

# Business Connections

## Business and Society

### Objectives:

- A** Describe the types of businesses that operate in our society.
- B** Explain how business serves society.



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### Table of Contents

<b>A</b>	<b>All Kinds of Industry</b>	<b>2</b>
<b>B</b>	<b>It's All of Our Business</b>	<b>13</b>
<b>So What?</b>	Why bother learning about business and society?	<b>2</b>
<b>THE GRAY ZONE</b>	What would you do?	<b>12</b>
<b>Make It Pay!</b>	Use what you've learned—right now!	<b>18</b>



Business is an integral part of our society and our daily lives. In fact, society can't function without business...and vice versa! Where would businesses be if they had no customers? They would be unable to make money, stay in business, or get that all-important word-of-mouth advertising that only customers can provide. And what would you do without businesses? You would be unable to purchase the goods and services you want and need. Read on to learn more about the interesting and dynamic relationship between business and society.

## All Kinds of Industry

When you think of different types of businesses that operate in our society, you might think of grocery stores, restaurants, and dry cleaners, but there are actually three broad categories that cover all types of businesses. They are producers, trade industries, and service businesses. Let's take a closer look at each.

### Meet the producers

People who make or provide goods and services are **producers**. The three kinds of producers are raw-goods producers, manufacturers, and builders.

**Raw-goods producers.** These producers provide goods in their natural, or raw, states. They include businesses such as farms, mines, fisheries, and lumber companies. Without **raw-goods producers**, we wouldn't have cars to drive, a variety of foods to eat, or houses to live in. These producers are the foundation upon which all other businesses depend. Keep this fact in mind the next time you read or hear headlines such as:

- "Fire destroys thousands of acres of timberland"
- "Drought kills crops and cattle"
- "Polluted water destroys fish"
- "Striking miners seek better working conditions"
- "Oil discovered in North Carolina"
- "Bumper crops expected this year"

Though you might not realize it right away, each of these events will probably affect the goods you buy.

**Manufacturers.** Since very few materials are actually used in their raw states, we rely on **manufacturers** to change the shapes or forms of materials so that they will be useful to consumers. For example, how useful would raw materials such as sand, cotton, wood, wheat, and crude oil be to you? In their natural states, they are of little or no use to the average consumer; however, when these same raw materials become finished products (such as glass, clothing, paper, cereal, and gasoline), they will be quite useful.

**Builders.** Roads, bridges, schools, hospitals, houses, office buildings, places of worship—we rely on **builders** to construct them for us. Without these producers, our daily lives would be much different.

### Tricks of the trade

**Trade industries** are businesses that buy and sell goods to others. They don't modify or change the form of the products. Instead, they are responsible for moving goods from producers to consumers or industrial users.



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▲ Builders construct the roads, houses, and office buildings we use every day.

The two main divisions of the trade industry are retailers and wholesalers. Traditionally, **retailers** sell to ultimate consumers, while **wholesalers** sell to other businesses. As consumers, we're usually more familiar with retailers. Walmart, Home Depot, Target, Barnes and Noble, Macy's, Sears, Toys 'R' Us, Best Buy, Ikea, H&M, groceries, and hardware stores are just a few examples. All retailers sell products to ultimate consumers.

Wholesalers supply the goods that will be sold to retailers or used by businesses in their operations. Although you probably aren't as familiar with wholesalers as you are with retailers, there are many wholesalers that now do business with ultimate consumers as well as other businesses. Wholesalers such as Sam's Club and Costco allow ultimate consumers to purchase memberships and shop at their wholesale warehouses.

Trade industries can differ based on a number of factors. These factors include size, kinds and variety of products sold, ownership, amount of service provided, price, and even the existence of a business premises.

**Size.** Some trade businesses employ thousands of workers and are recognized nationwide. However, the majority of retail trade businesses are small, employing fewer than 20 people. In the wholesale trade, most businesses are independently owned, small companies that service areas within 150 miles of the main office.



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- ▲ You may not be as familiar with wholesalers as you are with retailers, like Best Buy. However, some wholesalers, such as Costco, now do business with ultimate consumers.

**Kinds and variety of products sold.** The variety of products that are sold by trade industries is endless. Basically everything that you or businesses own has been sold by trade businesses—clothes, cars, sporting equipment, computers, furniture, food, books, etc.

Some trade businesses offer a full line of products. Think about the variety of goods that you can find at Sears or similar department stores—toys, appliances, hardware and garden equipment, jewelry, cosmetics, and clothing and accessories.

Other trade businesses offer a limited- or single-product line. These businesses specialize in the products that they offer for sale. Examples of these businesses include florists, toy shops, dress shops, auto-parts dealers, car dealers, carpet stores, computer stores, and food brokers who supply food products to supermarkets.

In the past, customers knew what products to expect to find in specific types of trade industries. For example, grocery stores offered canned goods, fresh fruits and vegetables, frozen food items, household cleaners, and dairy and meat products. Now, customers can find a broader range of products in grocery stores. They often find greeting cards, plants and flowers, baked goods, deli items, pharmaceuticals, cosmetics, alcoholic beverages, housewares, packaged toys, and sometimes even furniture or clothing. Although the types of products carried by grocery stores have expanded, we still know that we would go to a grocery store to buy a pound of hamburger. We wouldn't expect to find the hamburger at local clothing stores, electronics stores, or hardware stores. We associate certain types of businesses with certain products—products that fit and support the image and purpose of the business.



Dave Rossman/www.houstonchronicle.com

▲ *In some cases, the types of products carried by grocery stores have expanded to include things like furniture. However, people still associate grocery stores with food.*

**Ownership.** Some trade industries are owned independently by one or two people. These businesses enjoy a lot of flexibility. The owners can easily change policies, advertising, pricing, store layout, etc.

Other businesses are part of chains. They have a central management that determines policies, advertising, and pricing for all stores. A big advantage of being part of a chain is that the business can get better prices when it buys goods because it is able to order large quantities of merchandise.

Sometimes, a number of independent business owners voluntarily join together when buying merchandise to get the discount prices available to chain stores. They maintain their own management and flexibility but simply order their merchandise together. An example of one of these “voluntary chains” is IGA (Independent Grocers Alliance).

Check out IGA’s website: <http://www.iga.com/about.aspx>. What are some of the benefits that this voluntary chain claims to offer customers?

**Amount of service.** Many trade industries offer a full line of services to their customers. Wholesalers often provide services such as credit, delivery, marketing information, storage, bulk breaking, buying, and selling. Full-service retailers will perform many of these same activities. In addition, they might provide layaway, wrapping and packing, customer notification about new product offerings, and pleasing shopping facilities.

Voluntary chains maintain their own management and flexibility but order merchandise together.



<http://www.schildsga.com>

On the other hand, some trade industries limit the amount of service they provide. Some wholesalers are so limited in their services that they only perform selling activities to connect buyers and sellers. Many retailers who offer discount prices also limit their services.

**Prices.** Some trade businesses pride themselves on offering the lowest available prices. Think of the businesses in your community that offer low prices. How do the interiors of these businesses compare with those of businesses that are known for having high prices? They're usually not as appealing. These business owners want customers to feel that they don't have to pay for plush interiors and services. The interiors and services that are offered by businesses with higher prices are costly to maintain. You'll find that the trade businesses that offer full services also generally charge higher prices than businesses with limited services.

**Existence of premises.** Where does retailing take place? It might be in a store, over the phone, in a customer's home, in someone else's home, by mail, by vending machine, on the street corner, online, etc. Whenever a sale of goods to the ultimate consumer takes place, retailing has occurred. Let's look at some examples with which you are probably familiar:

- In a store—You stop by the local grocery store to buy butter, sugar, and flour so you can make cookies.
- Over the phone—You see an advertisement on television for a great line of skincare products. You call the toll-free number at the bottom of the screen to place your order.

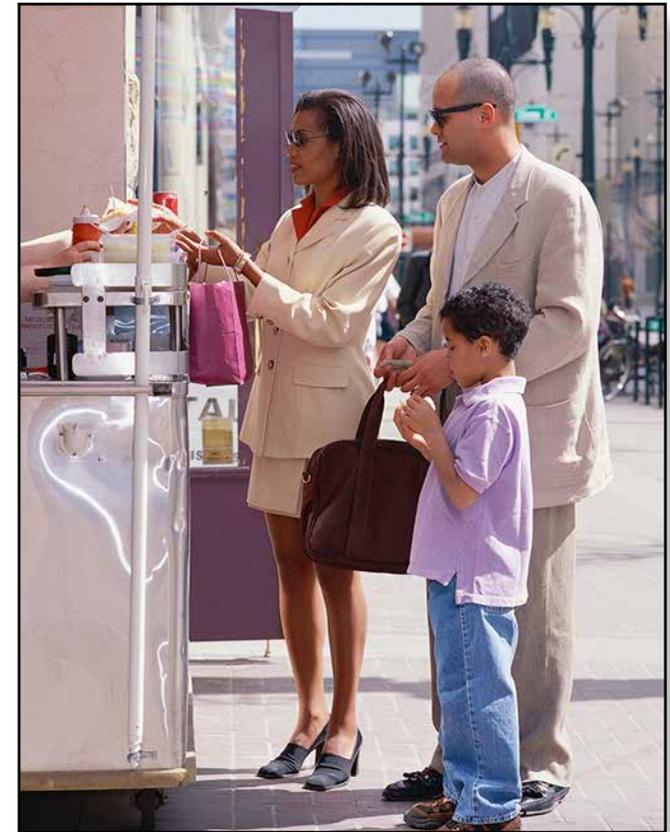


▲ *Some businesses, like Walmart, pride themselves on offering low prices.*

- In a customer's home—Your doorbell rings, and an AT&T salesperson is there to sell the company's TV, Internet, and phone services. Door-to-door sales are much less common than they were in past decades, but they still occur.
- In another person's home—Your friend hosts a Mary Kay party, where you purchase several items.
- By mail—Due to the popularity of online shopping, retailing by mail is also not as common as it used to be. However, you may see an advertisement for tulip bulbs in the Sunday paper and send your check and order form to the company in Michigan.
- By vending machine—You know you can get a can of Coke or a Snickers bar out of a vending machine. However, the use of these machines is rapidly evolving. In many locations, you can now purchase electronics, nail polish, and high-quality skincare products from vending machines as well.

Vending machines offer even stranger things, too—like pecan pie, caviar, and live crabs. Check out this slideshow from Yahoo! News, "9 Crazy Food Vending Machines Around the World": <https://gma.yahoo.com/photos/crazy-food-vending-machines-around-the-world-1385135324-slideshow/>.

- On street corners—On your lunch break from work, you buy a hot dog from a street vendor.



▲ When you buy a hot dog from a street vendor, retailing occurs.

- Online—Most major retailers offer online shopping for their customers, and many **e-tailers** (retailers that operate exclusively online) are now operating as well. These businesses save a lot of money by not having to pay the overhead for a **brick-and-mortar** store.

Wholesalers also use a variety of business premises. Some maintain warehouses that buyers can visit. Others maintain storage facilities but don't make them accessible to buyers. Instead, buyers order from catalogs, by telephone, or online. Some wholesalers sell goods directly from their trucks. This method is used a lot for perishable products. Other wholesalers don't take possession of the products they sell. Therefore, they don't have any products on hand and don't need any storage facilities.

### Service with a smile

**Service businesses** perform intangible activities that satisfy the needs and wants of consumers and industrial users. People buy the service that is being provided, not a good. So, what are these service businesses? Most can be classified in the following manner:

- Housing—hotels, motels, apartments
- Household operations—utilities, housecleaning, home repair, landscaping, appliance repair
- Recreation—amusement parks, sporting events, theaters, rental and repair of recreational equipment



Fuse/Thinkstock

- ▲ *Service businesses, including hotels, perform intangible activities that satisfy the needs and wants of consumers and industrial users.*

- Personal care—beauty salons, dry cleaners, photo studios, fitness centers
- Medical and other health care—doctors, dentists, psychiatrists, optometrists, nurses, hospitals
- Private education—driving classes, tutoring, photography classes, skiing lessons, golf lessons
- Business services—bookkeepers and accountants, consultants, computer programmers, lawyers, advertisers
- Insurance and financial—business and personal insurance, credit card and loan services, tax advisors, investment brokers
- Transportation—car rental and repair, freight and passenger service
- Communications—telephone, broadcast, Internet, cellular service

However, business categories aren't always black and white. Think about one service business we just mentioned—beauty salons. Yes, they perform services such as cutting, coloring, and styling hair, but they often sell shampoo, conditioner, and other high-quality haircare products. Although beauty salons are primarily part of the service industry, in this way they might also be considered part of the trade industry, since they are providing goods to ultimate consumers. Can you think of other examples of service businesses that also sell goods?



While some stores may offer services associated with the goods they provide—for example, an appliance company may offer installation services—these companies are not strictly considered service businesses because customers are primarily purchasing goods. However, the line between trade industries and service businesses is not always clear!

## Summary

Businesses can be categorized as producers, trade industries, and service businesses. Producers may be raw-goods producers, manufacturers, or builders. Trade industries are either retailers or wholesalers. They differ based on a number of factors. Rather than providing goods as trade industries do, service businesses provide intangible services.

## TOTAL RECALL

1. What three broad categories cover all types of businesses?
2. Describe three types of producers.
3. What are trade industries?
4. Describe the difference between retailers and wholesalers.
5. Trade industries differ based on what factors?
6. Give a few examples of service businesses.

## THE GRAY ZONE

Many companies do what they can to help out their employees during hard times, but some people weren't happy when one Walmart store organized a Thanksgiving food drive for needy employees. A Walmart spokesman said the food drive showed how much the company values taking care of employees when they face tough times. However, many other people thought that the food drive was a sign of Walmart's poor treatment of employees. They believe the company should pay its employees higher wages so that they won't need an in-store food drive to afford Thanksgiving dinner.

Read more about the situation in the article "Is Walmart's Request of Associates to Help Provide Thanksgiving Dinner for Co-Workers Proof of Low Wages?" by Olivia Perkins: [http://www.cleveland.com/business/index.ssf/2013/11/is\\_walmarts\\_request\\_of\\_associa.html](http://www.cleveland.com/business/index.ssf/2013/11/is_walmarts_request_of_associa.html). What do you think? Was Walmart's behavior unethical? Are company food drives a way of caring for employees, or simply a sign of poor treatment?

# It's All of Our Business

## Take responsibility

Since businesses play a leading role in our society, and we interact with them on a daily basis, it just makes sense that they have the potential to make a big impact on the world around them—either positive or negative. Most businesses recognize that they have a **social responsibility**, or a duty to contribute to the well-being of society. Businesses demonstrate social responsibility in two ways—by maximizing their profits and by contributing to public interests.

Some people feel that the best way for companies to contribute to society's well-being is by trying to maximize their profits. To do this, businesses must offer quality products at competitive prices, meet the needs of consumers, and minimize their costs and expenses. This might be considered "minding the store"—focusing on ways to improve the business operation so that customers get the best products at the best prices.



- ▲ Microsoft demonstrates social responsibility through YouthSpark, their "commitment to empower 300 million young people with opportunities for education, employment, and entrepreneurship." They work with young people like Maya Burhanpurkar, a 14-year-old who has done groundbreaking work on vaccines.

A business can also exhibit social responsibility through contributions to public interests. These wide-ranging contributions help to create goodwill and to foster a positive image of the company. The contributions could include support of environmental efforts; participation in or sponsorship of workshops, advisory councils, etc.; and financial support of art, education, or research. Here are some specific examples of businesses' contributions to public interests:

- McDonald's sponsors Ronald McDonald Houses throughout the world to provide a home-away-from-home for families with critically ill children receiving treatment at a nearby hospital. The program allows almost 9 million families to stay together each year.
- Oil companies are often seen as harmful, so many companies attempt to counteract that image by focusing on environmental efforts. Read about Shell Oil's efforts on their site, where you can also watch a video about sustainability at Shell: <http://www.shell.com/global/environment-society.html>.
- State Farm Insurance sponsors a program called Project Ignition, where student drivers can learn about important issues such as seat belt use, speeding, and impaired driving.

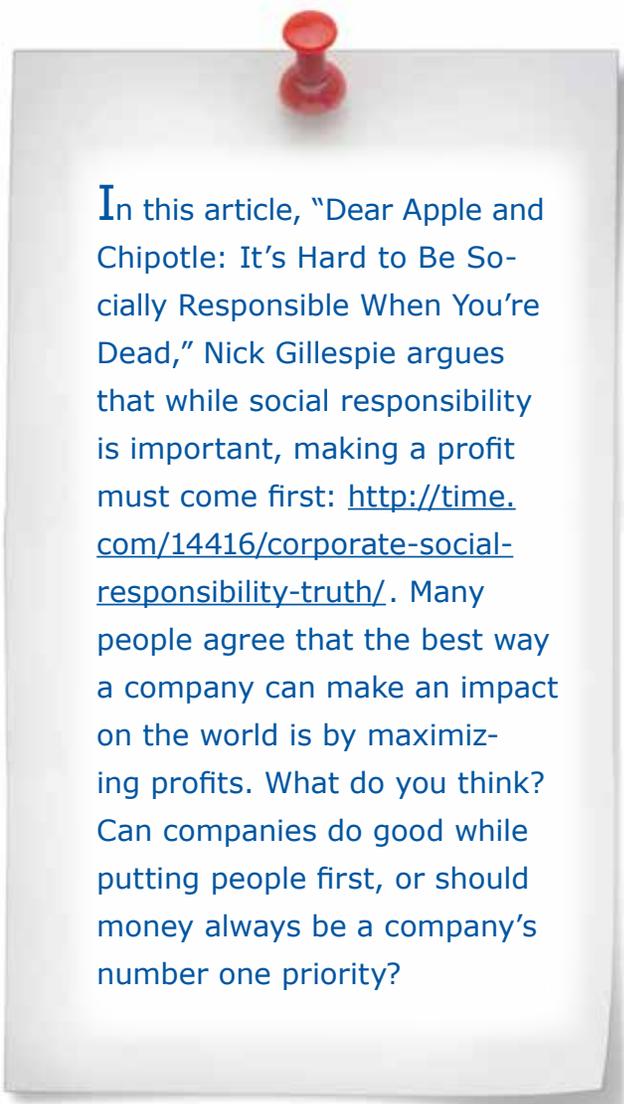


RONALD McDONALD  
HOUSE CHARITIES

- Coca-Cola participates in disaster relief efforts all over the globe, helping to provide infrastructure reconstruction, water and sanitation reconstruction, and revitalization of the economy. Check out some of Coca-Cola's efforts on the company's website: <http://www.coca-colacompany.com/topics/sustainability>.
- Footwear manufacturer New Balance is one sponsor of Major League Baseball's Reviving Baseball in Inner Cities youth outreach program. The program increases participation in baseball and softball, encourages academic achievement, promotes the inclusion of minorities, develops self-esteem, and encourages community citizenship.
- The Hershey Company partners with Project Peanut Butter to help make and distribute food to children in rural Ghana, where childhood malnutrition levels are high. You can read about more of the company's social responsibility efforts on its website: <http://www.thehersheycompany.com/social-responsibility/shared-goodness/goodbusiness>.

## Who's responsible

To some extent, all businesses should be socially responsible because they have an impact on our society. All businesses should try to maximize their profits. However, the very nature of some businesses encourages the business owners to assume added responsibility for our society's well-being. For example, producers are ultimately responsible for product safety and for the pollution they create. Also, national and global corporations have a greater impact than smaller, local businesses do; therefore, some believe their social responsibility is greater as well.



In this article, "Dear Apple and Chipotle: It's Hard to Be Socially Responsible When You're Dead," Nick Gillespie argues that while social responsibility is important, making a profit must come first: <http://time.com/14416/corporate-social-responsibility-truth/>. Many people agree that the best way a company can make an impact on the world is by maximizing profits. What do you think? Can companies do good while putting people first, or should money always be a company's number one priority?

## Who benefits

In addition to being socially responsible to the users of their products, businesses are responsible to their communities, to their employees, and to their companies. Let's look at each in more detail.

**Product users.** Every business has the responsibility of producing and/or offering safe, quality products. Businesses are able to provide these products by conducting research to determine consumer desires, developing the desired products, and testing their quality and safety.

If businesses fail to be sensitive to the well-being of their product users, not only will the businesses' products not sell, but the businesses will probably fail. Imagine what would happen to toy manufacturers if they were not concerned about making their toys safe for children. When producers recognize that there is a safety problem with their products, they often issue product recalls to fix the problem or to replace the product.

**The community.** If you stop to think about it, many of the decisions that business owners make affect not only the business but the community in which the business exists. How could a business's decisions about production, employment, taxes, or pollution control affect your community? What about a business's contributions to educational, cultural, and training programs?



▲ *Businesses must be socially responsible to their employees. This includes providing safe, secure working environments.*

**Employees.** To continue to exist, businesses must be socially responsible to their employees. They must provide safe, secure working environments. They must make employees aware of possible working hazards and take precautions to reduce those conditions. For example, steel-toed boots should be required for construction jobs, and machinery should be equipped with emergency switches to be used in case of accidents.

Businesses need to consider the quality of the working environment as well. Is work interesting and challenging to employees? Do employees receive satisfaction from their work? Many businesses now recognize that they have a social responsibility to the overall well-being of employees. They want their employees to be mentally satisfied with their jobs. They feel that workers cannot be focused on their work if their attention, interest, or motivation is divided. To help with this, businesses may offer such things as:

- Counseling for personal and professional problems
- Day care centers for children of employees
- Career planning
- Retirement planning
- Flexible scheduling
- Training



▲ *Offering a day care center for children of employees is just one way a business might consider its social responsibility.*



More and more businesses are realizing that treating employees well can also lead to a better business. The article “A New Business Strategy: Treating Employees Well” by Alana Semuels explains how companies like King Arthur Flour are realizing that they can become more successful by keeping their employees happy: <http://www.theatlantic.com/business/archive/2014/11/a-new-business-strategy-treating-employees-well/383192/2/>.

**The company itself.** The business is socially responsible for maximizing its profits so that the company can grow and prosper. In this way, the company’s owners can make as much money as possible on their investments.

## Make It Pay!

Think of some examples of producers, trade industries, and service businesses that operate in your local community. How do these businesses demonstrate social responsibility? How has your community benefited from that social responsibility?



## Summary

Most businesses recognize that they have a social responsibility, or a duty to contribute to the well-being of society. Businesses demonstrate social responsibility in two ways—by maximizing their profits and by contributing to public interests. Businesses are responsible to their product users, the community, employees, and themselves.

### TOTAL RECALL

1. What is social responsibility?
2. Who benefits from businesses' social responsibility?
3. How do certain groups benefit from businesses' social responsibility?