

5.3: Getting Down to Business

Learning Objectives

- Define the term business
- Distinguish between profit, loss, and value
- Distinguish between goods and services

Today's Business Environment



Figure 5.3.1: RadioShack Closing.

The world of business today can be summed up in a single word: change. And not just change, but rapid change. In order to remain profitable and competitive, businesses are finding that they need to be more responsive than ever to customer needs. This is not only true of big companies like Apple, Nike, and Whole Foods but of smaller businesses, too—like your local hardware or grocery store. The rapidly changing business environment affects them all.

What is the business environment? In some ways it resembles the natural environment in which we live: It's all around us but not always noticeable. It includes things like technology, competitors (other businesses), advertising, regulations, consumer demands, and money. When these elements of the business environment change—in the same way that seasons and weather change—companies need to be able to predict, react, and adapt accordingly. Those who fail to do so may find themselves out in the rain or cold and struggling to survive.

Although the environment in which businesses operate is always changing, the accelerated pace of change presents special challenges and opportunities for businesses today. Think about this: in the 1950's the average lifespan of a Fortune 500 corporation (the largest businesses we know) was over 60 years. Today, the life expectancy of a Fortune 500 corporation is less than 20 years.



Figure 5.3.2: Open pill bottle Meds.

To get a sense of this rapid and dramatic change, consider something that's fairly routine for Americans: getting a prescription filled. A couple of decades ago, you would have taken a written prescription from your doctor to your local drugstore and presented it to the pharmacist. Then, while waiting for it to be filled, you might have leafed through magazines or browsed the store for extra items—perhaps shampoo or a greeting card. When your name was called, you probably paid in cash or wrote a check. All such transactions took place during normal business hours—Monday–Friday, 9 am–5 pm; larger pharmacies may have been open for a few hours on Saturday.

What about now? Think about the last time you had a prescription filled. Did you ever even see it? Chances are you went to the doctor, and at the end of your visit she faxed or emailed the prescription straight to the pharmacy (perhaps a Rite-Aid, Walgreen's,

or Duane Reed). A little while later, you may have received a text message notifying you that your prescription was ready. Since it wasn't convenient for you to pick it up during the workday, and because it's a 24-hour pharmacy, you went at night. You pulled up to the drive-through window and paid using Apple Pay or Google Wallet. Afterward you verified that you received points on your customer loyalty card, which means savings or cash that can be applied to future purchases. You never set foot inside the store.

Alternatively, you may have gotten your prescription filled online and mailed right to your home by a national discount supplier or maybe chosen to pick it up at Walmart or Target when you stopped in to shop for a new garden hose.

You can see from this example that the way companies “do business” is very different today. Some of these changes are the result of developments in technology, while others are the result of shifting consumer demands and trends. Regardless of the particular cause, though, all businesses have to cope with the changing nature and pressures of the business environment. A large part of this course will focus on the ways in which they do just that.

Defining Business

So, what is this thing we call “business”? A **business** is any activity that provides goods or services to consumers for the purpose of making a profit. Examples of **goods** provided by a business are tangible items such as cars, televisions, or soda. A **service** is an action or work performed for monetary compensation. Services include things such as haircuts, hotel stays, or roller-coaster rides.

Business can generate profits from the sale of goods and/or services, and profits are the financial reward that comes from taking the risk of running or owning a business. More specifically, **profit** is the amount of revenue or income that a business owner retains after paying all the expenses associated with the operation of the business. If the expenses of the business exceed the revenue or income generated from operations, then the business will suffer a **loss**. Businesses that suffer extraordinary losses during a short period of time, or slowly see their profits decline, may end up closing or filing for bankruptcy.

Clearly the goal of most businesses is to generate a profit by increasing revenue while holding expenses in check, and one of the best ways they do this is by providing their customers with value. When businesses talk about **value**, they are referring to the relationship between the price a customer pays for the good or service and the perceived benefits the customer receives in exchange for his or her time and money.

Value has become such a key component of today's business model that if you go to almost any fast-food restaurant you'll find a “value meal” or “value menu” advertised. Such businesses are sending the message to their customers that they'll receive the most “bang for the buck” or the highest value in terms of quantity obtained in exchange for money spent. It's a business model based on the belief that if you give your customers value, the profit will follow. While all businesses seek to increase their revenue, what a business actually does with those funds can vary and depends on whether it's a for-profit or nonprofit organization.

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