

Video Small Business in Action

Destination CEO: Jim McCann

Summary: Jim McCann is the CEO of 1-800-Flowers shown in the video from Business Week TV on your student DVD. The road to a business career, no less executive management, was not typical for Jim McCann. He did not experience a traditional "climb up the corporate ladder." Looking for a career as a police officer, McCann attended the John Jay College of Criminal Justice in NYC. His career path led him to a career in Social Services. A chance meeting with a friend provided McCann a chance to buy his first flower shop. It cost him $10,000 for his original shop located on 1st Ave and 62nd Street in New York. Initially, Jim's passion and interest in the floral business was more of a part-time hobby. However, that soon changed as he began to grow and expand the business.

There were many "firsts" pioneered by McCann in this industry. For example, he was the first to introduce the innovation of 24 hour ordering service, (that was 28 years ago). As time went on, he purchased ten additional flower shops. Looking for an opportunity to broaden his markets, he visited the Dallas-based 800 Flowers to pursue partnership opportunities. What he found, however, was a company in dire straights. Rather than collaborating with the company, he purchased it.

He views his firm as both a leader in business innovation and as a change agent–24 hour ordering capabilities, the first to accept credit cards over the phone, the first to have an Internet presence on AOL. Now, 70% of his sales are from the Internet. Total sales this year reached $650 million, up 8% from the previous year. McCann credits his success as a business leader to his family roots that emphasized hard work and diligence. Prior to becoming CEO of this multimillion dollar enterprise, Jim McCann was a social service worker. He credits much of his innovative and creative abilities to working with his clients in that sector.

Discussion Questions

1. Identify four central business terms that would directly apply to the Jim McCann story.
2. What type of business model did McCann develop as he moved from his hobby to a multi-million dollar business?
3. Based on the facts presented in the video, how would you determine whether the company has used its productive resources to create valuable goods and services?

The Three Meanings of Business

business system
The combination of commerce, occupations, and organizations that result in the production and distribution of goods and services people value.

Three different but related meanings of the word "business" can be identified: business as commerce, business as an occupation, and business as an organization. We need to consider each of these three meanings to understand what business is and how it operates. This chapter discusses these three meanings, which together form the basic building blocks of the business system. The **business system**, illustrated in Figure 1.2, is the combination of commerce, occupations, and organizations that result in the production and distribution of goods and services people want. In Chapter 2, we look at the evolution of business and changes in business systems over time.

Business as Commerce

Business commerce is the process through which people produce and then trade, barter, or exchange valuable goods and services to better fulfill their wants and needs. The difference between trade and barter is that **trade** involves the exchange of products using money whereas barter does not. When people **barter**, they exchange one product directly for another. The goal of business commerce and the

The Role of the Entrepreneur

The discussion of the history of business in the last chapter highlights how aristocrats, merchants, and capitalists acquired and utilized productive resources to create capital and wealth. Their business activities suggest the crucial role entrepreneurs play in starting and growing a business. An **entrepreneur** is the person ready to supply the *enterprise,* that is, the hard-to-define mixture of energy, boldness, courage, expertise, insight, and often ruthlessness, necessary to:

entrepreneur A person ready to supply the enterprise—energy, boldness, courage, spirit, expertise—necessary to start and grow a business.

- acquire productive resources; and
- combine and use them efficiently and effectively; to
- take advantage of business opportunities to create goods and services; that
- customers want to buy and which creates profit.

Forms of Entrepreneurial Opportunities

There are many different forms of opportunity in the environment that entrepreneurs can seize upon. They can then establish a business organization to take advantage of them. It is useful to examine the kinds of opportunities open to entrepreneurs in terms of the three main dimensions of business: commerce, occupation, and organization. (See Figure 3.1.)

COMMERCIAL OPPORTUNITIES The first kind of opportunity comes from business as commerce, that is, from new kinds of commercial opportunities in production and trade. The last chapter discussed how discrepancies in the price of raw materials, labor, or finished products in different cities or countries can lead to commercial opportunities. Today, for example, the presence of plentiful inexpensive labor in developing countries around the world has led many U.S. companies to shift their manufacturing activities abroad to take advantage of this commercial opportunity. A shirt that might have cost $5 to make in a U.S. factory now costs only 50 cents to produce abroad in a country like Indonesia or Malaysia. Entrepreneurs who import these shirts can sell them to U.S. stores for around $2 and they can then be sold to customers for $4.99–a price less than what it used to cost to make a shirt in the United States.

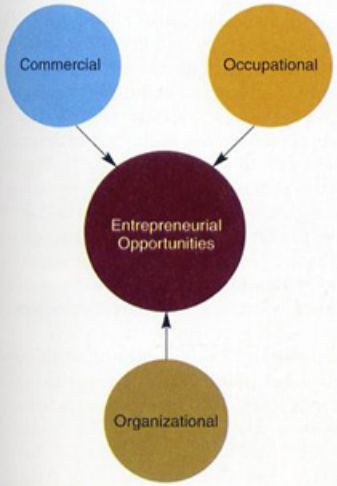


Figure 3.1
Forms of Entrepreneurial Opportunities

Levi-Strauss, the famous jeans maker, has suffered badly because it was late to take advantage of this global opportunity. Many of its competitors had no ties to workers in U.S. factories and quickly moved their production abroad. Levi's, however, employed thousands of U.S. workers in its clothing factories and was reluctant to lay them off. When its competitors proceeded to undercut the price of Levi's jeans, the company's sales plummeted, and it lost billions of dollars in the late 1990s. Today, all of Levi's U.S. clothing factories have been shut down, and its workers have experienced the fate of millions of other U.S. factory workers–a loss of jobs because of low-cost global competition.

Another form of commercial opportunity is when entrepreneurs recognize the opportunities offered by advances in technology to find a new way to *make or supply* a product more cheaply. For example, Toyota was the first car company to develop low-cost, or "lean," manufacturing technology in the 1980s. This allowed the Japanese automaker to charge lower prices for high-quality cars than its U.S. competitors could. In addition, companies that are the first to introduce new IT can often lower their prices and lure away their competitors' customers. Wal-Mart has done this. By installing sophisticated new IT systems to track its inventory, for example, Wal-Mart has been able to lower its prices beyond those of its competitors.



Business in Action

The Rolling Stones Are Not Gathering Moss

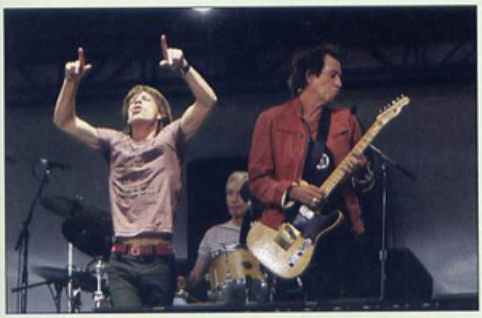
The Rolling Stones have been one of the world's leading rock bands since the early 1960s when they burst onto the music scene as the "bad boys" of rock and roll. Like most rock groups, in their early days, the Stones were an unproven product with no track record. Desperate to sign recording contracts, they were in a weak bargaining position compared to the record companies they were dealing with. As a result, despite their enormous initial success, the Stones received a relatively small percentage of the profits their best-selling records were generating. Later, after the Stones had become world famous, they were able to renegotiate their contracts on their own terms. But the Stones didn't stop there. They continued to find new avenues for entrepreneurship.

Under the leadership of Mick Jagger (the CEO of Rolling Stones Inc.), the Stones have continually found new ways to generate profits. Since 1989 they have earned more than $1.5 billion, but only about $500 million of it has come from royalties earned on their records. Incredibly, the rest of it has been generated from concert ticket sales, merchandising, and company sponsorships associated with their tours.

The way the Stones "create" their world tours shows how entrepreneurial they are. It all began with the band's "Steel Wheels" tour in 1989 when, for the first time, working with a Canadian promoter named Michael Cohl, the Stones took total control over all aspects of their tour. Before this, like most rock bands, they had put together a schedule of cities to tour and then contacted well-known promoters in those cities to stage the concert and sell tickets. The Stones would then receive a percentage of total concert revenues as their payment. Under this business model the promoters were walking away with over 60% of the revenues.

Cohl proposed a new model whereby he would assume responsibility for all 40 concert venues on the Steel Wheels tour and guarantee to pay the Stones $1 million per concert–a much higher amount than they had ever received before. Cohl felt he could do this because his approach cut out the profits earned by the promoters. He also agreed to personally negotiate the merchandising contracts for Stones T-shirts, posters, and so on and to get corporate sponsorship for the tour.

However, after the Stones had played in their first few venues, Cohl realized he was losing money on each one. To make the tour a success, he and the members of the band would *all* have to find new ways to cut costs and increase revenues. From this point on the Stones became directly involved in every decision concerning staging, music, advertising, and promotion, and even the price of concert tickets–which have continued to climb with each new tour. The Stones, and particularly Jagger, faced a huge task to learn how to improve the concert tour business model, but the band persevered, and step-by-step have continued to refine and develop their approach in every subsequent tour.



After years of paying promoters nearly 60% of the revenues from their concert tours, the Rolling Stones decided to take control of their business and become directly involved in every financial decision.

In the end, the Steel Wheels tour made over $260 million, and the Stones made far more than the $40 million they were promised. In later tours, from "Packing Them In" to the huge "Voodoo" tour in 1995, world revenues from Stones concerts surged. When Mick Jagger and Keith Richard, who are both now in their 60s, were asked how long they planned to go on touring, their answer was "until we drop." Indeed, in May 2005 they announced the Stones would begin yet a new multi-city tour kicking off in Boston in the fall.[2]

People who act like entrepreneurs and take advantage of occupational opportunities notice the changing trends in business and keep track of advances in their own occupations. The Stones, for example, have spent considerable time and money discovering exciting new ways to stage and present their concerts. Similarly, given one's personal interests and talents, people who think the Internet will become more important in the future would be wise to develop skills that match the different kinds of occupational opportunities it offers. Likewise, people whose interests move towards the personal assistant direction, would be wise to enroll in courses to learn how to use new kinds of business software.

It is important to realize that, just as in any other area of business, a competitive market is operating in the occupational or job market. In most industries, dozens, if not hundreds, of people are competing for the same jobs. Having some kind of unique or scarce skill, or the willingness to acquire it, is a selection criterion that potential employers use to evaluate job candidates. But being able to think and act like an entrepreneur like the Stones did is something that will help you not only in your job search but also with the opportunities you will face during the rest of your life. It will affect your long-term ability to build human capital and personal wealth.



In order to compete successfully against Japanese carmakers, Chrysler grouped its employees into teams of people from all of the company's different functional groups. This lowered Chrysler's operating costs and increased vehicle quality.

ORGANIZATIONAL OPPORTUNITIES The third main form of opportunity for entrepreneurs is to create new business organization forms and find new ways to design and control a business's organizational structure to increase its profitability. Perhaps, for example, a new way of grouping employees through the use of web-based IT will allow them to communicate and cooperate better with each other and with customers. For a company, the result of finding better ways to organize is lower operating costs and the ability to make better products that command higher prices in the marketplace.

In the last decade, new forms of global business organization, using new kinds of IT, have changed the way companies make and sell their products and increased company profitability. In the 1990s, for example, Chrysler regrouped its employees into teams comprised of people from all the different occupational functions such as marketing, research and development, and manufacturing. The result was that Chrysler was able to reduce its operating costs and increase its vehicle quality dramatically. This has helped the company compete more successfully against Japanese carmakers. Similarly, Citicorp developed software giving its employees a better understanding of the needs of its customers, which improved customer-service quality. By 2003 the marketplace had rewarded Citicorp with millions of new global customer accounts.

Finding new, more profitable ways to run a business, large or small, is as entrepreneurial an activity as creating better products. Whenever employees take even small, incremental steps to improve the quality of a particular product or operation in a firm, they are behaving entrepreneurially. If all employees are on the lookout for ways to improve the firm's processes and products, the firm will be more competitive.

Countless opportunities exist for entrepreneurs to found new companies with viable business models. Often, it is small companies, founded by one or a group of entrepreneurs such as Dell, Apple, and Microsoft, which introduce the new products that change the business and social world. At the same time, a substantial amount of entrepreneurship takes place in large companies that invest huge amounts in new research and development to advance technology and create new and improved goods and services. **Intrapreneurship** is the entrepreneurial activity that takes place *inside* an established company. Often, it is the capital spent by large global companies on Intrapreneurship that fires the advances in technology that can, and have, revolutionized business in the last decades.

intrapreneurship
Entrepreneurial activity that takes place inside of an established company.