and employees searching for the right approach when it comes to gender inequality, sexual harassment, and other social behaviors that impact the potential for a business's continued success. Companies that track customer attitudes, values, and interests have a competitive advantage.

E. Technology

Technology is the application of science and engineering skills and knowledge to solve production and organizational problems. Mobile technology, cloud computing, and robots are examples of technology that help businesses create change, improve efficiencies, and streamline operations. Our ability as a nation to maintain and build wealth depends in large part on the speed and effectiveness with which we use technology.

III. How Business and Economies Work > <u>Learning Outcome 3</u>

An **economic system** is a combination of policies, laws, and choices made by government, to determine what goods and services are produced and how they are allocated.

A. Global Economic Systems

1. **Capitalism**. In recent years, more countries have shifted to free market economies and away from planned economies. **Capitalism**, also known as private enterprise system, is based on competition in the marketplace and private ownership of the factors of production.

2. **Communism.** In a communist economic system, the government owns virtually all resources and controls all markets. North Korea and Cuba are the best remaining examples of communist economic systems.

3. **Socialism** is an economic system in which the basic industries are owned by the government or by the private sector under strong government

control; the United Kingdom, Denmark, India, and Israel have socialist systems.

4. **Mixed** Economic **Systems. Mixed economies** use more than one economic system, such as a country in which the government owns certain industries while others are owned by the private sector; Canada, Sweden, and the United Kingdom are examples.

> **Explain the trend toward privatization around the world.**
>
> Privatization involves transferring ownership of a state-owned resource to the for-profit private sector. Privatization occurs as more countries are moving toward free-market systems. Countries such as Great Britain, Mexico, Argentina, Israel, France, Sweden, and even China are privatizing some of their government-owned enterprises and selling them to privately held firms. For example, Great Britain sold the national steel company, telephone company, water company, Heathrow Airport, and the plant that makes Rover automobiles. Examples of privatization in the United States include airport operations and corrections facilities. Some free-market economists believe that some governmental programs such as social security would benefit from privatization.
>
> **Source:** Edwards, Chris. (2016). Downsizing the Federal Government. Retrieved August 9, 2018, from https://www.downsizinggovernment.org/privatization.

B. Macroeconomic and Microeconomics

Macroeconomics is the study of the economy as a whole. It looks at aggregate data, data for large groups of people, companies, or products. In contrast, **microeconomics** focuses on individual parts of the economy, such as households or firms.

C. Economics as a Circular Flow

One way to see how the sectors of the economy interact is to examine the **circular flow** of inputs and outputs among households, businesses, and governments. Changes in one flow affect the others.

IV. MACROECONOMICS: THE BIG PICTURE > <u>Learning Outcome 4</u>

The United States and most other countries have three main economic goals: economic growth, full employment, and price stability.

A. Striving for Economic Growth

The first macroeconomic goal is economic growth. An increase in a nation's output of goods and services is **economic growth**; the most basic measure of economic growth is the **gross domestic product** (GDP), which is the total market value of all final goods and services produced within a nation's borders each year. A decline in GDP that lasts for two consecutive quarters is called a **recession**.

B. Keeping People on the Job

The second macroeconomic goal is full employment. **Full employment** is the condition when all people who want to work and can work have jobs.

1. **Measuring Unemployment.** The **unemployment rate** indicates the percentage of the total labor force that is not working but is actively looking for work.

How does the U.S. unemployment rate compare to unemployment rate of countries around the world?

The U.S. economy is generally thought to be strong when compared to other countries, even though there are some countries which have a lower unemployment rate. Generally, the U.S. unemployment rate compares favorably with most countries. For example, in 2018, the U.S. unemployment rate was approximately 4 percent. Here are 2018 figures for other countries:

Japan: 2%
Mexico: 3.9%
Canada: 5.8%
Spain: 17.1%
South Africa: 27.6%
Haiti: 50%

Source: "COUNTRY COMPARISON :: UNEMPLOYMENT RATE.2018. " Central Intelligence Agency, Central Intelligence Agency, www.cia.gov/library/publications/resources/the-world-factbook/rankorder/2129rank.html.

2. **Types of Unemployment.** Employers classify unemployment into four types. The categories help economists understand the problem of unemployment in our economy.

   a. **Frictional Unemployment. Frictional Unemployment** is a short-term unemployment that is not related to the business cycle; this includes people who are unemployed while waiting to start a better job, those who are reentering the workforce, and those entering for the first time.

   b. Structural **Unemployment. Structural Unemployment** is caused by a mismatch between available jobs and the skills of available workers in an industry or region; it is not related to the business cycle.

c. **Cyclical** Unemployment**.** **Cyclical Unemployment** occurs when a downturn in the business cycle reduces the demand for labor throughout the economy.

d. **Seasonal Unemployment. Seasonal Unemployment** occurs during specific seasons in certain industries.

C. Keeping Prices Steady

The third macroeconomic goal is to keep overall prices for goods and services steady. The situation in which the average of all prices of goods and services is rising is called **inflation**; inflation's higher prices reduce **purchasing power**; the value of what money can buy.

1. **Types of Inflation.** There are two types of inflation.

   Demand-pull Inflation. Demand-pull inflation occurs when the demand for goods and services is greater than the supply.

   Cost-push Inflation. Cost-push inflation is triggered by increases in production costs, such as expenses for materials and wages.

2. **How Inflation is Measured.** The rate of inflation is most commonly measured by looking at changes in the **consumer price index (CPI)**, an index of the prices of a "market basket" of goods and services purchased by typical urban consumers; the **producer price index (PPI)** measures prices paid by producers and wholesalers for such commodities as raw materials, partially finished goods, and finished products.

3. **The Impact of Inflation.** Inflation penalizes people who live on fixed incomes; inflation also hurts savers, since the purchasing power of an individual's saving deteriorates as prices increase.

V. ACHIEVING MACROECONOMIC GOALS > <u>Learning Outcome 5</u>

The government must try to guide the economy to a sound balance of growth, employment, and price stability. The two main tools it uses are monetary policy and fiscal policy.

A. Monetary Policy

Monetary policy refers to a government's programs for controlling the amount of money circulating in the economy and interest rates. The **Federal Reserve System (the Fed)**, the central banking system, prints money and controls how much of it will be in circulation. With **contractionary policy**, the Fed restricts the money supply by selling government securities or raising interest rates; on the other hand, with **expansionary policy**, the Fed increases growth in the money supply.

B. Fiscal Policy

Fiscal policy is the government's use of taxation and spending to affect the economy; when the government takes more money from businesses and consumers and uses these funds for increased government spending, a phenomenon known as **crowding out** occurs. If the government spends more for programs than it collects in taxes, the result is a **federal budget deficit**; the cumulative total of these past deficits is the **national debt**.

The national debt is an emotional issue debated widely. Some people believe that deficits contribute to economic growth, high employment, and price stability. Other people have the following reservations about a high national debt:

1. **Not Everyone Holds the Debt.** The government is very conscious of who bears the burden of the national debt; therefore, the government has provided various bond-holding options as a way of allowing more people to buy and hold government debt.

2. **Crowding Out Private Investment.** If the government raises the interest rates on the bonds it offers, it forces private businesses, which must stay competitive as suppliers of bonds in the bond market, to raise the rates they offer on their corporate bonds.

VI. MICROECONOMICS: ZEROING IN ON BUSINESSES AND CONSUMERS > Learning Outcome 6

Microeconomics is the study of households, businesses, and industries.

A. The Nature of Demand

Demand is the quantity of a good or service that people are willing to buy at various prices; the higher the price, the lower the quantity demanded, and vice versa. A graph of this relationship is called a **demand curve**.

B. The Nature of Supply

Supply is the quantity of a good or service that businesses will make available at various prices; the higher the price, the greater the amount a manufacturer is willing to supply, and vice versa. A graph of the relationship between various prices and the quantities a manufacturer will supply is a **supply curve**.

C. How Demand and Supply Interact to Determine Prices

By plotting both demand and supply curves on the same graph, we see that they cross at a certain quantity and price. At that point, the **equilibrium point**, the quantity demanded equals the quantity supplied.

D. Changes in Demand

Several things can increase or decrease demand. For example, if snowboarder's income goes up, they may decide to buy a second jacket. If the price of a snow jacket rises to $160, jacket demand will fall.

E. Changes in Supply

Many factors also affect supply. For example, technology typically lowers the cost of production; which is often an incentive to supply more jackets.

VII. Competing in a Free Market > Learning Outcome 7

One of the characteristics of a free market system is that suppliers have the right to compete with one another; the number of suppliers in a market is called **market structure**. Economists identify four types of market structures.

A. Perfect Competition

Perfect competition is a market structure in which many small firms sell similar products, buyers and sellers have good information, and businesses can be easily opened or closed.

> **Lecture Tidbit:** One industry that best reflects perfect competition in real life is the agricultural industry. There are many sellers who are selling the same products - fruit, vegetables, and meat. No single seller can influence price. Consumers are free to choose any seller they wish.
> **Source**: "Perfect Competition and Why It Matters." *Khan Academy*, Khan Academy, 2018, www.khanacademy.org/economics-finance-domain/ap-microeconomics/ap-perfect-competition-topic/ap-perfect-competition/a/perfect-competition-and-why-it-matters-cnx.

B. Pure Monopoly

A **pure monopoly** is a market structure in which a single firm accounts for all industry sales and in which there are barriers to entry.

Lecture Tidbit: **A natural monopoly** exists when there is great scope for economies of scale to be exploited over a very large range of output. Natural monopolies tend to be associated with industries where there is a high ratio of fixed to variable costs. The **utility industry** has in the past been a natural monopoly. Like railways and water provision, the existence of several companies supplying the same area would result in an inefficient multiplication of cables, transformers, pipelines etc. However, the perception of what constitutes a natural monopoly is now changing in part because of the impact of new technology in reducing traditional barriers to entry within markets.
Source: "Natural Monopolies." Fiscal Policy, 2018, www.economicsonline.co.uk/Business_economics/Natural_monopolies.html.

C. Monopolistic Competition

Monopolistic competition is a market structure in which many firms offer products that are close substitutes and in which entry is relatively easy.

D. Oligopoly

An **oligopoly** is a market structure in which a few firms produce most or all of the output and in which large capital requirements or other factors limit the number of firms.

Lecture Tidbit: A **duopoly** is a form of oligopoly in which only two firms dominate a market. The market that is dominated by two suppliers to the extent that they jointly control prices. This competition is likely to lead to higher prices and a worse deal for consumers in other ways than a truly competitive market. One of the best examples of a duopoly is Boeing and Airbus, each of which supply approximately 40 percent of the market share of the aerospace industry.
Source: "Duopoly." *Investopedia*, Investopedia, 22 Feb. 2018, www.investopedia.com/terms/d/duopoly.asp.

VIII. Trends in the Business Environment and Competition > <u>Learning Outcome 8</u>

Organizations must identify trends and take appropriate action to remain competitive. Therefore, "trend spotting" has become one of the most valuable skills for today's managers. Many sources are available to track these trends.

What do you feel are some of the trends facing businesses today?

Students will likely include increasing use of technology; including artificial intelligence and drones. E-commerce will continue to grow, replacing brick-and-mortar businesses. Security cyber threats will dictate the need for businesses to increased security measures.

A. Changing Workforce Demographics

Millennials now total more than 40 percent of the total workforce. Today, many workers are delaying retirement past the traditional retirement age of 65. B y 2020, additional generational shifts are projected to occur in the U.S. labor force, which will have an even bigger effect on how companies do business and retain their employees.

Another factor in the changing workforce is the importance of recognizing diversity among workers and fostering an inclusive organizational culture. The most successful organizations will be the ones that recognize the importance of diversity and inclusion as part of their ongoing corporate strategies.

B. Global Energy Demands

As standards of living improve worldwide, the demand for energy continues to rise; driving up prices. Emerging economies such as China and India need energy to grow. The U.S. imports a large percentage of its oil from Canada and Saudi Arabia. Countries worldwide worry about relying too heavily on one source of supply for energy and are seeking out addition sources to prevent being held captive to one supplier.

C. Meeting Competitive Challenges

Many companies are turning to **relationship management** as a strategy to remain competitive in the global marketplace. **Relationship management** is the practice of building, maintaining, and enhancing interactions with customers and other parties to develop long-term satisfaction through mutually beneficial partnerships. It includes both supply chain management, which builds strong bonds with suppliers, and relationship marketing, which focuses on customers.

Another way companies stay competitive is through strategic alliances (also called strategic partnerships). The trend toward these cooperative agreements is accelerating rapidly.

PREPARING FOR TOMORROW'S WORKPLACE

Student responses will vary.

ETHICS ACTIVITY

Students responses will vary. Student responses will vary. Volkswagen (VW) will need to focus on changing its organizational culture to ensure that its leadership and employees comply with U.S. emissions standards. Transparency will be necessary to help regain consumer's confidence after this scandal. Most students will agree that the billions of dollars in fines that VW will have to pay are justified; for deceiving consumers not only in the U.S. but other countries as well.

WORKING THE NET

Student responses will vary.

CREATIVE THINKING CASE: Walmart Gets Serious about E-Commerce

1. Because of purchasing established web businesses, Walmart gains many advantages. For example, there are fewer unknowns since these established web businesses have a previous record of sales along with loyal customers. Walmart is also purchasing brand recognition in companies such as Jet.com, ShoeBuy, and Moosejaw. These established online companies already have established relationships with their suppliers. Existing employees are often retained after the purchase, which reduces the costs of recruiting and training new employees. Current policies and procedures are in place, which can be adopted or refined as necessary. Finally, positive cash flow begins the day the minute the ownership occurs.

2. Walmart is hoping to attract an atypical, perhaps more upscale, customer base with its purchase of non-traditional online businesses such as Bonobos and ModCloth, both of which are considered hip fashion retailers. However, some customers of these established, hip online companies are not a fan of Walmart because of its extreme size as well as the negative publicity regarding treatment of its employees. Walmart is often seen by the "cool" kids as a very "uncool" place to shop. Therefore, some of the customers of these e-tailers may choose to boycott their favorite brands.

   In addition, Walmart may find that some of its existing customers do not have the discretionary income to necessary to justify purchase of the prestige products of the nontraditional e-tailers it is purchasing. Further, older, loyal Walmart customers may need training on how to purchase online or may not trust using online commerce sites.

3. The full effects of Walmart's aggressive e-commerce plan are yet to be known. However, Walmart has already announced closing of several of its Sam's Club

stores; resulting in loss of employment. Customer expectations are changing, as they choose to shop less at big box stores but rather use these locations to browse and test products before buying online. Walmart's retail locations may become more of a space to pick up online purchases.