

Cam had always wanted to own his own business. He wanted the challenge of making the decisions that determined whether he would succeed or fail. He sorted through many ideas before settling on a delivery service for local retailers. Many of the local businesses were losing sales to online businesses. Customers liked the convenience of shopping from home and having products delivered to their doors by UPS or FedEx.

He developed a win-win idea for local businesses and their customers. He would deliver any order of \$25 or more to a local customer. He would charge the retailer 10 percent less than the shipping cost that would be charged by the major parcel shipping companies. And he guaranteed same-day delivery for orders placed before noon, overnight delivery for afternoon orders during the week, and Monday morning delivery for any weekend order.

Cam's business grew quickly as customers had positive experiences with his rapid delivery service. Businesses that had not used his service before began to call him for local delivery. Customers got to know Cam and his reliable service. He had never had a complaint of a late or damaged delivery. He added a part-time assistant so he did not have to work long hours every day and felt he would soon be able to add another delivery vehicle and a full-time employee.

As Cam celebrated the first anniversary of his business, he was beginning to feel some pressure due to two unplanned and uncontrollable circumstances. Due to a world-wide energy crisis, gas prices had jumped 20 cents a gallon during the year and experts predicted they would continue to rise over the next six months. At the same time, a new national parcel delivery service had entered the competition with FedEx and UPS. To fight the new business, the established companies had temporarily reduced the shipping rates they charged by an average of 10 percent. While Cam believed the price cut was temporary, he was receiving less for each delivery based on the way he calculated his fees.

He knew the larger companies could maintain lower prices longer than he could as the owner of a new small business. Based on those two events, Cam's plans to expand his business were on hold. In fact, they had him teetering on the edge of an unprofitable business.

THINK CRITICALLY

Handwrite your responses in the space below; 2 sentences each.

1. What are the similarities and differences between the two events Cam is facing and their effect on his business?

2. What alternatives are available to Cam for dealing with rising gas prices and reduced delivery charges?

3. How do the economic principles of scarcity, choice, and supply and demand apply to the situation Cam faced when the established parcel delivery companies reduced their prices?

4. Describe how each of the principles of the U.S. free enterprise economy is illustrated in the case. How have those principles benefited Cam? How are they related to the problems he currently faces?

5. Cam started his business as a sole proprietorship. How might he be able to respond differently to the competitive situation he is facing if the business was organized as a partnership or a corporation?

6. What are the reasons Cam's new business has been so successful when other parcel delivery services are available? How might Cam use the positive experiences of his customers and the local demand for his delivery service to respond to the price cuts of the large competitors?