

Needs, Wants, and Business

KEY TERMS

needs
wants
consumer
trends
fads
business
good
services
interdependence
producer
manufacturer
business environment
business-to-business
market
demand
production
factors of production
land
capital
labour
information
entrepreneurship
marketing
human resources
management
finance

Specific Expectations

After studying this chapter, you will be able to

- describe the concept of demand and the conditions that give rise to demand
- explain how needs, wants, and demand create opportunities for business
- compare the ways in which different companies address similar consumer needs and wants

What role does business play in your life? You certainly need and want the goods and services that business offers. And businesses need you to buy what they produce and offer. Business and consumers depend on each other. But what is business and how does it work? What factors does a business person have to consider to be successful? How do businesses find markets where they can sell their products and services? How do they convince consumers to buy their products? In this chapter, you will examine how business works and how consumers' needs and wants create opportunities for business. You will also be introduced to the functions of business.

Business and Simone

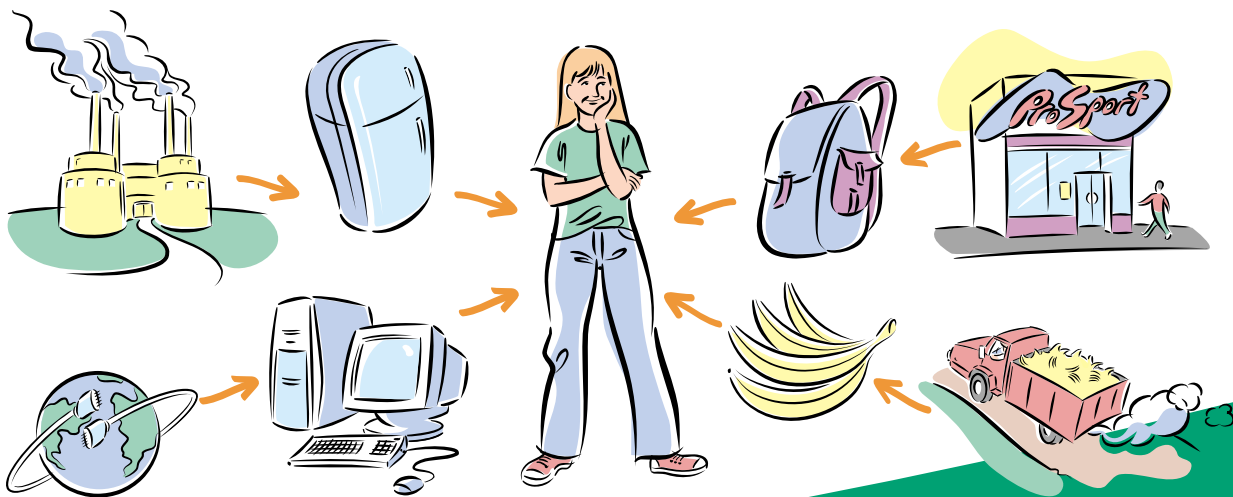
Simone's clock radio goes off for the third time at 7:30 on a Monday morning. Now she has to get up. She looks outside and sees that it has snowed overnight. After she showers, Simone dresses warmly, thankful that she's got those great new boots and warm sweater. Then she goes down to the kitchen and has breakfast. Nothing fancy, just the usual: orange juice, a banana, her favourite cereal, and milk, lots of fresh cold milk. Next she checks her backpack for books, computer disk, her English report, and lunch.

Simone walks to the corner to wait for the school bus which will probably be late—yet again—because of the snow. As she walks, she thinks about the busy day ahead: she has to hand in an English report (it's a good thing that her Mom bought a new printer cartridge), work on an Internet research project with her business team, and get to a dentist appointment after school.

Simone reminds herself that when she gets back home, she has to shovel Mrs. Ruffino's walk and driveway. Mrs. Ruffino is alone now and she is 82 years old. Many of Simone's neighbours are older people who were very enthusiastic when Simone and her friend, Amy, started a small lawn-mowing business during the summer. Their business grew when a few of the neighbours asked Simone and Amy to keep their walks and driveways shovelled during the winter.

How does Simone's story relate to business? Let's take a closer look!

Figure 1-1 Business supplies many of your needs and wants. Think about how you interact with business every day. How is business affecting your life right now?





Needs and Wants

As Simone got ready for school, she was motivated to satisfy a number of needs and wants. **Needs** are the things you must have in order to stay alive: warmth in winter, clean water and air, food, shelter, and medical care. **Wants** are the extras; you don't need them to survive but they make life more pleasant. Your wants might include your favourite brand of cereal, the latest videos, lunch out with friends, a new soccer ball or concert tickets. People's wants are often shaped by their stage in life, their culture, and their personality. For example, Simone's new sweater will not only keep her warm, but it is also a popular brand. That's why she wanted that particular sweater.

What does all of this have to do with business? Businesses exist to earn money for themselves by providing for your needs and wants. As a consumer, you play a critical role in the business environment. A **consumer** is a person or business that buys and uses food, clothing, or anything grown, made, or provided by producers. Simone was able to satisfy most of her needs and wants because of businesses.

- The heat for her family's townhouse came from a natural gas company that supplies fuel for the furnace. The energy that runs the printer and the refrigerator comes from an electricity generating company.
- Simone's new boots came from a store in the local mall, and her favourite sweater from an online catalogue on the Internet.
- The breakfast cereal came from a grocery store, the bananas came by truck from Mexico, and the oranges by train from Florida.
- Simone's milk is kept cold in a refrigerator manufactured by a Canadian appliance company and bought from a Canadian department store.
- The computer printer was made by a manufacturer in Japan, and the printer cartridges came from a company in Quebec.
- Simone's business team at school can research using Web sites because an Internet provider supplies the school with access over phone lines. The Web sites her team visits were created by Web designers, who are likely to be self-employed.
- Even her dentist is in business. He and his sister formed a partnership to provide dental services to Simone's community.

- Simone runs a small home-based business. She and Amy mow lawns in the summer and shovel snow in winter.

Can you find any other links to business in Simone's story? How has business satisfied your needs and wants today?



Community Needs and Wants

Your community also has needs and wants. Someone has to provide transportation so that grocery items get into your local supermarket on time and without spoiling. Garbage and recycling have to be taken care of. Communication tools—on the Internet, television, radio, newspapers and magazines—have to be developed, upgraded, and maintained.

National and international communities also have needs and wants that business fulfills. You can fly from Newfoundland to British Columbia in Canada, or from Canada to anywhere in the world. And you can do this because some businesses manufacture airplanes, others operate the airlines, and still other companies provide the fuel for planes and maintain the airports.

Figure 1-2 This advertisement shows one way that businesses influence your choices as consumers by appealing to your needs and wants. How might this advertisement influence a car buyer to buy a Saturn rather than some other car?

Consumer Needs and Wants

There are as many varieties of needs and wants as there are types of human experience. Almost everything that makes you different from the person next to you on the bus is reflected in your needs and wants. For example, because you attend school, you need a strong backpack to carry books and equipment. And you probably want a backpack that looks great, possibly with a recognizable brand name. On the other hand, the 35-year-old woman sitting next to you on the bus may be concerned about her need for a place to live. If she wants to buy her own home, she will likely be more interested in saving money for a down payment than in more clothes or accessories. Many factors influence consumers' wants and needs—stage of life, interests, tastes, priorities, abilities, family responsibilities, trends, and fads.

Web Connect

<http://www.mcgrawhill.ca/links/exploringbiz>

View some advertisements from the past to see which consumer needs and wants marketers focused on. How have times changed?

Or have they changed?

Consumer Trends and Fads

Both trends and fads influence consumer needs and wants. A **trend** is a general direction in society that may last for a long time. Trends have a major impact on consumer buying habits and on business. For example, the trend towards women entering the workforce has been growing for a number of years. Because of this trend, consumers have demanded convenience foods, extended shopping and banking hours, more versatile household appliances, and more at-home services. Some businesses have become very successful by responding to these consumer needs and wants.

On the other hand, a **fad** is a craze that people take up quickly and then drop just as quickly. Hula hoops were once a fad, so were pet rocks. When you were young, you may have desperately wanted Pokémon stickers or the latest brand of action figures. Consumers don't have a long-term commitment to fads, so they can be very risky for business to get involved in.

Businesses usually prefer to invest in trends rather than fads. The trend is the safer and more predictable investment. It is more likely to indicate new ways for business to successfully satisfy consumer needs and wants.

Biz.Bites

It's not always easy to distinguish a trend from a fad. In the 1920s, David Sarnoff, who became the head of RCA, tried to convince people that the radio was a new technology that consumers would want. He was told, "The wireless music box has no imaginable commercial value. Who would pay for a message sent to nobody in particular?"

Abraham Maslow and Personal Motivation

Abraham Maslow, a psychologist who studied human behaviour, suggested a theory of human motivation which many people believe is valid. Maslow explored the different causes for human actions. He used the word “needs” for these motivations, even those that seem like wants.

Maslow said that humans are motivated to satisfy their needs according to a hierarchy. A hierarchy shows the ranking of higher and lower orders in a system. Maslow used his hierarchy to illustrate how people are motivated to satisfy their most basic physical and safety needs first. Once those needs are filled, Maslow said, people will be motivated by their higher needs for love, esteem, and, finally, self-actualization. Late in his life, Maslow said that the self-actualization motivation included the need to know and explore, the need to find beauty, the need to reach your own potential, and to help other people develop theirs.

But people who have no food or who are in danger during a war are not likely to be very concerned about their esteem or self-actualization needs. Once they eat reasonably well and feel safe, people become interested in satisfying their higher needs. They have the mental, emotional, and physical strength to do so.

Maslow’s theory has been very useful to business people, especially advertisers and marketers. Think about advertisements you’ve seen during the last few days. How many of these appeal to your motivation to have love, acceptance, and esteem?

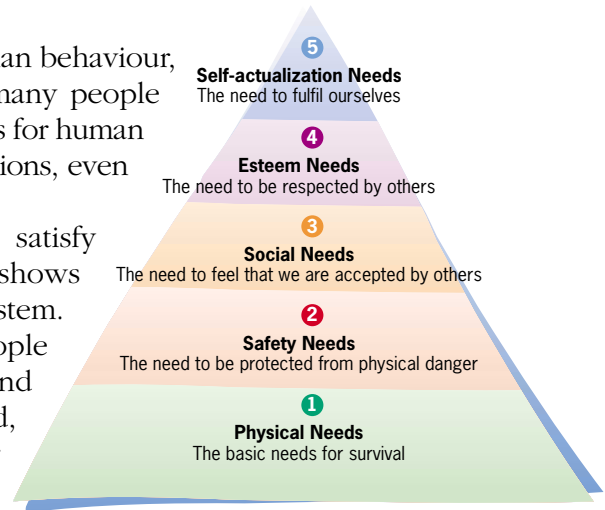


Figure 1-3 People first need to have water, food, clothing, shelter and safety. Then they can think about filling their social, esteem and self-actualization needs.

Competing for Customers

Focus on what motivates you, as a consumer, to buy certain goods and services rather than others. Why do you choose what you do? What are you really looking for when you buy one brand of blue jeans rather than another? Why is there a greater demand for some brands or products than for others?



Figure 1-4 Which of Maslow's needs is this advertisement using to sell products? Which group of consumers does the ad target? Why do you think the advertisers chose this focus to motivate consumers to buy their products?

Businesses compete for your consumer dollars. Each business is trying to satisfy the needs and wants of the consumers who buy a particular type of product. Each manufacturer of blue jeans wants you to buy its brand. Each seller of blue jeans wants you to buy the popular brand at its store. Businesses may present their brand as being the best quality or as having the best price. But whether they are selling a chocolate bar or a cellular phone, businesses often advertise their products as filling your social, esteem, or self-actualization needs.

Take the case of cellular phones. The three or four major providers are competing for the group of people who might buy and use cellular phones. The providers decided that there are enough people who will buy this product to make it worth competing for these consumer dollars. The companies provide similar services, but they have to differentiate their product to consumers. One company might

compete by offering a better price, another by offering a new design with slightly different features from the others, and another by presenting their product as satisfying your social or esteem needs.

Check Your Understanding

Knowledge/Understanding

- 1 Work with a partner to list as many items as you can recall buying over the last week. Give yourselves five minutes. Then write down, for each item, whether it satisfied a need or a want. If some items satisfied both, note that too.
- 2 Using Figure 1-1 (on page 5) as a model, create a mind map showing how local businesses respond to your needs and wants in a typical day.

Thinking/Inquiry

- 3 Write a list of needs and wants that create opportunities for business. Explain how businesses in your community satisfy three of those needs and wants.

Then list needs and wants that could create new business opportunities in your community.

Communication

- 4 Create a 30-second radio commercial in which you use an appeal to social and esteem needs to sell your new brand of sports clothes.

Application

- 5 Look again at Figure 1-2 (on page 7) and then at Figure 1-3 (on page 9). How have the creators of the Saturn advertisement used Maslow's theory of human motivation to compete against other car manufacturers? Explain whether you think this is an effective use of Maslow's principles.

Skills Appendix

analysing media

What is Business?

What is **business**? The short answer is that business is the production and sale of goods or services to consumers. A business can be as small as the vendor selling jewellery on the corner of a busy intersection or as large as Bombardier, or Bell Canada, or the CBC (Canadian Broadcasting Corporation).

Business is a major and influential part of Canadian society. As you saw in Simone's story, everyone is involved in the business world to some extent. We all make, buy, sell, or exchange goods and services. We need and want what business provides. Usually, the relationship between business and the consumer works more or less to the satisfaction of both parties.

The business world has always revolved around two interest groups: producers and consumers. **Producers** make goods or provide services, and consumers buy and use them. Any item or product that you can purchase, possess, and use is a **good**. The binder for your school notes, the computer on which you prepare your schoolwork, the roll of steel used to make your family's car, the video you rented last weekend, and the banana you ate for breakfast are all goods. **Services**, on the other hand, are not physical objects. They are acts—helpful acts—performed in exchange for pay. A haircut, a shoe repair, and a consultation with your dentist are examples of services. Some businesses provide both goods and services. A computer store that sells computers and repairs them provides a good (the computer) and a service (the repair).

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In the 1960s, consumer goods and services were very different from those available today. There were no computers, no Internet, no recyclable pop cans. Telephones were attached to the wall, not carried around. And you couldn't get a video game. They hadn't been invented yet.

Career Connect Professional Buyers

Earlier in this chapter you read about the business decisions that Simone and her family make every day. They decide which goods and services will satisfy their needs and wants.

Professional buyers also make decisions about needs and wants. The difference is that they make decisions about which goods and services will satisfy the needs and wants of their business, especially the customers.

Almost everything you buy has been chosen by a professional buyer. For example, sporting goods buyers choose the equipment for sporting goods stores or departments. They select the brands of hockey skates and running shoes that will sell best in the store.

As well as knowing what customers want, buyers must know manufacturers' and suppliers' strengths and weaknesses. One company may make good summer T-shirts but make poor quality sweaters for winter.

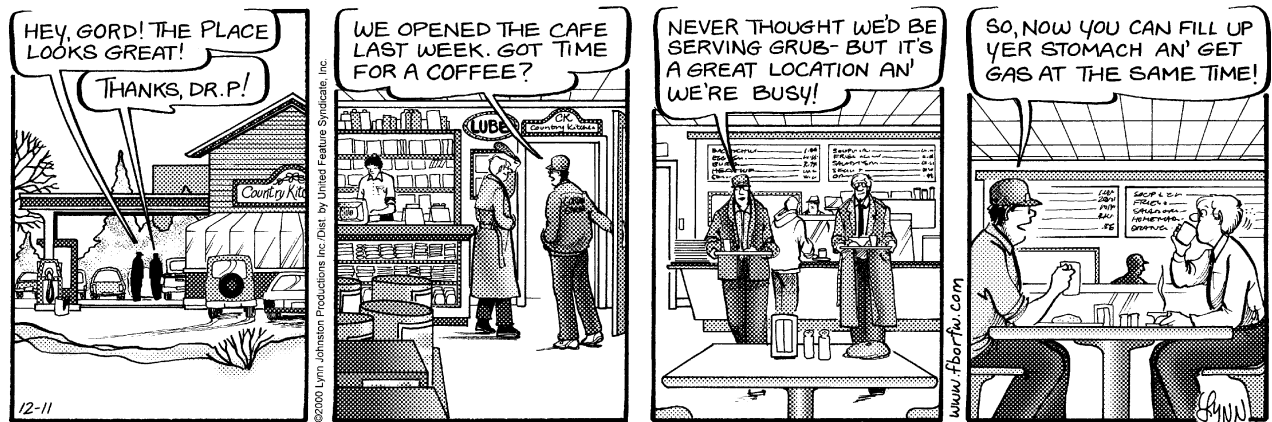
What kind of skills do professional buyers need to have? If you were a professional buyer, what would your tasks be? What skills would you need in order to be successful in your career?

- To find out what customers wanted, you would have to research current trends and look at sales reports. You would need to know which products your customers want. This would require good investigative and analytical skills.
- You would need to be able to calculate how much you could pay the manufacturer and how much you could charge your customers. Your store's profit is based on the difference between your costs and the store's revenue. So, you would need good math skills.
- You would need to be able to make decisions quickly—sometimes while talking with your supplier.
- You would also need to be able to negotiate the best price from your supplier. For that you'd need to have strong oral communication skills.
- Being flexible will help you make adjustments in your thinking. While you want the best possible price, you'd also have to be able to understand your supplier's point of view about the cost of products or service.
- You'd need to be able to weigh the costs and benefits of each buying decision. You'd need to be able to think your choices through carefully before making any decision.

ACTIVITIES

- 1 List the skills that would help you succeed as a professional buyer. Suggest two more skills that were not mentioned in this feature.
- 2 With a partner, role play a negotiation for buying a supply of basketballs for your sporting goods store. One of you plays the professional buyer and the other plays the supplier. Work to avoid conflict as each of you tries to get the best deal for your business. Remember each of you needs the other. A supplier without a buyer is as badly off as a buyer without a supplier.

For Better or for Worse



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Figure 1-5 What advantages does a business gain by offering its customers more than one good or service?

Interdependence

Interdependence in a business setting means that consumers and producers depend on each other. Consumers need producers to manufacture and supply goods and services. Producers need consumers to buy the goods and services they manufacture and offer.

To do well, businesses must constantly stay in touch with consumers, monitoring their needs, wants, and demands. Paying attention to consumers can mean the difference between success and failure. In the 1970s, the North American automobile industry learned this lesson the hard way. It did not change the size or fuel efficiency of its cars at a time when oil prices rose steeply. So consumers bought smaller and cheaper-to-run foreign cars, which caused serious problems for the North American automobile industry.

On the other hand, a week after Loblaws introduced its Green line of products in 1989, the company had sold \$5 million worth of phosphate-free laundry detergents, biodegradable diapers, bathroom tissue made from recycled paper, and unbleached coffee filters. Loblaws had successfully responded to consumers' demand for environmentally friendly products.

Many businesses also depend on each other. For example, a jeans manufacturer makes clothes but must buy, or consume, the materials that go into making the clothes: denim, zippers, and thread. The manufacturer also needs to buy the equipment to run its factory and offices: sewing machines, telephones, photocopiers, and desks. Most businesses are both producers and consumers.

Biz. Bites

During 2000, Canadians spent more of their disposable incomes on goods and services than they had in 1999. The following list shows the percentage increase in consumer spending for each province.

Province	Increase (%)
NF	5.1%
PEI	6.4%
NS	5.4%
NB	5.0%
QC	4.9%
ON	6.3%
MB	4.6%
SK	5.1%
AB	7.5%
BC	5.3%
YT	5.3%
NT	6.1%
NU	5.3%

Statistics Canada 010409

Producers and Consumers

The producers of the goods that satisfy our needs and wants are divided into two groups, manufacturers and suppliers. A **manufacturer** is the company or business that produces the goods. A supplier provides the consumer with the good or service. For example, a furniture manufacturer produces couches, and a furniture store supplies them to consumers.

Goods that consumers purchase directly to satisfy their needs and wants are called *consumer goods*. The consumer who purchases a good for his or her personal use is called an *end* or *ultimate consumer*. Goods that businesses purchase from producers are called *business-to-business goods*, and the consumer, which in this case is a business, is called a *business-to-business consumer*.



Figure 1-6 Grocery stores provide a market where many businesses compete to fill consumers' needs and wants.

If you bought a loaf of bread to eat, you would be the ultimate consumer of that bread. However, if a restaurant bought bread from the same bakery to make sandwiches to sell to its customers, the restaurant would be a business-to-business consumer. The customer who buys the sandwich from the restaurant is the ultimate consumer.

What is a Market?

A **market** exists wherever buyers (consumers) and sellers (producers) come together to do business, the buyers with money to exchange for the goods or services offered by the sellers. All the places you shop for goods and services are markets. Whether you take a trip to buy clothes or order a book over the Internet, you are

visiting a market. Markets exist for any good or service—clothing, banking services, Internet connections, NHL hockey tickets, automobiles, housing—that has a price that consumers are willing to pay.

Markets can be divided further into two major groups: the consumer market and the business-to-business, or industrial, market. The *consumer market* is made up of all the individuals or households who want goods and services for personal consumption or use. The *business-to-business*

market is made up of all the individuals and organizations that produce, sell, rent, or supply goods and services to other businesses. The cash registers in your grocery store, delivery vans, the farm tractors are all sold in the business-to-business market.

Your local grocery store is one consumer market where people who want to buy food can connect with a business that wants to sell it. The grocery store may be owned by one person or be part of a large chain of stores owned by a corporation.

Grocery stores let growers and manufacturers get their products to you, something that would be difficult for them to do on their own. How would the Fijian pineapple grower or the Moroccan clementine orange grower ever be able to get his or her fruit to you? The grocery store lets the suppliers offer goods for sale. You, as the buyer, have the benefit of seeing a wide variety of foods and grocery products so you can compare them and decide what you want.

Demand

Demand represents the consumer side of the market. Consumer demand for a product is directly related to price. Generally speaking, consumers are willing to buy more of a good or service when the price is low. When compact disc players were first introduced into the market, they were fairly expensive and consumer demand was limited. However, as the price decreased, consumer demand increased.

As you saw in the example of Loblaws' Green line products, consumers' demands go beyond price considerations. Today many consumers insist that companies be socially responsible. These consumers do not want to buy products from companies whose manufacturing processes hurt animals or pollute the air, water, or land. Some businesses realize the business opportunities in such demands. For example, The Body Shop has a number of programs and products that support its claim that its business is ecologically sustainable.

Web Connect

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Visit two of the marketing boards that help Canadian farmers sell their products. How do these organizations focus on meeting consumer needs and wants?

How do they help their members sell their products?



Figure 1-7 Many consumers who buy from The Body Shop agree with the company's stand against testing cosmetics on animals.

Consumer demand for a good or service is affected by several other factors. Supply and demand, and the factors that affect them, will be discussed further in Chapter 5.

Check Your Understanding

Knowledge/Understanding

- 1 List two examples of businesses in your community for each of the following categories: (a) only provide services, (b) provide goods and services, and (c) are business-to-business consumers. Explain how your choices fit their categories.
- 2 Explain in your own words how producers and consumers are interdependent.

Thinking/Inquiry

- 3 Describe a situation where the following goods could be classified as both a consumer and a business-to-business good: tomatoes, wood, flour, paper, cleaning supplies, and desks.

Communication

- 4 Use a graphic organizer to show your response to the following questions:
 - Which of the goods and services that you have used in the last three days were produced in your local community?
 - Which of these goods and services came from outside your community?
 - Could any of those that come from outside be made locally?
 - What would be the effect of this change on your community?

Application

- 5 Consider one problem in your community that might create a business opportunity. Why do you think no one has started a business to solve that problem?

Skills Appendix

problem solving

Connecting Business with *The Market*

Women Drive the Automobile Market

The experience of buying a new car can be an exciting one. However, the huge selection of makes, models and features can make buying a car difficult and confusing. The Ford Motor Company did research that told them that women are especially anxious and concerned about the car-buying process.

Bobbie Gaunt, who was then the general sales manager at Lincoln-Mercury, was the highest-ranking woman in Ford's marketing and sales operations worldwide. Today she is president and chief executive officer of Ford Motor Company of Canada. She believes in research and in listening to what consumers say. "My work in research and in marketing and sales has been, and is, dedicated to finding out what our customers want in their preferred product and throughout their ownership experience, and then working to make it happen!"

Gaunt knows that women influence 80 to 85 percent of all car-buying decisions. Market research also shows that more women are buying cars and spending more time in them than men do.

Women's priorities in looking for a car include affordability, reliability, performance, security, versatility, quality, and safety. If they have children at home, they are interested in built-in safety features and storage. Women tend to carefully research new cars—they are highly informed consumers.



Figure 1-8 Women's influence in the car market is a trend that manufacturers watch carefully.

They put more emphasis than men on opinions from colleagues, family, and friends.

Many changes are taking place at Lincoln-Mercury to meet its goal of helping women feel more comfortable with the buying process. "It makes a lot of sense to let our customers lead the way," says Gaunt. She believes that the "people, who actually drive the cars [and] often spend hours and hours on the road each day, know what they want. We are working on designs that answer their needs."

Sources: Adapted from Peebles, Tanya, "A Woman's Attitude: How It Affects an Automaker," *Contemporary Women's Issues Collection*, Feb. 1, 1995, vol. 7, pp. 14-16.

ACTIVITIES

- 1 Explain how the marketing of Ford automobiles will help women fulfill their wants.
- 2 Discuss how the changes that Ford is proposing might affect the consumer demand for their automobiles.
- 3 Create a concept web to show how Ford's marketing activities could create new business opportunities for the company.

Functions of Business

Although we come into contact with business regularly, we often do not think about what goes on behind the scenes. Consider Simone and Amy, whom you met in the Business Profile that opens this chapter. They are thinking about expanding their lawn-cutting service. What should they consider?



Figure 1-9 Automation in automobile manufacturing plants has made production faster and cheaper for business owners but has replaced many employees.

First, they will have to be aware of the competition, and the prices that others in the same business charge. Then, they will have to decide how to promote their business. Otherwise, how will anybody know it exists? Simone and Amy might have to obtain financing in order to buy the equipment that they need. This would involve a certain amount of risk because they would have to pay back the money. They will also have to decide which tasks each of them will perform and how much money they would like to make. In addition, many factors will be beyond their control. For example, what will Simone and Amy do if it is a rainy summer?

These are some of the many questions that a person operating a business needs to consider and answer. These considerations are functions of business and can be organized into five categories: production, marketing, finance, human resources, and management.

Production

One basic function of any business is producing goods and services. **Production** is the process of converting a business's resources into goods and services. In the case of the lawn-cutting business, Simone and Amy take their labour, tools, equipment, and money, and convert them into the serv-

ice of lawn care. Naturally, the factors involved in this process vary with different types of businesses. A bicycle manufacturer requires larger amounts of money, more specialized machinery and equipment, and much larger premises than a dry-cleaning service.

Factors of Production

A closer look at the production process reveals that it involves a number of factors, or elements. These factors are commonly called the **factors of production** and include land, capital, labour, information, and entrepreneurship. When **land** is defined as a factor of production, it refers to the natural resources used to produce goods and services (for example, wood for a furniture maker or aluminum for a bicycle-manufacturer).

Capital is the money used to start a business and to keep it running. Capital includes the value of machinery and equipment required to produce goods and services.

Labour is the human element and includes all mental and physical work that people put into producing goods and services. In the last century, technology allowed businesses to change the ways that labour was used. For example, the Ford Motor Company invented the assembly line that helped it produce more cars. This allowed Ford to sell its cars at a lower price, which made it possible for the workers to afford the cars they helped produce, which created greater demand.

Another factor is **information**. Using computers and other technologies, businesses track information about their operations, customers, and competitors. Managing information is especially important for the companies plants and offices around the world.

The final factor is **entrepreneurship**, the activity of people who bring together all the factors of production to start a business. Entrepreneurship includes having the skills and determination to start and operate a business and to accept the calculated risks involved. Entrepreneurship is discussed more fully in Unit 4.

Figure 1-10 These five factors are part of the production process.



The entrepreneur must stay in tune with the changing needs, wants, and demands of the consumer in order to identify possible business opportunities. For example, the demands of overworked consumers and of an aging population gave one company, Grocerygateway.com, the idea to offer online grocery shopping and home delivery (see Figure 1-11).



Figure 1-11 How does this advertisement appeal to consumers' needs and wants? Who would be most likely to use Gateway's services?

Marketing

When we hear the term marketing, we tend to think of advertising, but marketing includes much more. **Marketing** can be defined as all the business activities used to plan, price, promote, and distribute goods or services to satisfy consumer needs and wants. Marketing may involve making contact with consumers to find out what they want. This process is referred to as market research. For example, through market research, Simone and Amy may discover that their customers want to have their lawns watered while they are on holiday.

Market research helps businesses reduce the risk of providing goods or services that the consumer does not want. The marketing function of a business can be very costly and requires careful planning to get the best results. Marketing is discussed in detail in Chapter 7.

Finance

All businesses need to keep accurate records of the money coming in and going out. They need to know who owes money to the business, to whom it owes money, how money is spent, and whether there is enough money in the bank to pay the bills. Managing money is

referred to as **finance**. Large businesses usually have accounting departments, which are responsible for managing the business funds. In small businesses, the owner usually takes on the financial responsibilities. Regardless of size, all businesses must keep accurate financial records in order to know whether they are making a profit. Business accounting and finance are discussed in detail in Chapter 8 and personal finance in Unit 3.

Human Resources

Human resources are the people aspect of a business—in other words, the owners, managers, and employees. Businesses depend on their employees and do better if they understand how to hire and keep good employees. Large businesses provide a wide range of benefits as well as pay, in order to attract and keep enthusiastic and committed employees. For example, many businesses provide dental plans, life insurance, and pension plans for employees. Some businesses offer free trips to salespeople if they meet certain sales quotas. Other businesses provide memberships in recreational clubs to keep morale high. A small business may have to depend on good relationships to keep employees.

A human resources department is usually responsible for

- determining the requirements of each type of job in the company
- recruiting and interviewing new employees
- selecting the right person for the job
- training and developing employees
- assessing their performance
- deciding on employee wages and benefits

Human resources are discussed in detail in Chapter 6.

Management

Management can be defined as the planning, organizing, and controlling of all business activities. Managers have to set short- and long-term goals and organize the employees and other resources so the goals of the business can be achieved. Managers must be able to communicate clearly and effectively because their job requires a great deal of interaction with many types of people. Managers have to possess

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Visit a virtual factory to find out how one business uses the factors of production to manufacture its products. Take a walk around the factory, visit its different departments, and see the production process.

leadership qualities and be able to motivate employees. The effective management of a business can often mean the difference between its success and failure. Management is discussed in detail in Chapter 6.

Check Your Understanding

Knowledge/Understanding

- 1 List and explain, in your own words, the five functions of business.
- 2 Select two businesses in your community and compare them in terms of how they use land, capital, labour, technology, and entrepreneurship.

Thinking/Inquiry

- 3 Write a paragraph explaining how a business could use the factors of production to fill consumers' needs and wants. Why would a wise use of these factors improve a business's chances of success?

Communication

- 4 Write a brief article explaining three ways that automation has caused changes in the labour needs of one manufacturing business.

Application

- 5 In a small group, discuss how the five functions of business—production, marketing, finance, human resources, and management—would affect the activities of a student painting business.

Skills

Appendix

working in groups

Issues Affecting Business

Ethics and Technology

MP3.com and Napster

Once there were two young entrepreneurs who threw the music industry into turmoil. Michael Robertson of MP3.com and Shawn Fanning of Napster were in their teens when they started businesses that allowed consumers to download music—free of charge—from Web sites on the Internet. They saw the demand and figured out how to satisfy it.

The music on CDs has to be converted to a different format to become a computer file. Before Robertson and Fanning invented their conversion programs, downloading music files was long, slow, and usually unsuccessful. Robertson and Fanning used new technologies to speed up file conversion and to allow almost unlimited copying of music files. These two men thought they had simply seized a business opportunity.

But the music didn't actually belong to Napster or to MP3.com, and that's where the trouble started.

The music companies who produced the CDs claimed that MP3.com and Napster were infringing on their copyright. Copyright is the right to make copies of someone else's creative work. The law gives authors, designers, and artists the exclusive right to print, publish, perform, film, or record original literary, artistic, or musical material. Although the music companies were not the artists, they held the copyrights because they had made copyright agreements with the writers and the artists who performed it. This right is important because owners get paid each time someone uses their work.

How had these two innovative companies infringed copyright? MP3.com allowed people to download their own CDs to a locker on its Web site. A copy was then made from MP3.com's database of CDs and deposited into the user's online locker. All that people needed to do to hear their own music was to log onto MP3.com's



Figure 1-12 By seizing a business opportunity and by inventing new technologies Shawn Fanning and Michael Robertson have changed the music industry.

Web site from any Internet-connected device. And many, many people did just that. But, inside the lockers at their Web site, MP3.com also had a database of some 80 000 CDs. That's where the courts found that the company broke the law. Since Universal Music held copyright to the music on the CDs, it claimed that MP3.com had no legal right to have Universal's music on its Web site. The U.S. courts agreed with Universal.

Eventually, MP3.com was ordered by the U.S. courts to pay \$53.4 million to Universal Music Group for infringing its music copyrights.

Napster took a different approach. Its software allowed users to quickly find music files on the Internet and download them to their own computer. Many of these files were of copyrighted music. Napster was sued by major record companies for giving millions of people free access to music that it didn't own. Napster argued that it was not breaking copyright because people who used its software were only copying music for

personal, noncommercial use, an activity that Napster argued was permitted by the law.

In February 2001, the U.S. courts ordered Napster to stop allowing users to trade copyrighted music files on its Web site. Since then, Napster has fought to stay online, trying to set up deals with music companies to offer its users a subscription service. Meanwhile, MP3.com has managed to set up licensing agreements with Warner Music and BMG, but it is now being sued by another music company.

Other business people have also been affected by Napster and MP3.com's activities. Songwriters and recording artists, who are often independent business people, are worried. What happens to their rights and royalties when their music is distributed online? Music store owners are also worried. What will happen to their retail businesses if more and more consumers get their music online instead of buying it from stores?

While the two young entrepreneurs continue their legal struggles, the music distribution environment has changed. By 2001, an estimated 40 million people downloaded music from Napster



Summers © Tribune Media Services

Figure 1-13 How does this editorial cartoon relate to the issue of business ethics? What stereotypes does it use to get its point across?

and MP3.com. The music industry recognized that the market for online music distribution existed, and they made deals with other online providers who will charge users subscription fees to download music.

ACTIVITIES

- 1 Summarize the conflict between Napster and MP3.com and the large recording companies. How, and why, did it start? How was it resolved?
- 2 Why are questions of copyright such a problem when it comes to the Internet? What is it about the medium that throws the whole idea of copyright into doubt?
- 3 What do you think should have happened to Napster and MP3.com? Prepare an argument for or against free music services. Be sure to have evidence to back up your argument.
- 4 Work with a partner to research the current state of copyright issues and music online. Create a timeline to demonstrate what has happened regarding these issues since the date when this book was published. (Check McGraw-Hill Ryerson's copyright page in the front of this book for the publication date.)

Chapter Review

Points to Remember

- People's desire to meet their needs and wants creates opportunities for business.
- In his hierarchy of needs, Maslow describes factors that motivate people. Businesses appeal to these motivations as they compete for consumers.
- Businesses produce and supply goods and services that meet people's needs and wants.
- Producers and consumers depend on each other. The market is any place where producers and consumers come together to sell and buy.
- The functions of business are production, marketing, finance, human resources, and management.
- The factors of production include land, capital, labour, information, and entrepreneurship.

Activities

Knowledge/Understanding

- 1 Use the following chart to analyse 6 items that you or your family purchased over the last month.

Item	Is this item a good or a service?	Did it fill a need or a want?	Was it purchased from a manufacturer or a supplier?
1.			
2.			

**Skills
Appendix**

researching

- 2 Work with two other students to complete the following activity.
 - a) List the groups of people that make up your community (for example, small children, teenagers, working people, retired people).
 - b) List at least six businesses in your community
 - c) Explain how these businesses fill the needs and wants of the different groups in your community.

Thinking/Inquiry

- 1 Using Internet resources, your school resource centre, and daily newspapers, select two articles, one that describes a successful company and another that describes a company that is having difficulties or is close to going out of business. Prepare a brief summary of each article and outline the reasons for the company's success or failure.
- 2 View at least eight television commercials. Record the goods or services being advertised. How many do you or your family use or have in your home? Do you think advertising influenced you to buy them? Analyse the factors that influenced your decision and explain your analysis to a small group.

Communication

- 1 Prepare an argument to agree or disagree with the following statement: "Canadian consumers spend most of their money on needs not on wants." Write a summary of your argument and compare it with the arguments of other students.
- 2 With a partner, interview someone in a business in your community. Prepare questions on the needs and wants the business fills and on the changes in its business environment. Prepare an oral summary of the interview to be presented to your classmates. Open your summary with a profile of the business.

**Skills
Appendix**

building an argument

**Skills
Appendix**

oral presentations

Application

- 1 With a partner, visit two local businesses and find out how they use the products and services of other businesses. Use a graphic organizer to record your findings.
- 2 Prepare a list of the video rental stores, music stores, or clothing stores in your neighbourhood or community. How does each store try to draw in customers? In other words, how do they compete for consumers' dollars? Select the store you visit the most. In three brief paragraphs, explain why you use it more than the others.
- 3 Suppose the student council in your school decided to hold a dance. The members of the council will want to be sure, before they commit themselves, that people will come to the dance. In groups of three or four, discuss and report on the following:
 - How might the student council find out if there is a demand for a dance?
 - How will they decide what music to have? What price to charge?
 - What should they do to inform the students in order to ensure success?
- 4 Working with a partner, select 6 to 10 magazine advertisements. Categorize the content of the advertisements according to whether they fulfill needs or wants and whether the products are goods or services. Then create a diagram or a collage in which you show where each of these items fits into Maslow's hierarchy of needs (see Figure 1-3 on page 9).

Skills Appendix

decision-making

Internet Extension

- 1 Using Internet resources, research three significant technological changes that have occurred in the last 20 years. Create a chart to show how these changes have influenced consumer demand for goods and services.