



THIRTEENTH EDITION



William G. Nickels

UNIVERSITY OF MARYLAND

James M. McHugh

ST. LOUIS COMMUNITY COLLEGE AT FOREST PARK

Susan M. McHugh

APPLIED LEARNING SYSTEMS















UNDERSTANDING BUSINESS, THIRTEENTH EDITION

Published by McGraw-Hill Education, 2 Penn Plaza, New York, NY 10121. Copyright © 2022 by McGraw-Hill Education. All rights reserved. Printed in the United States of America. Previous editions © 2019, 2016, 2013, and 2010. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written consent of McGraw-Hill Education, including, but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning.

Some ancillaries, including electronic and print components, may not be available to customers outside the United States.

This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 LWI 24 23 22 21

ISBN 978-1-260-89485-1 MHID 7-260-89485-1

Executive Portfolio Manager: Meredith Fossel Executive Marketing Manager: Nicole Young Senior Product Developer: Anne Leung Lead Content Project Manager: Christine Vaughan

Senior Content Project Manager: Bruce Gin Content Licensing Specialist: Traci Vaske

Senior Designer: Matt Diamond Senior Buyer: Laura Fuller Cover image: sollia/shutterstock Compositor: SPi Global

All credits appearing on page or at the end of the book are considered to be an extension of the copyright page.

Library of Congress Cataloging-in-Publication Data

Names: Nickels, William G., author. | McHugh, James M., author. | McHugh,

Susan M., author.

Title: Understanding business / William G. Nickels, James M. McHugh, Susan

M. McHugh.

Description: Thirteenth edition. | New York, NY: McGraw-Hill Education,

[2022] | Includes index.

Identifiers: LCCN 2020041109 (print) | LCCN 2020041110 (ebook) | ISBN

9781260894851 (paperback) | ISBN 9781264249527 (ebook)

Subjects: LCSH: Industrial management. | Business. | Business-Vocational guidance.

Classification: LCC HD31.2 .N53 2022 (print) | LCC HD31.2 (ebook) | DDC

LC record available at https://lccn.loc.gov/2020041109

LC ebook record available at https://lccn.loc.gov/2020041110

The Internet addresses listed in the text were accurate at the time of publication. The inclusion of a website does not indicate an endorsement by the authors or McGraw-Hill Education, and McGraw-Hill Education does not guarantee the accuracy of the information presented at these sites.

mheducation.com/highered

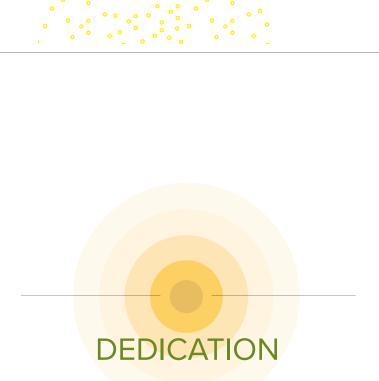












To our families—Marsha, Joel, Carrie, Claire, Casey, Dan, Molly, Michael, Patrick, and Quinn. Thank you for making everything worth doing and giving us the support to do it well!

AND

To the team that made this edition possible, especially the instructors and students who gave us such valuable guidance as we developed the text and package.









ABOUT THE AUTHORS



Bill Nickels is emeritus professor of business at the University of Maryland, College Park. He has over 30 years' experience teaching graduate and undergraduate business courses, including introduction to business, marketing, and promotion. He has won the Outstanding Teacher on Campus Award four times and was nominated for the award many other times. He received his MBA degree from Western Reserve University and his PhD from Ohio State University. Bill has written a marketing communications text and two marketing principles texts in addition to many articles in business publications. He has taught many seminars to businesspeople on subjects such as power communications, marketing, nonbusiness marketing, and stress and life management. His son, Joel, is a professor of English at the University of Miami (Florida).



Jim McHugh holds an MBA degree from Lindenwood University and has had broad experience in education, business, and government. As chair of the Business and Economics Department of St. Louis Community College-Forest Park, Jim coordinated and directed the development of the business curriculum. In addition to teaching several sections of Introduction to Business each semester for nearly 30 years, Jim taught in the marketing and management areas at both the undergraduate and graduate levels. Jim enjoys conducting business seminars and consulting with small and large businesses. He is actively involved in the public-service sector and served as chief of staff to the St. Louis County Executive.



Photos: McGraw Hill

Susan McHugh is a learning specialist with extensive training and experience in adult learning and curriculum development. She holds an MEd degree from the University of Missouri and completed her coursework for a PhD in education administration with a specialty in adult learning theory. As a professional curriculum developer, she has directed numerous curriculum projects and educator training programs. She has worked in the public and private sectors as a consultant in training and employee development. While Jim and Susan treasure their participation in writing projects, their greatest accomplishment is their collaboration on their three children. Casey is carrying on the family's teaching tradition as an adjunct professor at Washington University. Molly and Michael are carrying on the family writing tradition by contributing to the development of several supplementary materials for this text.

iv







In Preparing Future-Ready Learners

Congratulations. You've made an excellent selection. Welcome to the preeminent teaching and learning experience ever created for Introduction to Business classes.

Our experienced and diverse authors and long-tenured editorial team have created a product that meets the needs of nearly all classrooms, no matter the size, teaching modality, or learning objectives. The content is unmatched in depth, breadth, currency, and relevancy, and is presented in an extremely readable format for students with all learning styles. A wealth of technology solutions engages students, enriches learning, furthers understanding, and simplifies instructors' assessment processes. Course supplements tightly align with chapter concepts and enhance retention, making instructors of all experience levels Grade-A rock stars. And unparalleled support from our digital faculty consultants helps ensure you and your students benefit from the full experience of what is now the gold standard in Introduction to Business classes. Nickels/McHugh/McHugh, *Understanding Business*, 13th Edition does more than teach—it prepares students to create real impact on the world.

1. The Gold Standard in Relevancy and Currency

Real-world case studies—across nearly all industries and company sizes—ensure your students are apprised of the most current challenges businesspeople face today. From COVID-19 and unemployment to USMCA and artificial intelligence, you have access to numerous relevant samples that tie directly into chapter lessons. Plus with the option to take advantage of the *From the News to the Classroom* blog, understandingbiz.com, you can enrich the learning experience with content that is updated multiple times each week and includes abstracts of relevant news stories, videos tied to chapter topics, and critical thinking questions that streamline your prep time and help create an ultra-current course.

2. The Gold Standard in Results-Driven Technology

Interactive learning tools increase teaching effectiveness and learning efficiency by facilitating a stronger connection between the course material and the modern student.

Where the Science of Learning Meets the Art of Teaching McGraw-Hill Connect is the leading online assignment and assessment solution that connects students with the tools and resources they need to achieve success. It also allows instructors to quickly and easily choose the content and assignments that will best emphasize the learning objectives they prefer to cover. The result is a customized course, rich with engaging presentations and activities that prepare students for the business world.



١









The First and Only Adaptive Reading Experience SmartBook 2.0 creates a dynamic reading experience and personalizes content for each student, helping students master and retain foundational concepts. Tracking each student's progress, it automatically assesses comprehension levels and delivers the content required to reinforce topics needing more attention. This continuously adaptive learning path is proven to accelerate learning and strengthen memory recall, all while providing instructors a turnkey tool that ensures students stay on track.

Bridging the Gap between Theory and Real Life Having knowledge is the first step—and understanding how to apply that knowledge is what determines a person's success in the working world. That's why we provide an array of application exercises that are as educational as they are engaging. Click-and-Drag exercises reinforce key models and processes, and demonstrate application-level knowledge. Video Cases allow students to observe and analyze key concepts as they are utilized by companies and organizations they know and recognize. Case analyses expose students to real-world scenarios and engage their critical-thinking and analysis skills. New to this edition, 15-minute Application-Based Activities put students in the role of business professionals, allowing them to make decisions and learn from the results.

3. The Gold Standard in Teaching Resources

Whether it's your first or fortieth year teaching, you can benefit from a wealth of assessments and class-tested resources that simplify your evaluation process and enrich the learning experience.

Assessment Tools:

- NEW SmartBook 2.0 personalizes learning to individual student needs, continually adapting to pinpoint knowledge gaps and focus learning on topics that need the most attention. With SmartBook 2.0, learning is more productive and the guesswork is taken out of what to study in a no-fail environment. As a result, students are better prepared for class and coursework.
- NEW Writing Assignment Premium evaluates, scores, and gives feedback on student responses to provided prompts.
- NEW Application-Based Activities are highly interactive, automatically graded exercises that immerse students in a business environment, analyze the situation, and apply their knowledge to a real-world scenario.
- Business Plan Prep Activities guide students in creating a basic business plan.
- Chapter quizzes are pre-built to cover all chapter learning objectives.
- Test bank that is by far the largest and most accurate collection of questions on the market, including over 300 questions per chapter, makes testing student knowledge a simple and efficient process.
- Application exercises challenge students to demonstrate their knowledge of key concepts and terms by applying them to a variety of business-world scenarios.
- Video assignments help explain difficult concepts and show business concepts in action in companies large and small.
- **Instructor's Manual** includes tools to improve retention and engagement, while helping save the instructor's time.

vi











- From the News to the Classroom blog, understandingbiz.com, is updated multiple times each week, featuring abstracts of relevant news stories, video tied to chapter topics, and critical-thinking questions that streamline your prep time and help create an ultra-current course.
- PowerPoint presentations include integrated polling questions that improve student engagement.
- Video library with teaching guides includes:
 - Company case videos produced specifically to expound on chapter learning objectives via real-world business situations across a broad range of industries, sizes, and geographic locations, allowing students to contextualize the chapter's content.
 - Manager's Hot Seat videos offer short cases that show real business professionals confronting a variety of workplace challenges.
 - **iSeeit! animated video explanations** clarify some of the most important topics and can be accessed within the eBook.

4. The Gold Standard in Support, Service, and Solutions

We want you to get the most out of our products, and we do everything possible to help provide your students an exceptional learning experience. From the first to the last day of the semester, we support you with:

- Learning technology representatives
- Digital faculty consultants
- Student ambassadors
- Implementation consultants
- Technical support
- Integration with your learning management system

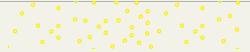


vii









- Content your way/customizable content/a robust library of cross-disciplinary
- Student progress-tracking
- Accreditation and assurance of learning ready
- Fully automated lecture capture via Tegrity®

Our team of digital faculty consultants and extensive toolbox of support programs ensure you receive the full value of all this product has to offer.

The Bottom Line

The business world is constantly changing, and your classroom needs to keep up. With Nickels/McHugh/McHugh, *Understanding Business*, 13th Edition, both you and your students can experience the Gold Standard in Introduction to Business classes.

Changes to the New Edition

Users of *Understanding Business* have always appreciated the currency of the material and the large number of examples from companies of all sizes and industries (e.g., service, manufacturing, nonprofit, and profit) in the United States and around the world. A glance at the Chapter Notes will show you that almost all of them are from 2019 or 2020. Accordingly, the latest business practices and other developments affecting business include:

- Equifax data breach
- Inclusion and creating a sense of belonging in the workplace
- The rise of Gen Z's economic influence
- Baby Boomer brain drain/retaining older workers
- US-Mexico-Canada Agreement (USMCA)
- Brexit
- Real unemployment rate (vs. standard unemployment rate)
- Effects of artificial intelligence on unemployment
- Tightening of Cuban trade and travel
- Right to Disconnect laws
- Business Roundtable Statement on the Purpose of a Corporation
- Cloud architects
- Small Business Reorganization Act of 2019 (SBRA)
- Artificial intelligence
- Machine learning
- COVID-19
- Green bonds
- Negative interest rates
- LAN
- WAN
- Blockchain
- Web 3.0
- And much, much more

viii









McGraw-Hill Customer Experience Group Contact Information

At McGraw-Hill Education, we understand that getting the most from new technology can be challenging. That's why our services don't stop after you purchase our products. You can e-mail our Product Specialists 24 hours a day to get product training online. Or you can search our knowledge bank of Frequently Asked Questions on our support website. For Customer Support, call **800-331-5094** or visit www.mhhe.com/support. One of our Technical Support Analysts will be able to assist you in a timely fashion.







ix



ACKNOWLEDGMENTS

ur executive portfolio manager Meredith Fossel led the talented team at McGraw-Hill Education. We appreciate her dedication to the success of the project and her responsiveness to the demands of the market. Anne Leung served as our senior product developer and kept everyone on task and on schedule. Molly and Michael McHugh helped revise the text and contributed many of the new boxes and profiles. Matt Diamond created the new fresh, open interior design and extraordinary cover. Traci Vaske and Jen Blankenship carried out the extensive research for photos that was necessary to effectively reflect the concepts presented in the text. Lead project manager, Christine Vaughan, did a splendid job of keeping the production of the text on schedule. Bruce Gin expertly supervised Connect production.

Many dedicated educators and content experts made extraordinary contributions to the quality and utility of this teaching and learning package. For this edition, Diana Murphy and her team at Editors Inc. did a superb job of creating a useful and current Instructor's Manual, Test Bank, and PowerPoints. We also recognize the efforts of those who contributed to the creation of Connect materials: Stacy Martin at Southwestern Illinois College. We are grateful to our SmartBook team, in particular to Judy Bulin at Monroe Community College, who tirelessly worked to review and perfect the probes and feedback and respond

to student queries, along with Kathleen Borbee. Thank you to Kelly Luchtman and team at Lightfellow for the fabulous new videos they produced. Thank you to the Digital Faculty Consultants who have helped train and support so many of their fellow instructors in the Introduction to Business course, as well as assist them in successfully implementing Connect into their courses: Chris Finnin, Drexel University; Tim Rogers, Ozarks Technical Community College; Allison Smith, West Kentucky Community and Technical College; and Ruth White, Bowling Green State University. We would like to give special thanks to Tim Rogers for his dedication to this project, including the hard work he did revising the student study guide.

Our outstanding marketing manager, Nicole Young, and marketing director, Natalie King, were up to the challenge of guiding the text to continued market leadership. With the assistance of the market's finest sales professionals, they led the text to record highs. We want to thank the many instructors who contributed to the development of *Understanding Business*.

Reviewers

We would like to thank the following instructors for sharing with us their opinions, input, and advice—all of which contributed to the development of each edition:

For this edition we thank:
David M. Baird, *Indiana University*Southeast

Kali Bard, *Crowder College*

Richard Barnhart, *Grand Rapids*Community College

Jessie Bellflowers,
Fayetteville Technical
Community College

Bob Dodd, College of Lake County

Erik Ford, University of Oregon

Terri Gonzales-Kreisman, *Delgado Community College*

Patrick Greek, *Macomb Community College*

John Guess, *Delgado Community*College

Francis A. Hatstat, *Bellevue College*

Venkat Krishnamurthy, College of Lake County

Susan Jennings Lantz, West Virginia University

Catherine E. Levitt, College of the Desert

Paula Y. Mooney, Georgia Southern University

Alexandra Moran, Purdue University Northwest

Annette D. Rakowski, *Bergen*Community College

Varun Ramberran, *Miami Dade* College

Greg Rapp, Portland Community
College

Levi Richard, Citrus Community
College

Tim Rogers, Ozarks Technical College

Storm Russo. Valencia Colleae

Freddie Sandifer Jr., Tarrant County College Northeast Campus

Phyllis T. Shafer, *Brookdale* Community College

Dennis M. Sheridan, Fayetteville Technical Community College

Keith Shishido, Santa Monica College

Joe Tungol, *College of DuPage*

Michael Wiggins, Georgia Southern University

For previous editions we thank:

Nikolas Adamou, Borough of Manhattan Community College

Rebecca Adams, Kansas State University

Cathy Adamson, Southern Union State Community College

X

хi





ACKNOWLEDGMENTS

Ashraf Almurdaah, Los Angeles
City College

Gary Amundson, *Montana State University–Billings*

Kenneth Anderson, Borough of Manhattan Community College

Kenneth Anderson, *Mott Community College*

Lydia Anderson, *Fresno City College*

Narita Anderson, *University of* Central Oklahoma

Roanne Angiello, *Bergen Community College*

Brenda T. Anthony, *Tallahassee*Community College

Chi Anyansi-Archibong, North
Carolina A&T State University

Maria Aria, Camden County
College

Michael Atchison, *University of*Virginia—Charlottesville

Michael Aubry, Cuyamaca College

Andrea Bailey, Moraine Valley
Community College

Sandra Bailey, Ivy Tech Community College of Indiana

Scott Bailey, Troy University

Wayne Ballantine, *Prairie View*A&M University

Frank Barber, Cuyahoga Community College

Ruby Barker, *Tarleton State University*

Rosalia (Lia) Barone, *Norwalk*Community College

Barbara Barrett, St. Louis

Community College–Meramec

Barry Barrett, *University of*Wisconsin–Milwaukee

Richard Bartlett, Columbus State
Community College

Denise Barton, Wake Technical Community College

Lorraine Bassette, *Prince George's*Community College

Robb Bay, College of Southern Nevada–West Charleston Jim Beard, *University of Arkansas–Fort Smith*

Amy Beattie, Champlain College

Charles Beavin, Midmi Dade College North

Charles Beem, Bucks County
Community College

Cathleen Behan, Northern Virginia
Community College

Lori Bennett, Moorpark College

Robert Bennett, Delaware County Community College

Ellen Benowitz, *Mercer Community*College

Michael Bento, Owens Community
College

George H. Bernard, Seminole State College of Florida

Patricia Bernson, County College of Morris

Harry V. Bernstein, Essex County College, Newark, New Jersey

Marilyn Besich, Montana State
University-Great Falls

William Bettencourt, Edmonds
Community College

Robert Blanchard, Salem State College

Mary Jo Boehms, Jackson State Community College

James Borden, Villanova University

Michael Bravo, Bentley College

Dennis Brode, Sinclair Community
College

Kathy Broneck, *Pima Community College*

Harvey Bronstein, Oakland Community College

Deborah Brown, North Carolina State University-Raleigh

Aaron A. Buchko, *Bradley University*

Jerri Buiting, Baker College–Flint

Laura Bulas, Central Community
College—Hastings

Judy Bulin, Monroe Community
College

Barry Bunn, Valencia Community College—West Campus

Bill Burton, *Indiana Wesleyan University*

Paul Callahan, Cincinnati State Technical and Community College

William Candley, *Lemoyne Owen*College

Nancy Carr, Community College of Philadelphia

Ron Cereola, James Madison University

Bonnie Chavez, Santa Barbara City College

Susan Cisco, *Oakton Community College*

Margaret (Meg) Clark, Cincinnati State Technical and Community College

Savannah Clay, Central Piedmont Community College

David Clifton, *Ivy Tech Community* College of Indiana

C. Cloud, Phoenix College

Paul Coakley, Community College of Baltimore County

Doug Cobbs, JS Reynolds Community College

Cathleen H. Cogdill, *Northern Virginia Community College*

Brooks Colin, *University of New Orleans*

Debbie Collins, Anne Arundel Community College

Patrick Conroy, *Delgado Community College*

Andrew Cook, Limestone College

Bob Cox, Salt Lake Community
College

Susan Cremins, Westchester Community College

Julie Cross, *Chippewa Valley Tech College*

Geoffrey Crosslin, Kalamazoo Valley Community College

Douglas Crowe, Bradley University

James Darling, Central New Mexico Community College









xii ACKNOWLEDGMENTS

John David, Stark State College of Technology

Peter Dawson, Collin County
Community College

Joseph Defilippe, Suffolk County

Community College—Brentwood

Tim DeGroot, *Midwestern State University*

Len Denault, Bentley College

Frances Depaul, Westmoreland
County Community College

Donna DeVault, Fayetteville Technical Community College

Sharon Dexter, Southeast
Community College–Beatrice

John Dilyard, *St. Francis College*

Barbara Dinardo, *Owens* Community College

Bob Dodd, College of Lake County

George Dollar, St. Petersburg
College

Glenn Doolittle, Santa Ana College

Ron Dougherty, Ivy Tech
Community College of Indiana

Michael Drafke, College of DuPage

Rosario (Bud) Drago, *Villanova University*

Joseph Dutka, Ivy Tech
Community College of Indiana

Karen Eboch, Bowling Green State
University

Brenda Eichelberger, *Portland*State University

Kelvin Elston, Nashville State Tech Community College

Robert Ettl, Stony Brook University

Nancy Evans, Heartland
Community College

Mary Ewanechko, *Monroe*Community College

Michael Ewens, Ventura College

Hyacinth Ezeka, Coppin State
University

Bob Farris, Mt. San Antonio College

Karen Faulkner, Long Beach City
College

Gil Feiertag, Columbus State Community College

Joseph Flack, Washtenaw Community College

Lucinda Fleming, Orange County
Community College

Jackie Flom, University of Toledo

Andrea Foster, John Tyler Community College

Michael Foster, Bentley College

Leatrice Freer, Pitt Community
College

Alan Friedenthal, *Kingsborough*Community College

MaryBeth Furst, Howard Community College

Charles Gaiser, Brunswick
Community College

Wayne Gawlik, Joliet Junior College

Ashley Geisewite, Southwest Tennessee Community College

Katie Ghahramani, Johnson County Community College

Debora Gilliard, Metropolitan State
College–Denver

Ross Gittell, *University of New Hampshire*

James Glover, Community College of Baltimore County–Essex

Constance Golden, Lakeland
Community College

Doug Greiner, *University of Toledo–Scott Park*

Toby Grodner, Union County
College

John Guess, Delgado Community
College

Lisa E. Hadley, Southwest Tennessee Community College

Peggy Hager, Winthrop University

Clark Hallpike, Elgin Community
College

Geri Harper, Western Illinois University

Britt Hastey, Los Angeles City College

Frank Hatstat, Bellevue Community College Spedden Hause, University of Maryland–University College

Karen H. Hawkins, *Miami Dade College*

Travis Hayes, Chattanooga State Technical Community College

Jack Heinsius, *Modesto Junior College*

Charlane Held, Onondaga Community College

Nancy Hernandez, *Howard College*

James Hess, Ivy Tech Community College of Indiana

Steve Hester, Southwest Tennessee Community College

William Hill, *Mississippi State University*

Nathan Himelstein, *Essex County College*

Paula Hladik, Waubonsee Community College

David Ho, Metropolitan Community College

Douglas Hobbs, Sussex County Community College

Linda Hoffman, Ivy Tech Community College–Fort Wayne

Maryanne Holcomb, *Antelope Valley College*

Mary Carole Hollingsworth, Georgia Perimeter College

Russell E. Holmes, *Des Moines Area Community College*

Scott Homan, *Purdue University—West Lafayette*

Stacy Horner, Southwestern Michigan College

Dennis Hudson, *University of Tulsa*

Jo Ann Hunter, Community College Allegheny County in Pittsburgh

Kimberly Hurns, Washtenaw Community College

Victor Isbell, *University of* Nevada–Las Vegas











ACKNOWLEDGMENTS xiii

Deloris James, *University of Maryland–University College*

Pam Janson, Stark State College of Technology

William Jedlicka, Harper College

Carol Johnson, *University of*Denver

Russell Johnson, *Utah Valley University*

Gwendolyn Jones, *The University* of Akron

Kenneth Jones, Ivy Tech Community College of Indiana

Marilyn Jones, Friends University

Michael Jones, *Delgado Community College*

Dmitriy Kalyagin, Chabot College

Jack Kant, San Juan College

Janice M. Karlen, *La Guardia Community College*

Jimmy Kelsey, Seattle Central
Community College

Robert Kemp, *University of Virginia–Charlottesville*

David Kendall, Fashion Institute of Technology

Kristine Kinard, Shelton State Community College

Sandra King, *Minnesota State University–Mankato*

Mary Beth Klinger, College of Southern Maryland

Andrzej Kobylanski, *San Joaquin Delta College*

Jon Krabill, Columbus State
Community College

John Kurnik, *Saint Petersburg* College

Jeff LaVake, University of Wisconsin—Oshkosh

Robert Lewis, Davenport University

Byron Lilly, DeAnza College

Beverly Loach, Central Piedmont
Community College

Boone Londrigan, *Mott Community College*

Ladonna Love, Fashion Institute of Technology Ivan Lowe, York Technical College

Yvonne Lucas, Southwestern College

Robert Lupton, Central Washington University

Megan Luttenton, *Grand Valley* State University

Elaine Madden, Anne Arundel
Community College

Lawrence Maes, Davenport University

Niki Maglaris, Northwestern College

James Maniki, Northwestern College

James W. Marco, Wake Technical Community College

Martin Markowitz, College of Charleston

Theresa Mastrianni, Kingsborough Community College

Fred Mayerson, Kingsborough Community College

Lee McCain, Valencia College

Stacy McCaskill, Rock Valley
College

Vershun L. McClain, Jackson State University

Gina McConoughey, *Illinois*Central College

Patricia McDaniel, Central
Piedmont Community College

Pam McElligott, St. Louis
Community College—Meramec

Tom McFarland, Mt. San Antonio College

Grace McLaughlin, *University of* California, Irvine

Bill McPherson, *Indiana University* of Pennsylvania

Michelle Meyer, Joliet Junior College

Catherine Milburn, *University of Colorado—Denver*

Ginger Moore, York Technical College

Sandy Moore, Ivy Tech Community College of Indiana Jennifer Morton, *Ivy Tech*Community College of Indiana

Peter Moutsatson, Central Michigan University

Rachna Nagi-Condos, *American River College*

Darrell Neron, Pierce College

Mihai Nica, *University of Central Oklahoma*

Charles Nichols, Sullivan University

Frank Novakowski, *Davenport University*

Mark Nygren, *Brigham Young University–Idaho*

Paul Okello, *Tarrant County College*

David Oliver, *Edison Community College*

Faviana Olivier, Bentley College

John Olivo, Bloomsburg University of Pennsylvania

Teresa O'Neill, International Institute of the Americas

Cathy Onion, Western Illinois
University

Susan Ontko, Schoolcraft College

Joanne Orabone, Community College of Rhode Island

Glenda Orosco, Oklahoma State University Institute of Technology

Javier Osorio, Seminole State College

Christopher O'Suanah, J. S. Reynolds Community College

Karen E. Overton, Houston Community College Houston

Daniel Pacheco, Kansas City Kansas Community College

Esther Page-Wood, Western Michigan University

Lauren Paisley, Genesee Community College

James Papademas, Wright
Community College, Chicago

John Pappalardo, *Keene State College*









xiv ACKNOWLEDGMENTS

Ron Pardee, *Riverside Community College*

Jack Partlow, Northern Virginia
Community College

Dyan Pease, Sacramento City
College

Jeff Pepper, *Chippewa Valley Tech College*

Sheila Petcavage, Cuyahoga Community College Western–Parma

Roy Pipitone, *Erie Community College*

Lana Powell, Valencia Community
College—West Campus

Dan Powroznik, *Chesapeake College*

Litsa Press, College of Lake County

Sally Proffitt, *Tarrant County* College—Northeast

Vincent Quan, Fashion Institute of Technology

Michael Quinn, James Madison
University

Anthony Racka, *Oakland*Community College

Larry Ramos, *Miami-Dade* Community College

Greg Rapp, Portland Community
College—Sylvania

Robert Reese, Illinois Valley
Community College

David Reiman, Monroe County

Community College

Gloria Rembert, *Mitchell* Community College

Levi Richard, Citrus College

Clinton Richards, *University of* Nevada–Las Vegas

Patricia Richards, Westchester Community College

Steve Riczo, Kent State University

Susan Roach, Georgia Southern
University

Sandra Robertson, *Thomas Nelson*Community College

David Robinson, *University of California–Berkeley*

Catherine Roche, Rockland
Community College

Tim Rogers, Ozark Technical College

Sam Rohr, *University of* Northwestern Ohio

Pamela Rouse, Butler University

Carol Rowey, Community College of Rhode Island

Jeri Rubin, *University of Alaska–Anchorage*

Storm Russo, Valencia Community
College

Mark Ryan, *Hawkeye Community College*

Richard Sarkisian, Camden County
College

Andy Saucedo, Dona Ana Community College–Las Cruces

James Scott, Central Michigan
University

Janet Seggern, Lehigh Carbon Community College

Sashi Sekhar, Purdue
University—Calumet-Hammond

Pat Setlik, Harper College

Swannee Sexton, *University of Tennessee–Knoxville*

Phyllis Shafer, *Brookdale* Community College

Richard Shortridge, Glendale Community College

Denise M. Simmons, Northern Virginia Community College

William Spangler, *Duquesne University*

Rieann Spence-Gale, Northern Virginia Community College

Clifford Stalter, Chattanooga State Technical Community College

Kurt Stanberry, *University of*Houston–Downtown

Desiree Stephens, Norwalk
Community College

Louise Stephens, Volunteer State Community College

Martin St. John, Westmoreland County Community College

Edith Strickland, *Tallahassee*Community College

John Striebich, *Monroe Community College*

David Stringer, DeAnza College

Ron Surmacz, *Duquesne University*

William Syvertsen, Fresno City College

Scott Taylor, Moberly Area Community College

Marguerite Teubner, *Nassau Community College*

Rod Thirion, *Pikes Peak Community College*

Jim Thomas, *Indiana University*Northwest

Deborah Thompson, *Bentley College*

Evelyn Thrasher, *University of Massachusetts–Dartmouth*

Jon Tomlinson, *University of Northwestern Ohio*

Bob Trewartha, *Minnesota School* of *Business*

Bob Urell, Irvine Valley College

Dan Vetter, Central Michigan University

Andrea Vidrine, Baton Rouge Community College

Daniel Viveiros, *Johnson & Wales University*

Jean Volk, *Middlesex County* College–Edison

William J. Wardrope, *University of Central Oklahoma*

Joann Warren, Community College of Rhode Island—Warwick

David Washington, North Carolina State University

R. Patrick Wehner, *Everest University*

Sally Wells, Columbia College

Mildred Wilson, Georgia Southern University

Karen Wisniewski, County College of Morris

Greg Witkowski, *Northwestern College*









• •	ACKNOWLEDGMENTS XV	,
Colette Wolfson, Ivy Tech Community College of Indiana	Mark Zarycki, Hillsborough Community College, Tampa Lisa Zingaro, Oakton Community College	
Deborah Yancey, Virginia Western Community College	Nancy E. Zimmerman, The Mark Zorn, Butler County Community College of Community College Baltimore County	
	This edition continues to be the market's gold standard due to the involvement of these committed instructors and students. We thank them all for their help, support, and friendship. Bill Nickels Jim McHugh Susan McHugh	1
c		_









Instructors: Student Success Starts with You

Tools to enhance your unique voice

Want to build your own course? No problem. Prefer to use our turnkey, prebuilt course? Easy. Want to make changes throughout the semester? Sure. And you'll save time with Connect's auto-grading too.

65% Less Time Grading



Study made personal

Incorporate adaptive study resources like
SmartBook® 2.0 into your course and help your
students be better prepared in less time. Learn
more about the powerful personalized learning
experience available in SmartBook 2.0 at
www.mheducation.com/highered/connect/smartbook

Laptop: McGraw Hill; Woman/dog: George Doyle/Getty Images

Affordable solutions, added value



Make technology work for you with LMS integration for single sign-on access, mobile access to the digital textbook, and reports to quickly show you how each of your students is doing. And with our Inclusive Access program you can provide all these tools at a discount to your students. Ask your McGraw Hill representative for more information.

Padlock: Jobalou/Getty Images

Solutions for your challenges



A product isn't a solution. Real solutions are affordable, reliable, and come with training and ongoing support when you need it and how you want it. Visit www. supportateverystep.com for videos and resources both you and your students can use throughout the semester.

Checkmark: Jobalou/Getty Images

nic94851_fm_i-xxxi.indd xvi 11/06/20 03:05 PM









Students: Get Learning that Fits You

Effective tools for efficient studying

Connect is designed to make you more productive with simple, flexible, intuitive tools that maximize your study time and meet your individual learning needs. Get learning that works for you with Connect.

Study anytime, anywhere

Download the free ReadAnywhere app and access your online eBook or SmartBook 2.0 assignments when it's convenient, even if you're offline. And since the app automatically syncs with your eBook and SmartBook 2.0 assignments in Connect, all of your work is available every time you open it. Find out more at www.mheducation.com/readanywhere

"I really liked this app—it made it easy to study when you don't have your textbook in front of you."

- Jordan Cunningham, Eastern Washington University



Everything you need in one place

Your Connect course has everything you need—whether reading on your digital eBook or completing assignments for class, Connect makes it easy to get your work done.

Calendar: owattaphotos/Getty Images

Learning for everyone

McGraw Hill works directly with Accessibility Services Departments and faculty to meet the learning needs of all students. Please contact your Accessibility Services Office and ask them to email accessibility@mheducation.com, or visit www.mheducation.com/about/accessibility for more information.

Top: Jenner Images/Getty Images, Left: Hero Images/Getty Images, Right: Hero Images/Getty Images









BRIEF CONTENTS

Gold Standard v

Prologue: Getting Ready for This Course and Your Career **xxxii**

PART 1

Business Trends: Cultivating a Business in Diverse, Global Environments

- 1 Taking Risks and Making Profits within the Dynamic Business Environment 2
- Understanding Economics and How It Affects
 Business 28
- 3 Doing Business in Global Markets 56
- Demanding Ethical and Socially Responsible Behavior 88

PART 2

Business Ownership: Starting a Small Business

- 5 How to Form a Business 112
- 6 Entrepreneurship and Starting a Small Business 142

PART 3

 \bigoplus

Business Management: Empowering Employees to Satisfy Customers

- 7 Management and Leadership 170
- Structuring Organizations for Today's Challenges 194
- Production and Operations Management 220

PART 4

Management of Human Resources:

Motivating Employees to Produce Quality Goods and Services

- 10 Motivating Employees 244
- 11 Human Resource Management: Finding and Keeping the Best Employees 272
- 12 Dealing with Employee–Management Issues 306

PART 5

Marketing: Developing and Implementing Customer-Oriented Marketing Plans

- 13 Marketing: Helping Buyers Buy 332
- 14 Developing and Pricing Goods and Services 358
- 15 Distributing Products 384
- 16 Using Effective Promotions 412

PART 6

Managing Financial Resources

- 17 Understanding Accounting and Financial Information 436
- **18** Financial Management 464
- **19** Using Securities Markets for Financing and Investing Opportunities **490**
- 20 Money, Financial Institutions, and the Federal Reserve 522

Bonus Chapters

- Working within the Legal Environment 548
- B Using Technology to Manage Information 570
- C Managing Risk 598
- Managing Personal Finances 614

EPILOGUE 636

Glossary 649 Name Index 667 Organization Index 674 Subject Index 678







CONTENTS

Gold Standard v

Prologue: Getting Ready for This Course and Your

Career xxxii

PART 1

Business Trends: Cultivating a Business in Diverse, Global Environments 2

CHAPTER 1

Taking Risks and Making Profits within the Dynamic Business Environment 2

GETTING TO KNOW **TRISTAN WALKER, FOUNDER OF WALKER & COMPANY** 3

Business and Wealth Building 4

Revenues, Profits, and Losses 4

Matching Risk with Profit 5

Standard of Living and Quality of Life 5

Responding to the Various Business Stakeholders 6
Using Business Principles in Nonprofit Organizations 7

The Importance of Entrepreneurs to the

Creation of Wealth 7

 \bigoplus

The Five Factors of Production 8

The Business Environment 9

The Economic and Legal Environment 9
The Technological Environment 11

ADAPTING TO **CHANGE** CREATING SUSTAINABILITY THROUGH A CIRCULAR ECONOMY 12

The Competitive Environment 13

The Social Environment 14

CONNECTING THROUGH **SOCIAL MEDIA** THE LUCRATIVE CHALLENGE OF CONNECTING WITH GEN Z ONLINE 16

The Global Environment 16

The Evolution of U.S. Business 17

REACHING BEYOND **OUR BORDERS** COCA-COLA'S GLOBAL OFFERINGS EXPAND FAR BEYOND SODA 18

Progress in the Agricultural and Manufacturing

Industries 18

Progress in Service Industries 19

Progress in the Information Age 19

Your Future in Business 20

Summary 21

Key Terms 23

Critical Thinking 23

Putting Principles to Work 23

Developing Career Skills 24

Career Exploration 24

Video Case: Building a Shopping Community of People 24

Notes 25

CHAPTER 2

Understanding Economics and How It Affects Business 28

GETTING TO KNOW MARIANA MAZZUCATO, ECONOMIST 29

How Economic Conditions Affect Businesses 30

What Is Economics? 31

The Secret to Creating a Wealthy Economy 31

ADAPTING TO **CHANGE** WORLD POPULATION COULD GO FROM BOOM TO BUST 32

Adam Smith and the Creation of Wealth
How Businesses Benefit the Community
33

Understanding Free-Market Capitalism 34

How Free Markets Work 35

How Prices Are Determined 36

The Economic Concept of Supply 36

The Economic Concept of Demand 37

The Equilibrium Point, or Market Price 37

Competition within Free Markets 38

MAKING ETHICAL DECISIONS BAD MEDICINE FOR CONSUMERS? 39

Benefits and Limitations of Free Markets 39

Understanding Socialism 40

The Benefits of Socialism 40

The Negative Consequences of Socialism 40

Understanding Communism 41

The Trend toward Mixed Economies 41

Understanding the U.S. Economic System 42

Key Economic Indicators 42

Productivity in the United States 45

REACHING BEYOND **OUR BORDERS** HOW A STACK OF CASH CAN BECOME WORTHLESS 46

Productivity in the Service \$ector 46

The Business Cycle 47

Stabilizing the Economy through Fiscal Policy 47

Using Monetary Policy to Keep the Economy

Growing 49

Summary 50

Key Terms 52

Critical Thinking 52

Putting Principles to Work 52



xix





XX CONTENTS

Developing Career Skills 53

Career Exploration 53

Video Case: Kiva: Giving Poor Entrepreneurs a

Chance 54

Notes 54

CHAPTER 3

Doing Business in Global Markets 56

GETTING TO KNOW TIM COOK, CEO OF APPLE COMPUTER 57

The Dynamic Global Market 58

Why Trade with Other Nations? 59

The Theories of Comparative and Absolute Advantage 60

Getting Involved in Global Trade 60

Importing Goods and Services 61

Exporting Goods and Services 61

CONNECTING THROUGH **SOCIAL MEDIA** GLOBAL CONSUMERS INCREASINGLY LISTEN TO INFLUENCERS 62

Measuring Global Trade 62

Strategies for Reaching Global Markets 64

Licensing 64

Exporting 65

Franchising 65

ADAPTING TO **CHANGE** A WORLD OF OPTIONS UNDER THE ARCHES 66

Contract Manufacturing 66

International Joint Ventures and Strategic Alliances 67

Foreign Direct Investment 68

Forces Affecting Trading in Global Markets 69

Sociocultural Forces 69

Economic and Financial Forces 70

Legal and Regulatory Forces 72

MAKING **ETHICAL DECISIONS** SWEET DREAMS OR NIGHTMARES 73

Physical and Environmental Forces 73

Trade Protectionism 74

The World Trade Organization 75

Common Markets 75

NAFTA and United States—Mexico—Canada Agreement

(USMCA) 77

Central American Free-Trade Agreements 77

The Future of Global Trade 78

The Challenge of Offshore Outsourcing 79

Globalization and Your Future 80

Summary 80

Key Terms 82

Critical Thinking 82

Putting Principles to Work 82

Developing Career Skills 83

Career Exploration 83

Video Case: Domino's Wild World of Pizza 83

Notes 84

CHAPTER 4

Demanding Ethical and Socially Responsible Behavior 88

GETTING TO KNOW MATT DAMON AND GARY WHITE, COFOUNDERS OF WATER.ORG 89

Ethics Is More Than Legality 90

Ethical Standards Are Fundamental 92

Ethics Begins with Each of Us 92

MAKING ETHICAL DECISIONS ETHICS BEGINS WITH

CONNECTING THROUGH **SOCIAL MEDIA** CREATING AN ONLINE GARAGE SALE FOR A GOOD CAUSE 94

Managing Businesses Ethically and Responsibly 94

Setting Corporate Ethical Standards 95

Corporate Social Responsibility 97

Responsibility to Customers 99

Responsibility to Investors 100
Responsibility to Employees 101

Responsibility to Society and the

Environment 102

Social Auditing 104

International Ethics and Social Responsibility 105 REACHING BEYOND OUR BORDERS ETHICAL CULTURE

Summary 107

CLASH 106

Key Terms 108

Critical Thinking 108

Putting Principles to Work 108

Developing Career Skills 109

Career Exploration 109

Video Case: Conscious Marketing at Gluten

Free Bars 110

Notes 110

PART 2

Business Ownership: Starting a Small

Business 112

CHAPTER 5

How to Form a Business 112

GETTING TO KNOW ALLI WEBB, FOUNDER OF DRYBAR 113











CONTENTS xxi

Basic Forms of Business Ownership 114

Sole Proprietorships 115

Advantages of Sole Proprietorships 115

Disadvantages of Sole Proprietorships 115

Partnerships 116

Advantages of Partnerships 117

Disadvantages of Partnerships 118

MAKING **ETHICAL DECISIONS** GOOD BUSINESS, BAD KARMA? 120

Corporations 120

Advantages of Corporations 120
Disadvantages of Corporations 122

ADAPTING TO **CHANGE** HOW B CORPS HELP SOCIETY WHILE EARNING PROFITS 123

Individuals Can Incorporate 123

S Corporations 124

Limited Liability Companies 125

Corporate Expansion: Mergers and Acquisitions 127

Franchises 129

Advantages of Franchises 129

SPOTLIGHT ON **SMALL BUSINESS** FRANCHISING A DIFFERENT FORM OF FUN 131

Disadvantages of Franchises 131

Diversity in Franchising 132

Home-Based Franchises 133

E-commerce in Franchising 133

Using Technology in Franchising 1

Using Technology in Franchising 133
Franchising in Global Markets 133

Cooperatives 134

Which Form of Ownership Is for You? 135

Summary 135 Key Terms 137

Critical Thinking 137

Putting Principles to Work 137

Developing Career Skills 138

Career Exploration 138

Video Case: Domino's Still Rolling in the Dough 139

Notes 139

CHAPTER 6

Entrepreneurship and Starting a Small Business 142

GETTING TO KNOW **JOEL CLARK, COFOUNDER AND CEO**OF KODIAK CAKES 143

The Job-Creating Power of Entrepreneurs in the United States 144

SPOTLIGHT ON **SMALL BUSINESS** STUDENT START-UPS 145

Why People Take the Entrepreneurial Challenge 145

What Does It Take to Be an Entrepreneur? 146

Turning Your Passions and Problems into

Opportunities 146

Entrepreneurial Teams 147

Entrepreneurship within Firms 147

Micropreneurs and Home-Based Businesses 148

Online Businesses 150

Encouraging Entrepreneurship: What Government

Can Do 150

ADAPTING TO **CHANGE** SMALL BUSINESSES STRUGGLE TO FIGHT FAKES ON AMAZON 151

Getting Started in Small Business 152

Small versus Big Business 152

Importance of Small Businesses 153

Small-Business Success and Failure 153

Learning about Small-Business Operations 154

Learn from Others 154

MAKING ETHICAL DECISIONS SHOULD YOU STAY OR SHOULD YOU GO? 155

Get Some Experience 155

Take Over a Successful Firm 155

Managing a Small Business 156

Planning Your Business 156

Financing Your Small Business 158 Knowing Your Customers 160

Managing Your Employees 161

Keeping Records 161

Looking for Help 161

Going Global: Small-Business Prospects 163

Summary 164

Key Terms 165

Critical Thinking 165

Putting Principles to Work 166

Developing Career Skills 166

Career Exploration 166

Video Case: Cousins Maine Lobster: From Small Partnership to Successful Franchisor 167

Notes 167

PART 3

Business Management: Empowering Employees to Satisfy Customers 170

CHAPTER 7

Management and Leadership 170

GETTING TO KNOW SHEENA WRIGHT, CEO OF UNITED WAY OF NEW YORK 171

Managers' Roles Are Evolving 172









xxii CONTENTS

The Four Functions of Management 173 Planning and Decision Making 174

ADAPTING TO CHANGE DOES AI MEAN THE END OF MANAGERS? 177

Decision Making: Finding the Best Alternative 178

Organizing: Creating a Unified System 179

Tasks and Skills at Different Levels of Management 180

CONNECTING THROUGH SOCIAL MEDIA SO YOU WANT TO BE A SOCIAL MEDIA MANAGER 181

Staffing: Getting and Keeping the Right People 182

Leading: Providing Continuous Vision and Values 182

MAKING ETHICAL DECISIONS AMBITION VERSUS BEING A TEAM PLAYER 183

Leadership Styles 183 Empowering Workers 184 Managing Knowledge 185

Controlling: Making Sure It Works 185

A Key Criterion for Measurement: Customer Satisfaction 186

Summary 187 Key Terms 189

Critical Thinking 189

Putting Principles to Work 190

Developing Career Skills 190

Career Exploration 190

Video Case: Rosetta Stone: Leader in Language Learning 191

Notes 191

CHAPTER 8

Structuring Organizations for Today's Challenges 194

GETTING TO KNOW MICHELE BUCK, PRESIDENT AND **CEO OF THE HERSHEY COMPANY** 195

Organizing for Success 196

Building an Organization from the Bottom Up 196

MAKING ETHICAL DECISIONS WOULD YOU SACRIFICE SAFETY FOR PROFITS? 197

The Changing Organization 197

The Development of Organizational Design 198 Turning Principles into Organizational Design 199

Decisions to Make in Structuring

Organizations 201

Choosing Centralized or Decentralized Authority 201 Choosing the Appropriate Span of Control 201 Choosing between Tall and Flat Organizational Structures 202

Weighing the Advantages and

Disadvantages of Departmentalization 202

Organizational Models 205

Line Organizations 205

Line-and-Staff Organizations 206

Matrix-Style Organizations 206

ADAPTING TO CHANGE UNHOLY HOLACRACY! 208

Cross-Functional Self-Managed Teams 208 Going beyond Organizational Boundaries 209

Managing the Interactions among Firms 209

Transparency and Virtual Organizations 209

Adapting to Change 211

ADAPTING TO CHANGE MY TIME IS YOUR TIME 212

Restructuring for Empowerment 212

Creating a Change-Oriented Organizational Culture 213

Managing the Informal Organization 214

Summary 215

Key Terms 216

Critical Thinking 216

Putting Principles to Work 217

Developing Career Skills 217

Career Exploration 218

Video Case: Freshii's Winning Organization 218

Notes 219

CHAPTER 9

Production and Operations Management 220

GETTING TO KNOW SHAHID KHAN, CEO OF FLEX-N-GATE 221

Manufacturing and Services in Perspective 222

REACHING BEYOND OUR BORDERS WILL BATS, BOMBS, AND REGULATIONS STALL TESLA'S GERMAN PRODUCTION VENTURE? 223

Manufacturers and Service Organizations Become More Competitive 223

From Production to Operations Management 224

Operations Management in the Service Sector 224

Production Processes 225

The Need to Improve Production Techniques and Cut Costs 226

Computer-Aided Design and Manufacturing 227

Flexible Manufacturing 227

Lean Manufacturing 228

Mass Customization 228

Robotics 228

3D Printing 228

ADAPTING TO CHANGE MEET YOUR NEW WORKMATE: R2D2 229

Using Sensing, Measurement, and Process Control 229











CONTENTS xxiii

Operations Management Planning 230

Facility Location 230

Facility Location for Manufacturers 230

Interfirm Operations Management 231

Facility Location in the Future 231

MAKING ETHICAL DECISIONS LOYALTY OR PROFITABILITY? 232

Facility Layout 232

Materials Requirement Planning 232

Purchasing 234

Just-in-Time Inventory Control 234

Quality Control 234

The Baldrige Awards 235

ISO 9001 and ISO 14001 Standards 235

Control Procedures: PERT and Gantt Charts 236 Preparing for the Future 237

Summary 238

Key Terms 240

Critical Thinking 240

Putting Principles to Work 240

Developing Career Skills 241

Career Exploration 241

Video Case: Production in the 21st Century 241

Notes 242

PART 4

Management of Human Resources:

Motivating Employees to Produce Quality Goods and Services 244

CHAPTER 10

Motivating Employees 244

GETTING TO KNOW **ROSE MARCARIO, CEO OF PATAGONIA** 245

The Value of Motivation 246

Frederick Taylor: The "Father" of Scientific

Management 247

Elton Mayo and the Hawthorne Studies 248

Motivation and Maslow's Hierarchy of Needs 249

Herzberg's Motivating Factors 250

McGregor's Theory X and Theory Y 252

Theory X 252

Theory Y 253

Ouchi's Theory Z 253

Goal-Setting Theory and Management by

Objectives 255

Meeting Employee Expectations: Expectancy
Theory 256

Treating Employees Fairly: Equity Theory 256

Putting Theory into Action 257

Motivating through Job Enrichment 257

Motivating through Open Communication 258

Applying Open Communication in Self-Managed

Teams 259

Recognizing a Job Well Done 259

ADAPTING TO **CHANGE** INSTANT INSIGHT INTO EMPLOYEE ENGAGEMENT 260

Personalizing Motivation 261

Motivating Employees across the Globe 261

Motivating Employees across Generations 262

CONNECTING THROUGH **SOCIAL MEDIA** GIVE YOUR CO-WORKERS A SHOUT OUT! 263

Summary 265

Key Terms 267

Critical Thinking 267

Putting Principles to Work 268

Developing Career Skills 268

Career Exploration 268

Video Case: Enriching Employees at Taco Bell 269

Notes 269

CHAPTER 11

Human Resource Management: Finding and Keeping the Best Employees 272

GETTING TO KNOW **CYNTHIA MARSHALL, CEO OF THE DALLAS MAVERICKS** 273

Working with People Is Just the Beginning 274

Developing the Ultimate Resource 274

The Human Resource Challenge 275

Laws Affecting Human Resource Management 276

Laws Protecting Employees with

Disabilities and Older Employees 278

Effects of Legislation 279

Determining a Firm's Human Resource Needs 279

Recruiting Employees from a Diverse Population 280

Selecting Employees Who Will Be Productive 281

CONNECTING THROUGH SOCIAL MEDIA PUTTING YOUR WORST FOOT FORWARD 283

Hiring Contingent Workers 284

MAKING ETHICAL DECISIONS POSSIBLE HIRE OR INDENTURED SERVANT? 285

Training and Developing Employees for Optimum Performance 286

Management Development 287

Networking 288

Diversity in Management Development 288









xxiv CONTENTS



Appraising Employee Performance to Get Optimum

Results 289

Compensating Employees: Attracting and Keeping the Best 290

Pay Systems 290

Compensating Teams 292

Fringe Benefits 292

REACHING BEYOND **OUR BORDERS** KEEPING YOUR GLOBAL WORKFORCE HAPPY 293

Scheduling Employees to Meet Organizational and Employee Needs 294

Flextime Plans 294

SPOTLIGHT ON **SMALL BUSINESS** WOULD YOU RATHER WORK NINE TO FIVE OR EIGHT TO ONE? 295

Home-Based Work 295
Job-Sharing Plans 297

Moving Employees Up, Over, and Out 297

Promoting and Reassigning Employees 297

Terminating Employees 297

Retiring Employees 298

Losing Valued Employees 298

Summary 299

Key Terms 301

Critical Thinking 301

Putting Principles to Work 302

Developing Career Skills 302

Career Exploration 302

Video Case: Hiring and Developing

Employees at Hilton 303

Notes 303

CHAPTER 12

Dealing with Employee–Management Issues 306

GETTING TO KNOW LILY ESKELSEN GARCÍA, PRESIDENT OF THE NATIONAL EDUCATION ASSOCIATION 307

Employee-Management Issues 308

Labor Unions Yesterday and Today 308

The History of Organized Labor 309

SPOTLIGHT ON **SMALL BUSINESS** THE FIRE THAT CHANGED LABOR LAWS 310

Labor Legislation and Collective Bargaining 310

Union Organizing Campaigns 311

Objectives of Organized Labor over Time 312

Resolving Labor–Management Disagreements 313

Mediation and Arbitration 314

Tactics Used in Labor–Management

Conflicts 315

Union Tactics 315

Management Tactics 316

The Future of Unions and Labor-Management

Relations 316

MAKING ETHICAL DECISIONS WALKING A FINE LINE 317

Controversial Employee–Management Issues 318

Executive Compensation 318

Pay Equity 319

ADAPTING TO **CHANGE** PLAYING FOR DOLLARS OR DEGREES 320

Sexual Harassment 321

Child Care 322

Elder Care 323

Drug Abuse and Drug Testing 323

Violence and Bullying in the Workplace 324

Summary 325

Key Terms 326

Critical Thinking 327

Putting Principles to Work 327

Developing Career Skills 327

Career Exploration 328

Video Case: Working with Unions at Freeman 328

Notes 329

PART 5

Marketing: Developing and Implementing Customer-Oriented Marketing Plans 332

CHAPTER 13

Marketing: Helping Buyers Buy 332

GETTING TO KNOW DANIEL LUBETZKY,

FOUNDER OF KIND 333

What Is Marketing? 334

The Evolution of Marketing 335

ADAPTING TO **CHANGE** SENDING THE VERY BEST ONLINE 337

Nonprofit Organizations and Marketing 337

The Marketing Mix 338

Applying the Marketing Process 339

Designing a Product to Meet Consumer Needs 339

Setting an Appropriate Price 340

Getting the Product to the Right Place 340

Developing an Effective Promotional Strategy 340

Providing Marketers with Information 341

The Marketing Research Process 341

The Marketing Environment 344

Global Factors 344

Technological Factors 344











CONTENTS XXV

SPOTLIGHT ON **SMALL BUSINESS** CREATING MASS APPEAL FOR A CUSTOM PRODUCT 345

Sociocultural Factors 345 Competitive Factors 345 Economic Factors 346

Two Different Markets: Consumer and Business-to-Business (B2B) 346

The Consumer Market 347

Segmenting the Consumer Market 347
Reaching Smaller Market Segments 348
Building Marketing Relationships 349
The Consumer Decision-Making Process 349

CONNECTING THROUGH **SOCIAL MEDIA** SHUFFLING YOUR STYLE WITH STITCH FIX 350

The Business-to-Business Market 351

Your Prospects in Marketing 352

Summary 352
Key Terms 354
Critical Thinking 354

Putting Principles to Work 354

Developing Career Skills 354

Career Exploration 355

Video Case: National Park Service: Using the Four Ps to Help You Find Your Park 355

Notes 356

CHAPTER 14

Developing and Pricing Goods and Services 358

GETTING TO KNOW **KATRINA LAKE, FOUNDER OF STITCH FIX** 359

Product Development and the Total Product Offer 360

CONNECTING THROUGH **SOCIAL MEDIA** BECOMING INSTA-WORTHY BRIDESMAIDS 361

Distributed Product Development 361
Product Lines and the Product Mix 363

Product Differentiation 363

Marketing Different Classes of Consumer Goods and Services 364

Marketing Industrial Goods and Services 365

Packaging Changes the Product 366

The Growing Importance of Packaging 367

MAKING ETHICAL DECISIONS THE FACTS OF NUTRITION LABELS 368

Branding and Brand Equity 368

REACHING BEYOND **OUR BORDERS** WHAT'S IN A NAME? 369

Brand Categories 370

Generating Brand Equity and Loyalty 370

Creating Brand Associations 371
Brand Management 371

The New-Product Development Process 371

Generating New-Product Ideas 372

Product Screening 372

Product Analysis 372

Product Development and Testing 372

Commercialization 373

The Product Life Cycle 373

Example of the Product Life Cycle 374
Using the Product Life Cycle 374

Competitive Pricing 375

Pricing Objectives 375

Cost-Based Pricing 376

Demand-Based Pricing 377

Competition-Based Pricing 377

Break-Even Analysis 377

Other Pricing Strategies 377

How Market Forces Affect Pricing 378

Nonprice Competition 378

Summary 379

Key Terms 380

Critical Thinking 381

Putting Principles to Work 381

Developing Career Skills 382

Career Exploration 382

Video Case: Developing New Products at

Domino's 382

Notes 383

CHAPTER 15

Distributing Products 384

GETTING TO KNOW TOBY JOHNSON, VICE PRESIDENT OF SALES OPERATIONS AT FRITO-LAY 385

The Emergence of Marketing

Intermediaries 386

Why Marketing Needs Intermediaries 388

How Intermediaries Create Exchange Efficiency 388

The Value versus the Cost of Intermediaries 389

The Utilities Created by Intermediaries 390

Form Utility 390
Time Utility 390
Place Utility 390

SPOTLIGHT ON SMALL BUSINESS DOCS ON DEMAND 391

Possession Utility 391
Information Utility 392
Service Utility 392









xxvi CONTENTS

Wholesale Intermediaries 392

Merchant Wholesalers 393

Agents and Brokers 393

Retail Intermediaries 394

Retail Distribution Strategy 394

Online Retailing and Other Nonstore Retailing 395

Online Retailing 395

Telemarketing 396

Vending Machines, Kiosks, Carts, and Pop-Ups 396

Direct Selling 397

Multilevel Marketing 397

Direct Marketing 397

Building Cooperation in Channel Systems 398

Corporate Distribution Systems 398

Contractual Distribution Systems 398

Administered Distribution Systems 398

Supply Chains 398

Logistics: Getting Goods to Consumers

Efficiently 399

ADAPTING TO **CHANGE** WALMART'S VISION OF THE FUTURE OF RETAIL 400

Trains Are Great for Large Shipments 401

Trucks Are Good for Small Shipments to Remote

Locations 402

Water Transportation Is Inexpensive but Slow 402

Pipelines Are Fast and Efficient 402

Air Transportation Is Fast but Expensive 403

Intermodal Shipping 403

The Storage Function 403

Tracking Goods 404

What All This Means to Your Career 404

Summary 405

Key Terms 407

Critical Thinking 407

Putting Principles to Work 407

Developing Career Skills 408

Career Exploration 408

Video Case: Tuft & Needle 408

Notes 409

CHAPTER 16

Using Effective Promotions 412

GETTING TO KNOW NEIL PARIKH, COFOUNDER AND CHIEF STRATEGY OFFICER OF CASPER 413

Promotion and the Promotion Mix 414

Advertising: Informing, Persuading, and

Reminding 415

Television Advertising 417

ADAPTING TO CHANGE ADVANCING PAST

TRADITIONAL TV ADS 418

Product Placement 418

Infomercials 419

Online Advertising 419

Social Media Advertising 420

Global Advertising 420

Personal Selling: Providing Personal Attention 420

REACHING BEYOND **OUR BORDERS** MORE THAN MILK'S FAVORITE COOKIE? 421

Steps in the Selling Process 421

The Business-to-Consumer Sales Process 423

Public Relations: Building Relationships 424

Publicity: The Talking Arm of PR 424

Sales Promotion: Giving Buyers Incentives 425

Word of Mouth and Other Promotional Tools 426
Social Networking 427

CONNECTING THROUGH **SOCIAL MEDIA** THE RISE AND FALL OF INSTA-INFLUENCERS 428

Blogging 428

Podcasting 428

E-mail Promotions 429

Mobile Marketing 429

Managing the Promotion Mix: Putting It All

Together 429

Promotional Strategies 429

Summary 430

Key Terms 432

Critical Thinking 432

Putting Principles to Work 433

Developing Career Skills 433

Career Exploration 433

Video Case: Getting Zapped by Promotion 434

Notes 434

PART 6

Managing Financial Resources 436

CHAPTER 17

Understanding Accounting and Financial Information 436

GETTING TO KNOW **SHELLY SUN, CEO OF BRIGHTSTAR CARE** 437

The Role of Accounting Information 438

What Is Accounting? 438

The Accounting Cycle 439

Using Technology in Accounting 440

Understanding Key Financial Statements 441

The Fundamental Accounting Equation 442











CONTENTS xxvii

The Balance Sheet 442

Classifying Assets 442

Liabilities and Owners' Equity Accounts 444

The Income Statement 445

Revenue 445

Cost of Goods Sold 445

Operating Expenses 446

SPOTLIGHT ON **SMALL BUSINESS** THE INS AND OUTS OF INVENTORY 447

Net Profit or Loss 447

The Statement of Cash Flows 448

The Need for Cash Flow Analysis 448

MAKING ETHICAL DECISIONS LESS THAN PURR-FECT ACCOUNTING 450

Analyzing Financial Performance Using Ratios 450

Liquidity Ratios 451

Leverage (Debt) Ratios 451

Profitability (Performance) Ratios 451

Activity Ratios 452

Accounting Disciplines 453

Financial Accounting 453

Managerial Accounting 454

Auditing 455

Tax Accounting 456

Government and Not-for-Profit Accounting 456

ADAPTING TO **CHANGE** A NOSE FOR SNIFFING OUT PROBLEMS 456

REACHING BEYOND **OUR BORDERS** SPEAKING A UNIVERSAL ACCOUNTING LANGUAGE 457

Summary 457

Key Terms 459

Critical Thinking 459

Putting Principles to Work 459

Developing Career Skills 460

Career Exploration 460

Video Case: The Accounting Function at Goodwill

Industries 461

Notes 461

CHAPTER 18

Financial Management 464

GETTING TO KNOW **DHIVYA SURYADEVARA, CFO OF GENERAL MOTORS** 465

The Role of Finance and Financial Managers 466

The Value of Understanding Finance 467 What Is Financial Management? 468

Financial Planning 468

Forecasting Financial Needs 469
Working with the Budget Process 469

Establishing Financial Controls 471

The Need for Operating Funds 472

Managing Day-by-Day Needs of the Business 472

Controlling Credit Operations 473

Acquiring Needed Inventory 473

Making Capital Expenditures 473

MAKING **ETHICAL DECISIONS** PATIENT ORDERING OR SACRIFICING PATIENTS 474

Alternative Sources of Funds 474

Obtaining Short-Term Financing 475

Trade Credit 475

Family and Friends 476

Commercial Banks 476

Different Forms of Short-Term Loans 477

Factoring Accounts Receivable 477

SPOTLIGHT ON **SMALL BUSINESS** SAVING THE FIRM OR DIGGING ITS GRAVE 478

Commercial Paper 478

Credit Cards 479

Obtaining Long-Term Financing 479

Debt Financing 480

Equity Financing 480

Comparing Debt and Equity Financing 481

SPOTLIGHT ON **SMALL BUSINESS** AN ANGEL ON YOUR START-UP'S SHOULDER 482

Lessons Learned from the Financial Crisis and Great

Recession 483

Summary 484

Key Terms 485

Critical Thinking 485

Putting Principles to Work 486

Developing Career Skills 486

Career Exploration 487

Video Case: Threadless: Setting the Financial

Design 487

Notes 488

CHAPTER 19

Using Securities Markets for Financing and Investing Opportunities 490

GETTING TO KNOW WARREN BUFFETT, CEO OF BERKSHIRE HATHAWAY 491

The Function of Securities Markets 492

The Role of Investment Bankers 493

Stock Exchanges 493

Securities Regulations and the Securities and

Exchange Commission 494

Foreign Stock Exchanges 495

How Businesses Raise Capital by Selling Stock 496

Advantages and Disadvantages of Issuing Stock 496

Issuing Shares of Common Stock 497

Issuing Shares of Preferred Stock 497









xxviii CONTENTS



How Businesses Raise Capital by Issuing Bonds 498

Learning the Language of Bonds 498

Advantages and Disadvantages of Issuing Bonds 499

Different Classes of Bonds 499

Special Bond Features 500

How Investors Buy Securities 500

SPOTLIGHT ON SMALL BUSINESS HOW INDEPENDENT IS YOUR INDEPENDENT ADVISOR? 501

Investing through Online Brokers 501

MAKING ETHICAL DECISIONS INVEST OR PASS ON A SMOKING GUN 502

Choosing the Right Investment Strategy 502 Reducing Risk by Diversifying Investments 503

Investing in Stocks 503

Stock Splits 504

Buying Stock on Margin 504

Understanding Stock Quotations 505

Investing in Bonds 506

Investing in High-Risk (Junk) Bonds 506

ADAPTING TO **CHANGE** INVESTING IN GREEN BONDS. NOT "GREENBACKS" 507

Investing in Mutual Funds and Exchange-Traded Funds 507

Understanding Stock Market Indicators 509

Riding the Market's Roller Coaster 511

Summary 513

Key Terms 516

Critical Thinking 516

Putting Principles to Work 516

Developing Career Skills 517

Career Exploration 517

Video Case: Where Did All My Money Go? 518

Notes 518

CHAPTER 20

Money, Financial Institutions, and the Federal Reserve 522

GETTING TO KNOW JEROME (JAY) POWELL, CHAIR OF THE FEDERAL RESERVE 523

Why Money Is Important 524

What Is Money? 524

ADAPTING TO CHANGE SAYING "SEE YOU" TO THE C-NOTE 526

Managing Inflation and the Money Supply 527 The Global Exchange of Money 527

Control of the Money Supply 528

Basics about the Federal Reserve 528

The Reserve Requirement 528

Open-Market Operations 529

The Discount Rate 529

The Federal Reserve's Check-Clearing Role 530

The History of Banking and the Need for the Fed 530

Banking and the Great Depression 532

The U.S. Banking System 533

Commercial Banks 533

Services Provided by Commercial Banks 533

REACHING BEYOND OUR BORDERS YOUR PIGGY BANK COULD PAY BETTER THAN A BANK 534

Services to Borrowers 534

MAKING ETHICAL DECISIONS AN OPEN AND SHUT OPTION 535

Savings and Loan Associations (S&Ls) 535

Credit Unions 535

Other Financial Institutions (Nonbanks) 536

The Banking Crisis of 2008 and How the Government Protects Your Money 536

Protecting Your Funds 537

Using Technology to Make Banking More Efficient 538

Online Banking 539

International Banking and Banking Services 539

Leaders in International Banking 540

The World Bank and the International

Monetary Fund 540

Summary 541 Key Terms 543

Critical Thinking 543

Putting Principles to Work 544

Developing Career Skills 544

Career Exploration 545

Video Case: Understanding the Federal Reserve

System 545

Notes 546

BONUS CHAPTERS



Working within the Legal Environment 548

GETTING TO KNOW JEROME (JERRY) SCHLICHTER, ATTORNEY 549

The Case for Laws 550

Statutory and Common Law 550 Administrative Agencies 551

Tort Law 552

Product Liability 552

Legally Protecting Ideas: Patents, Copyrights, and

Trademarks 554

Sales Law: The Uniform Commercial Code 555











CONTENTS xxix

Warranties 555

Negotiable Instruments 556

Contract Law 556

Breach of Contract 557

Promoting Fair and Competitive Business

Practices 557

The History of Antitrust Legislation 558

Laws to Protect Consumers 559

Tax Laws 559

Bankruptcy Laws 561

Deregulation Versus Regulation 563

Summary 565

Key Terms 567

Critical Thinking 567

Putting Principles to Work 567

Developing Career Skills 567

Career Exploration 568

Notes 568

B

Using Technology to Manage Information 570

GETTING TO KNOW **JIM KAVANAUGH, CEO OF WORLD WIDE TECHNOLOGY** 571

The Role of Information Technology 572

Evolution from Data Processing to Business

Intelligence 572

How Information Technology Changes Business 573

Types of Information 575

Managing Information 576

Big Data and Data Analytics 577

Using Information from Social Media 578

The Heart of Knowledge Management: The Internet 579

Broadband Technology 579

5G **580**

Net Neutrality 581

Internet2 581

Web 2.0 and Social Media 581

Mobile Web 582

Immersive Internet 583

Internet of Things 583

Web 3.0—Moving toward Decentralization 584

Who's the "Boss" of the Internet? 584

Networks and Cloud Computing 585

Effects of Information Technology on

Management 586

Human Resource Issues 586

Security Issues 587

Privacy Issues 589

Stability Issues 590

Technology and You 590

Summary 591

Key Terms 593

Critical Thinking 593

Putting Principles to Work 593

Developing Career Skills 593

Career Exploration 594

Video Case: Applying Tech with World Wide

Technology 594

Notes 595

C

Managing Risk 598

GETTING TO KNOW TRICIA GRIFFITH, CEO OF PROGRESSIVE 599

Understanding Business Risks 600

How Rapid Change Affects Risk

Management 600

Managing Risk 601

Reducing Risk 601

Avoiding Risk 601

Self-Insuring 602

Buying Insurance to Cover Risk 602

What Risks Are Uninsurable? 602

What Risks Are Insurable? 603

Understanding Insurance Policies 604

Rule of Indemnity 604

Types of Insurance Companies 605

Insurance Coverage for Various Kinds of Risk 605

Health Insurance 605

Health Savings Accounts 605

Disability Insurance 605

Workers' Compensation 607

Liability Insurance 607

Life Insurance for Businesses 608

Insurance Coverage for Home-Based

Businesses 608

The Risk of Damaging the Environment 608

Protection from Cyber Attacks 608

Summary 609

Key Terms 610

Critical Thinking 610

Putting Principles to Work 610

Developing Career Skills 610

Career Exploration 611

Notes 611









XXX CONTENTS



Managing Personal Finances 614

GETTING TO KNOW **LAURYN WILLIAMS, FOUNDER OF WORTH WINNING** 615

The Need for Personal Financial Planning 616

Financial Planning Begins with Making Money 616 Six Steps to Controlling Your Assets 617

Building Your Financial Base 620

Real Estate: Historically, a Relatively Secure Investment 620

investment 620

Tax Deductions and Home Ownership 621

Learning to Manage Credit 622 Where to Put Your Savings 623

Protecting your Financial Base: Buying Insurance 624

Health Insurance 625
Disability Insurance 625
Homeowner's or Renter's Insurance 625
Other Insurance 626

Planning Your Retirement 626

Estate Planning 630

Social Security 627
Individual Retirement Accounts (IRAs) 627
Simple IRAs 628
401(k) Plans 628
Qualified Retirement Plans (Keoghs) 629
Financial Planners 629

Summary 631

Key Terms 632

Critical Thinking 632

Putting Principles to Work 632

Developing Career Skills 633

Career Exploration 633

Notes 634

EPILOGUE

Getting the Job You Want 636

Job Search Strategy 637
Searching for Jobs Online 639
Job Search Resources 640
Writing Your Résumé 641
Putting Your Résumé Online 641
Writing a Cover Letter 644
Preparing for Job Interviews 646
Being Prepared to Change Careers 648

Glossary 649 Name Index 667 Organization Index 674 Subject Index 678









understanding Business

THIRTEENTH EDITION







Part 1 Business Trends: Cultivating a Business in Diverse, Global Environments

Taking Risks and Making Profits within the Dynamic Business Environment

LEARNING OBJECTIVES ≫

After you have read and studied this chapter, you should be able to

- LO 1–1 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.
- LO 1–2 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.
- LO 1–3 Analyze the effects of the economic environment and taxes on businesses.
- LO 1–4 Describe the effects of technology on businesses.
- LO 1–5 Demonstrate how businesses can meet and beat competition.
- LO 1–6 Analyze the social changes affecting businesses.
- o 1–7 Identify what businesses must do to meet global challenges, including war and terrorism.
- Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.

2



GETTING TO KNOW

Tristan Walker, Founder of Walker & Company

or entrepreneur Tristan Walker, one of the most frustrating parts of his daily life was finding the right razor for his coarse, curly facial hair. "The need here was really the fact that I could not shave," said Walker. "Why are there no products that really understood the fact that I have curly hair?"

Besides failing to find the razor he needed, Walker also couldn't believe that companies would ignore such a large portion of the market. "People of color spend more money on this stuff than anyone else," said Walker. "So I said, 'I'm going to respect those things before anybody else does, and really create a long-term view around celebrating this beautiful community and culture." That long-term view turned into Walker & Company, a lifestyle brand dedicated to providing black men with top-quality personal care products. When he first launched the company, Walker claimed he wanted to create the "Procter & Gamble for people of color." And after years of solid sales and growth, in 2018 Walker & Company grew large enough to attract the attention of the actual Procter & Gamble. Although the consumer goods conglomerate purchased the brand for millions of dollars, Walker remains in charge so he can continue the company's mission. "We want this company and its purpose to still be around 150 years from now," said Walker.

Of course, building a company with such lofty goals isn't easy. In order to realize his vision, Walker needed expertise and connections, and the willingness to do plenty of hard work. While Walker has always been motivated to work hard, he didn't have access to any high-level business connections when he was growing up. "I'm from Jamaica, Queens, New York, born and raised in the projects on welfare," said Walker. "And the necessity of not wanting to live that life really got me where I am today." After excelling at his studies as well as sports, a basketball coach advised Walker to apply to an elite boarding school. Walker took his advice and received a full scholarship to the prestigious Hotchkiss School. This led to his enrollment at Stony Brook University where he earned a degree in economics.

Walker's drive and impeccable educational background landed him a job on Wall Street after graduation. However, he quickly grew tired of the hectic pace of the financial industry and decided to look at business graduate schools far out of state. That's when he learned about Silicon Valley, the famed tech hub in California's San Francisco Bay Area. He enrolled in nearby Stanford University to take advantage of the region's abundance of tech-related resources. "I was 24 when I came to Stanford," said Walker. "The other 24-year-olds here were not only making millions of dollars but fundamentally changing the world. Why did I not have any idea this place existed?" After graduating in 2008, Walker joined the newly launched location-based search company Foursquare. Although Walker made only a \$1,000 stipend for his first months as head of business development, he played a vital role in expanding the company through partnerships with other brands.

When he left Foursquare in 2012, he joined Andreessen-Horowitz as the venture capital firm's "entrepreneur-in-residence." This gave him the resources to develop and launch Walker & Company. The business is centered around a shaving brand called Bevel. Unlike other major shaving brands that use multiple blades for their razors, Bevel sticks to a single-blade system that helps prevent bumps. Walker & Company also sells a line of hair care products called Form, which it initially had trouble promoting due to lack of resources. Now that the company is part of Procter & Gamble, though, it can take advantage of the conglomerate's multibillion-dollar marketing budget. Walker & Company will also have access to P&G's \$2 billion research and development budget, allowing it to keep innovating for vears to come.

The business environment is constantly changing, and along with those changes come opportunities. The purpose of this chapter and this textbook is to introduce you to the dynamic world of business and to some of the people who thrive in it. Businesspeople like Tristan Walker contribute much to the communities they serve, and they also make a good living doing so. That's what business is all about.

Sources: Jason Del Rey, "Procter & Gamble Has Acquired the Startup Aiming to Build the Procter & Gamble for People of Color," Vox, vox.com, December 12, 2018; J.J. McCorvey, "Tristan Walker Announces Acquisition by Procter & Gamble, Will Remain as CEO and Move Company to Atlanta," Fast Company, fastcompany.com, December 12, 2018; David Gelles, "Tristan Walker on the Roman Empire and Selling a Start-Up to Procter & Gamble," *The New York Times*, December 12, 2018; J.J. McCorvey, "Atlanta's Black Tech Founders Are

Changing Entrepreneurship in America. Can They Avoid Silicon Valley's Mistakes?," Fast Company, fastcompany. com, August 5, 2019; Derek Hambrick, "Tristan Walker on the Cutting Edge of Disruption," Emory Business. emorybusiness.com, August 13, 2019; "Tristan Walker on Building Walker & Company Brands," National Retail Federation Foundation, nrffoundation.org, accessed January 2020.



Matt Edge/The New York Times/Redux







EVEN THOUGH THIS COMPANY is charged with protecting consumers from identity theft and fraud, it was hacked itself. The data breach exposed the personal information of 147 million people. Name that company. (Find the answer in the chapter.)

business

Any activity that seeks to provide goods and services to others while operating at a profit.

goods

Tangible products such as computers, food, clothing, cars, and appliances.

services

 \bigoplus

Intangible products (i.e., products that can't be held in your hand) such as education, health care, insurance, recreation, and travel and tourism

When Aaron Krause couldn't find buyers at auto body shops for his polymer foam product, he tossed it in a box labeled "scrap" and forgot about it. A few years later, Krause dug out his old invention to clean some patio furniture and discovered it worked surprisingly well on his lounge chairs as well as his dirty dishes. He redesigned the foam into a smiling face, branded it Scrub Daddy, and took it onto the ABC show Shark Tank. Scrub Daddy is the most successful product to appear on Shark Tank to date. What risks and rewards did Krause face when starting his business? LO 1-1

Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Business and Wealth Building

Success in business depends on consistently adapting to changes in the market. A **business** is any activity that seeks to provide goods and services to others while operating at a profit. To earn that profit, you provide desired goods, jobs, and services to people or other businesses. **Goods** are *tangible* products such as computers, food, clothing, cars, and appliances. **Services** are *intangible* products (i.e., products that can't be held in your hand) such as education, health care, insurance, recreation, and travel and tourism. Once you have developed the right goods and services, based on consumer wants and needs, you need to reach those consumers using whatever media they prefer, including social media, online advertising, TV, and more.

Although you don't need to have wealth as a primary goal, one result of successfully filling a market need is that you can make money for yourself, sometimes a great deal, by giving customers what they want. Sam Walton of Walmart began by opening one store in



Scrub Daddy Inc

Arkansas and, over time, became one of the richest people in the United States. Now his heirs are some of the richest people in the United States.¹

There are over 22.1 million millionaires in the United States. Maybe you will be one of them someday if you start your own business. An **entrepreneur** is a person who risks time and money to start and manage a business.

Revenues, Profits, and Losses

Revenue is the total amount of money a business takes in during a given period by selling goods and services. Profit is the amount of money a business earns above and beyond what it spends for salaries and other expenses needed to run the operation. A loss occurs when a business's expenses are more than its revenues. If a business loses money over time, it will likely have to

4



CHAPTER 1 TAKING RISKS AND MAKING PROFITS WITHIN THE DYNAMIC BUSINESS ENVIRONMENT

close, putting its employees out of work. Over 175,000 businesses in the United States close each year.³

As noted, the business environment is constantly changing. What seems like a great opportunity one day may become a huge failure when the economy changes. Starting a business may thus come with huge risks. But huge risks often result in huge profits. We'll explore that concept next.

Matching Risk with Profit

Risk is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable. Profit, remember, is the amount of money a business earns *above and beyond* what it pays out for salaries and other expenses. For example, if you were to start a business selling hot dogs from a cart in the summer, you would have to pay for the cart rental. You would also have to pay for the hot dogs and other materials, and for someone to run the cart while you were away. After you paid your employee and yourself, paid for the food and materials you used, paid the rent on the cart, and paid your taxes, any money left over would be profit.

Keep in mind that profit is over and above the money you pay yourself in salary. You could use any profit to rent or buy a second cart and hire other employees. After a few summers, you might have a dozen carts employing dozens of workers.

Not all enterprises make the same amount of profit. Usually those that take the most risk may make the most profit. There is high risk, for example, in making a new kind of automobile. It's also risky to open a business in an inner city, because insurance and rent are usually higher than in suburban areas, but reduced competition makes substantial profit possible. Big risk can mean big profits.

Standard of Living and Quality of Life

Entrepreneurs such as Sam Walton (Walmart), Bill Gates (Microsoft), Jeff Bezos (Amazon), and Sara Blakely (Spanx) not only became wealthy themselves; they also provided employment for many other people. Walmart is currently the nation's largest private employer, with Amazon coming in second.⁴

Businesses and their employees pay taxes that the federal government and local communities use to build hospitals, schools, libraries, playgrounds, roads, and other public facilities. Taxes also help keep the environment clean, support people in need, and provide police and fire protection. Thus, the wealth businesses generate and the taxes they pay help everyone in their communities. A nation's businesses are part of an economic system that contributes to the standard of living and quality of life for everyone in the country (and, potentially, the world). How has the economic recovery and growth over the past 10 years affected the standard of living and quality of life in your part of the world?

The term **standard of living** refers to the amount of goods and services people can buy with the money they have. Prices for goods and services in some locations are higher than in others, so people in those places can't buy as much with the same amount of money. Often, goods cost more in one country than in another because of higher taxes and stricter government regulations. Finding the right level of taxes and regulation is important in making a country or city prosperous. We'll explore those issues in more depth in Chapter 2. At this point, it is enough to understand that the United States enjoys a high standard of living largely because of the wealth created by its businesses.

The term **quality of life** refers to the general well-being of a society in terms of its political freedom, natural environment, education, health care, safety, amount of leisure, and rewards that add to the satisfaction and joy that other goods and services provide. Maintaining a high quality of life requires the combined efforts of businesses, nonprofit organizations, and government agencies. Remember, there is more to quality of life than simply making money.

entrepreneur

A person who risks time and money to start and manage a business

revenue

The total amount of money a business takes in during a given period by selling goods and services.

profit

The amount of money a business earns above and beyond what it spends for salaries and other expenses.

loss

When a business's expenses are more than its revenues.

risk

The chance an entrepreneur takes of losing time and money on a business that may not prove profitable.

standard of living

The amount of goods and services people can buy with the money they have.

quality of life

The general well-being of a society in terms of its political freedom, natural environment, education, health care, safety, amount of leisure, and rewards that add to the satisfaction and joy that other goods and services provide.





6 PART 1 BUSINESS TRENDS: CULTIVATING A BUSINESS IN DIVERSE, GLOBAL ENVIRONMENTS

FIGURE 1.1 A BUSINESS AND ITS STAKEHOLDERS

Often the needs of a firm's various stakeholders will conflict. For example, paying employees more may cut into stockholders' profits. Balancing such demands is a major role of business managers.

Source: John Mackey and Raj Sisodia, *Conscious Capitalism* (Boston, MA: Harvard Business Review Press, 2013).

STAKEHOLDERS Stockholders **Bankers** Customers Media Surrounding community TYPICAL U.S. **BUSINESS Suppliers** Environmentalists Government leaders **Dealers** (retailers) **Employees**

stakeholders

All the people who stand to gain or lose by the policies and activities of a business and whose concerns the business needs to address.

outsourcing

Contracting with other companies (often in other countries) to do some or all of the functions of a firm, like its production or accounting tasks.

connect*



iSee It! Need help understanding the roles of stakeholders? Visit your Connect eBook to view a video for a brief animated explanation.

Responding to the Various Business Stakeholders

Stakeholders are all the people who stand to gain or lose by the policies and activities of a business and whose concerns the business needs to address. They include customers, employees, stockholders, suppliers, dealers (retailers), bankers, people in the surrounding community, the media, environmentalists, competitors, unions, critics, and elected government leaders (see Figure 1.1).⁵

A primary challenge for organizations of the 21st century will be to recognize and respond to the needs of their stakeholders.⁶ For example, the need for the business to make profits may be balanced against the needs of employees to earn sufficient income or the need to protect the environment. Ignore the media, and they might attack your business with articles that hurt sales. Oppose the local community, and it may stop you from expanding.

Staying competitive may call for outsourcing. **Outsourcing** means contracting with other companies (often in other countries) to do some or all of the functions of a firm, like its production or accounting tasks. Outsourcing has had serious consequences in some states where jobs have been lost to overseas competitors. We discuss outsourcing in more detail in Chapter 3.

The other side of the outsourcing coin is *insourcing*. Many foreign companies are setting up design and production facilities here in the United States. For example, Korea-based Hyundai designs cars in California, operates engineering headquarters in Detroit, Michigan, and produces cars in Montgomery, Alabama. Japanese automaker Honda has been producing cars in the United States for over 40 years, and opened its 12th U.S. manufacturing plant in 2016. Some information technology firms have begun to bring jobs back to the United States because it can save time in decision-making processes which leads to saving money. Insourcing creates many new U.S. jobs and helps offset those jobs being outsourced.

It may be legal and profitable to outsource, but is it best for all the stakeholders? Business leaders must make outsourcing decisions based on all factors. Pleasing stakeholders is not easy and often calls for trade-offs.





CHAPTER 1 TAKING RISKS AND MAKING PROFITS WITHIN THE DYNAMIC BUSINESS ENVIRONMENT



The goals of nonprofit organizations are social and educational, not profit-oriented. The American Red Cross, for example, provides assistance to approximately 30 million people annually, from refugees to victims of natural disasters to relief. Why do good management principles apply equally to profitseeking businesses and nonprofit organizations?

Using Business Principles in Nonprofit Organizations

Despite their efforts to satisfy their stakeholders, businesses cannot do everything needed to make a community all it can be. Nonprofit organizations—such as public schools, civic associations, charities like the United Way and the Salvation Army, and groups devoted to social causes—also make a major contribution to the welfare of society. A **nonprofit organization** is an organization whose goals do not include making a personal profit for its owners or organizers. Nonprofit organizations often do strive for financial gains, but they use them to meet their social or educational goals rather than for personal profit.

Your interests may lead you to work for a nonprofit organization. That doesn't mean, however, that you shouldn't study business in college. You'll still need to learn business skills such as information management, leadership, marketing, and financial management. The knowledge and skills you acquire in this and other business courses are useful for careers in any organization, including nonprofits. We'll explore entrepreneurship right after the Test Prep.

nonprofit organization

An organization whose goals do not include making a personal profit for its owners or organizers.

TESTPREP

- What is the difference between revenue and profit?
- What is the difference between standard of living and quality of life?
- What is risk, and how is it related to profit?
- What do the terms stakeholders, outsourcing, and insourcing mean?

LO 1-2

Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

The Importance of Entrepreneurs to the Creation of Wealth

There are two ways to succeed in business. One is to rise through the ranks of a large company. The advantage of working for others is that somebody else assumes the company's







Rawpixel.com/Shutterstock

8

To create wealth for its citizens, a country requires more than natural resources. It needs the efforts of entrepreneurs and the skill and knowledge to produce goods and services. How can government support entrepreneurship and the spread of knowledge?

factors of production

The resources used to create wealth: land, labor, capital, entrepreneurship, and knowledge.

entrepreneurial risk and provides you with benefits like paid vacation time and health insurance. It's a good option, and many people choose it.

The other, riskier, but often more exciting, path is to become an entrepreneur. The national anthem, "The Star Spangled Banner," says that the United States is the "land of the free and the home of the brave." Part of being free is being able to own your own business and reap the profits from it. But freedom to succeed also means freedom to fail, and many small businesses fail each year. It takes a brave person to start one. As an entrepreneur, you don't receive any benefits such as paid vacation time, day care, a company car, or health insurance. You have to provide them for yourself! But what you gain—freedom to make your own decisions, opportunity, and possible wealth—is often worth the effort. Before you take on the challenge, you should study successful entrepreneurs to learn the process. You can talk to

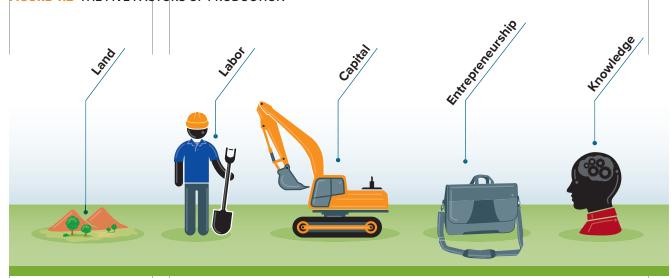
them personally and read about them in Chapter 6, as well as in other books, magazines (e.g., *Entrepreneur, Fast Company*, and *Inc.*), and online (e.g., Small Business Administration at sba.gov).

The Five Factors of Production

Have you ever wondered why some countries are relatively wealthy and others poor? Economists have been studying the issue of wealth creation for many years. They began by identifying five **factors of production** that seemed to contribute to wealth (see Figure 1.2):

- 1. *Land* (or natural resources). Land and other natural resources are used to make homes, cars, and other products.
- 2. *Labor* (workers). People have always been an important resource in producing goods and services, but many people are now being replaced by technology.
- 3. *Capital.* This includes machines, tools, buildings, or whatever else is used in the production of goods. It might not include money; money is used to buy factors of production but is not always considered a factor by itself.
- 4. *Entrepreneurship*. All the resources in the world have little value unless entrepreneurs are willing to take the risk of starting businesses to use those resources.
- 5. *Knowledge*. Information technology has revolutionized business, making it possible to quickly determine wants and needs and to respond with desired goods and services.

FIGURE 1.2 THE FIVE FACTORS OF PRODUCTION



Source: Drucker Institute, druckerinstitute.com, April 2017.







CHAPTER 1 TAKING RISKS AND MAKING PROFITS WITHIN THE DYNAMIC BUSINESS ENVIRONMENT

Traditionally, business and economics textbooks emphasized only four factors of production: land, labor, capital, and entrepreneurship. But the late management expert and business consultant Peter Drucker said the most important factor of production in our economy is and always will be *knowledge*. ¹⁰

What do we find when we compare the factors of production in rich and poor countries? Some poor countries have plenty of land and natural resources. Russia, for example, has vast areas of land with many resources such as timber and oil, but it is not considered a rich country (yet). Therefore, land isn't the critical element for wealth creation.

Most poorer countries, such as Mexico, have many laborers, so it's not labor that's the primary source of wealth today. Laborers need to find work to make a contribution; that is, they need entrepreneurs to create jobs for them. Furthermore, capital—machinery and tools—is now fairly easy for firms to find in world markets, so capital isn't the missing ingredient either. Capital is not productive without entrepreneurs to put it to use.

What makes rich countries rich today is a combination of *entrepreneurship* and the effective use of *knowledge*. Entrepreneurs use what they've learned (knowledge) to grow their businesses and increase wealth. Economic and political freedom also matter.

The business environment either encourages or discourages entrepreneurship. That helps explain why some states and cities in the United States grow rich while others remain relatively poor. In the following section, we'll explore what makes up the business environment and how to build an environment that encourages growth and job creation.

TESTPREP

- What are some of the advantages of working for others?
- What benefits do you lose by being an entrepreneur, and what do you gain?
- What are the five factors of production? Which ones seem to be the most important for creating wealth?

The Business Environment

The **business environment** consists of the surrounding factors that either help or hinder the development of businesses. Figure 1.3 shows the five elements in the business environment.

- 1. The economic and legal environment.
- 2. The technological environment.
- 3. The competitive environment.
- 4. The social environment.
- 5. The global business environment.

Businesses that create wealth and jobs grow and prosper in a healthy environment. Thus, creating the right business environment is the foundation for social benefits of all kinds, including good schools, clean air and water, good health care, and low rates of crime. Businesses normally can't control their environment, but they need to monitor it carefully and do what they can to adapt as it changes.

LO 1-3

Analyze the effects of the economic environment and taxes on businesses.

The Economic and Legal Environment

People are willing to start new businesses if they believe the risk of losing their money isn't too great. The economic system and the way government works with or against businesses can have a strong impact on that level of risk. For example, a government can minimize

business environment

The surrounding factors that either help or hinder the development of businesses.

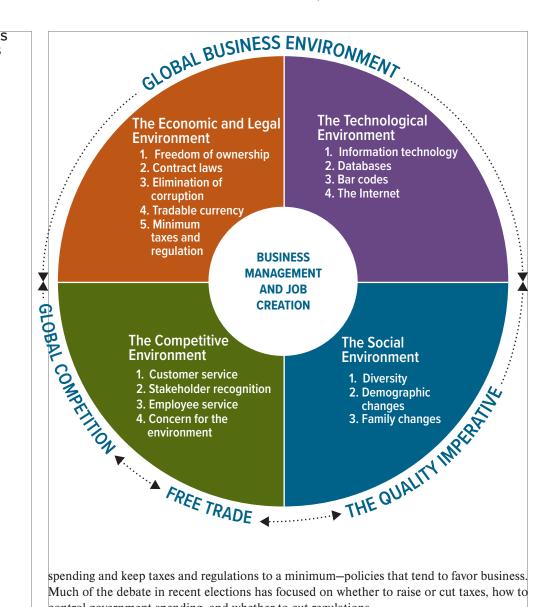








FIGURE 1.3 TODAY'S DYNAMIC BUSINESS **ENVIRONMENT**



spending and keep taxes and regulations to a minimum—policies that tend to favor business. Much of the debate in recent elections has focused on whether to raise or cut taxes, how to control government spending, and whether to cut regulations.

One way for government to actively promote entrepreneurship is to allow private ownership of businesses. In some countries, the government owns most businesses, and there's little incentive for people to work hard or create profit. Around the world today, however, some governments are selling those businesses to private individuals to create more wealth. One of the best things the governments of developing countries can do is to minimize interference with the free exchange of goods and services. (You can read more about the various economic systems in different countries in Chapter 2.)

The government can further lessen the risks of entrepreneurship by passing laws that enable businesspeople to write enforceable contracts. In the United States, the Uniform Commercial Code, for example, regulates business agreements such as contracts and warranties so that firms know they can rely on one another. In countries that don't yet have such laws, the risks of starting a business are that much greater. (You can read more about business laws in Bonus Chapter A.)

The government can also establish a currency that's tradable in world markets. That is, the currency lets you buy and sell goods and services anywhere in the world when it is easily exchanged for that of the other countries where you do business. If the Chinese did not want to trade their yuan for the U.S. dollar, for instance, it's hard to imagine how Coca-Cola or Disney would be able to sell their products and services there. (You can read more about currency in Chapters 3 and 20).



connect



iSee It! Need help understanding the impact of today's dynamic business environment? Visit your Connect eBook to view a video for a brief animated explanation.









Tuul & Bruno Morandi/Getty Images

Finally, the government can help minimize corruption in business and in its own ranks. Where governments are corrupt, it's difficult to build a factory or open a store without a government permit, which is obtained largely through bribery of public officials. Among businesses themselves, unscrupulous leaders can threaten their competitors and unlawfully minimize competition.

Many laws in the United States attempt to minimize corruption. Nonetheless, corrupt and illegal activities at some companies do negatively affect the business community and the economy as a whole. The news media widely report these scandals. Ethics is so important to the success of businesses and the economy as a whole that we feature stories about ethics in most chapters and devote Chapter 4 to the subject.

Governments from different countries can work together to create an environment that allows entrepreneurship to thrive. For example, in 2015 the United Nations adopted what it calls Sustainable Development Goals (SDGs) that list specific targets for ending poverty and improving the lives of the disadvantaged in the next 15 years. The ultimate goal is to move toward prosperity by partnering governments, businesses, and nonprofits in order to solve problems at the ground level in developing countries.

LO 1-4

Describe the effects of technology on businesses.

The Technological Environment

Since prehistoric times, humans have felt the need to create tools that make work easier. Few technological changes have had a more comprehensive and lasting impact on businesses, however, than information technology (IT). IT has completely changed the way people communicate with one another. Advertisers and other businesspeople have created ways of using these tools to reach their suppliers and customers. Even politicians have harnessed the power of the Internet to advance their causes. IT is such a major force in business today that we discuss its impact on businesses throughout the entire text.

How Technology Benefits Workers and You Technology means everything from phones to computers, mobile devices, medical imaging machines, robots, the Internet, social media, and the various software programs and apps that make business processes more effective, efficient, and productive. ¹² Effectiveness means producing the desired result.

Starting a business is more difficult in some countries than in others. In India, for example, it takes a time-consuming and bureaucratic process to obtain government permission. Nonetheless, new businesses can become a major source of wealth and employment. This sari shop is one small example. What do you think would be the effect of a little more freedom to create business opportunities in this country of over a billion people?



Everything from phones to computers, mobile devices, medical imaging machines, robots, the Internet, social media, and the various software programs and apps that make business processes more effective, efficient, and productive.









Creating Sustainability through a Circular Economy

plantchicago.org

here's no denying that people around the world create a lot of waste. Each year, more than 52 million tons of food end up in landfills with an additional 10 million tons remaining unharvested on farms. Less than 1 percent of the material used to produce clothing gets recycled into new apparel. The vast majority of plastic doesn't get recycled either, with much of it ending up in garbage dumps or incinerators. Besides squandering resources, the world's waste also pollutes the environment and contributes to rising greenhouse gas emissions.

To combat this problem of global proportions, some entrepreneurs have launched companies that depend on a circular economy to succeed. Circular economy refers to reusing, redistributing, refurbishing, and recycling products instead of dumping them in landfills—in other words, keeping products in the value circle. The aim is to produce no waste as every material is either recycled or reused



Plant Chicago

in some capacity. For example, the Chicago-based firm Bubbly Dynamics refurbishes vacant industrial buildings and transforms them into sustainable business incubators. At one site called The Plant, indoor farms irrigated with rainwater and power generated by solar panels helps more than 20 companies thrive without creating unnecessary waste. The

Plant's largest tenant is a brewery that produces about 20,000 pounds of compost per month, providing plenty of fertilizer for the facility's farmers.

Other circular economy-driven companies include Earth Angel, a Brooklyn start-up that recycles waste generated by film and television productions based in New York. The company donates mattresses and used clothing to humanitarian agencies while redistributing old scenery to independent theaters and filmmakers. Socially minded enterprises like Earth Angel and Bubbly Dynamics hope other companies will follow their lead and adopt similarly sustainable business practices in the near future. Not only would it help the environment, but it could also be good for business.

Sources: Anne Kadet, "The 'Circular Economy' Rolls into New York City," *The Wall Street Journal*, June 18, 2019; Eduardo Garcia, "Where's the Waste? A 'Circular' Food Economy Could Combat Climate Change," *The New York Times*, September 21, 2019; Anne Field, "Building a Circular Economy: A Society Where 'There's No Concept of Waste," *Forbes*, forbes.com, October 31, 2019; "What Is a Circular Economy?," Ellen Arthur Foundation, ellenarthurfoundation.org, accessed January 2020.

productivity

The amount of output you generate given the amount of input (e.g., hours worked).

e-commerce

The buying and selling of goods over the Internet.

Efficiency means producing goods and services using the least amount of resources. The Adapting to Change box discusses how some businesses strive to become so effective and efficient that they create no waste.

Productivity is the amount of output you generate given the amount of input, such as the number of hours you work. The more you can produce in any given period, the more money you are worth to companies. The problem with productivity today is that workers are so productive that fewer are needed.¹³

Technology affects people in all industries. For example, a farmer can use his computer to compare data from the previous year's harvest with drone or satellite photos of his farm that show which crops are flourishing. He can check the latest grain prices and use the website newAgTalk.com to converse with other farmers from all over the world. He can also save money on chemicals by bidding for bulk fertilizer on FarmTrade.com, an online agricultural exchange. High-tech equipment tells him how and where to spread fertilizer and seed, tracks yields yard by yard, and allows him to maintain high profit margins. ¹⁴ Of course, more tech often means fewer workers. Is that a good or bad thing for farmers?

The Growth of E-commerce E-commerce is the buying and selling of goods online. There are two major types of e-commerce transactions: business-to-consumer (B2C) and

12



business-to-business (B2B). As important as the Internet has been to online retailers in the consumer market, it has become even more important in the B2B market, where businesses sell goods and services to one another, such as IBM selling consulting services to a local bank. E-commerce has become so important that we discuss it in many chapters throughout the text.

Using Technology to Be Responsive to Customers A major theme of this text is that those businesses most responsive to customer wants and needs will succeed. Technology can help businesses respond to customer needs in many ways. For example, businesses use bar codes to identify products you buy and their size, quantity, and color. The scanner at the checkout counter identifies the price but can also put all your purchase information into a **database**, an electronic storage file for information.

Databases enable stores to carry only the merchandise their local customers want. But because companies routinely trade database information, many retailers know what you buy and from whom you buy it. Thus they can send you online ads or catalogs and other direct mail advertising offering the kind of products you might want based on your past purchases. We discuss many of the other ways businesses use technology to be responsive to consumers throughout the text.

Unfortunately, the legitimate collection of personal customer information also opens the door to identity theft. **Identity theft** is the obtaining of individuals' personal information, such as Social Security and credit card numbers, for illegal purposes. For example, in 2017 Equifax, one of the credit bureaus charged with protecting consumers from identity theft

and fraud, was hacked itself. The data breach exposed the personal information of 147 million people. Equifax agreed to spend up to \$425 billion to help people affected by the breach.¹⁵

Experts advise us to create new passwords for each account so that if the password on one account is stolen, the hackers can't access the rest of your accounts too. They also recommend storing them in a password manager, and activating two-factor authentication, which is an additional layer of security, when possible. ¹⁶ The Federal Trade Commission says millions of U.S. consumers are victims of identity theft each year. Cybersecurity will continue to be a major concern of governments, business, and consumers. ¹⁷

Many people are concerned about how technology might be used to invade the privacy of their phone or e-mail conversations or even to track their movement through facial recognition technology used in stores, casinos, on cruise ships, and in other public places. ¹⁸ You can read more about security and privacy issues and how businesses use technology to manage information in Bonus Chapter B.

LO 1-5

Demonstrate how businesses can meet and beat competition.

The Competitive Environment

Competition among businesses has never been greater. Some have found a competitive edge by focusing on *quality*. The goal for many companies is zero defects—no mistakes in making the product. However, even achieving a rate of zero defects isn't enough to stay competitive in world markets. Companies now have to offer both high-quality products and good value—that is, outstanding service at competitive prices.

Competing by Exceeding Customer Expectations Today's customers want not only good quality at low prices but great service as well. Every manufacturing and service organization in the world should have a sign over its door telling its workers that the customer is king. Business has become more customer-driven, not management-driven as often occurred in the past. Successful organizations must now listen more closely to customers to determine their wants and needs, and then adjust the firm's products, policies, and practices accordingly. We will explore these ideas in more depth in Chapter 13.

Walt Disney World introduced MyMagic+, a convenient way for guests to create their ideal vacation experience. The key element is the MagicBand, providing an all-in-one way to effortlessly connect all the vacation choices guests make online. The MagicBand uses RF technology and serves as park ticket, hotel room kev. access to FastPassadvance reservation of attraction times, and Disney's PhotoPass. Disney hotel guests may use the bands to charge meals and merchandise to their hotel account.



Bob Croslin/Getty Images News/Getty Images

database

An electronic storage file for information.

identity theft

The obtaining of individuals' personal information, such as Social Security and credit card numbers, for illegal purposes.





empowerment

Giving frontline workers the responsibility, authority, freedom, training, and equipment they need to respond quickly to customer requests.

demography

The statistical study of the human population with regard to its size, density, and other characteristics such as age, race, gender, and income.

In 2020 people around the world joined protests against institutionalized racism and police violence. The movement placed a renewed focus on racial bias in many areas of life, including business. What can companies do to create diverse and inclusive workplaces?

Competing by Restructuring and Empowerment To meet the needs of customers, firms must give their frontline workers—for example, office clerks, front-desk people at hotels, and salespeople—the responsibility, authority, freedom, training, and equipment they need to respond quickly to customer requests. They also must allow workers to make other decisions essential to producing high-quality goods and services. The process is called empowerment, and we'll be talking about it throughout this book.

As many companies have discovered, it sometimes takes years to restructure an organization so that managers can and will give up some of their authority and employees will assume more responsibility. We'll discuss such organizational changes in Chapter 8.

LO 1-6

Analyze the social changes affecting businesses.

The Social Environment

Demography is the statistical study of the human population with regard to its size, density, and other characteristics such as age, race, gender, and income. In this text, we're particularly interested in the demographic trends that most affect businesses and career choices. The U.S. population is going through major changes that are dramatically affecting how people live, where they live, what they buy, and how they spend their time. Furthermore, tremendous population shifts are leading to new opportunities for some firms and to declining opportunities for others. For example, there are many more retired workers than in the past, creating new markets for all kinds of goods and services.

Managing Diversity

Diversity means much more than recruiting and retaining minority and female employees. Diversity efforts include older adults, people with disabilities, people with different sexual orientations, atheists, religious people, extroverts, introverts, married people, and

single people. It also means dealing sensitively with workers and cultures around the world. Managing diversity involves creating a workplace that promotes inclusion and belonging. *Inclusion* is about having a voice that is heard. *Belonging* is about feeling part of a community. Description

Legal and illegal immigrants have had a dramatic effect on many regions, and will continue to do so as the government debates immigration reform.²¹ Businesses, schools, and hospitals have been especially affected.²² Some local governments are making efforts to adapt, including changing signs, brochures, websites, and forms to include other languages. Has your city experienced such changes? What are some of the impacts you've noticed? How has the debate about changing immigration policies affected your community?



Mark Kerrison/In Pictures/Getty Images

The Increase in the Number of Older Citizens People aged 75 and over are currently the richest demographic group in the United States. Therefore they represent a lucrative market for companies involved with food service, transportation, entertainment, education, lodging, and so on. By 2030 the percentage of the population 65 or older will be over 20 percent; by 2050 it will more than double. What do these changes mean for you and for businesses in the future? Think of the products and services that middle-aged and older people will need—medicine, nursing homes, assisted-living facilities, adult day care, home health care, transportation, recreation, and the like—and you'll see opportunities for successful businesses of the 21st century. Don't rule out computer games and online services. Businesses that cater to older consumers will have the opportunity for exceptional growth in the near future. The market is huge.





The United States boasts enormous ethnic and racial diversity. Its workforce is also widely diverse in terms of age, which means that managers must adapt to the generational demographics of the workplace. What are some challenges of working with someone much younger or much older than you?

On the other hand, retired people will be draining the economy of wealth. Social Security has become a major issue.²⁵ The pay-as-you-go system (in which workers today pay the retirement benefits for today's retirees) operated just fine in 1940, when 42 workers supported each retiree; but by 1960, there were only 5 workers per retiree, and today, as

members of the Baby-Boom generation (born between 1946 and 1964) retire, that number is 2.8 and is projected to drop to 2.2 by 2036. In addition, the government has been spending some of the accumulated Social Security money instead of leaving it all in the Social Security account.

Soon, less money will be coming into Social Security than will be going out. The government will have to do something to make up for the shortfall: raise taxes, reduce Social Security benefits (e.g., raise the retirement age at which people qualify for payments), reduce spending elsewhere (e.g., in other social programs like Medicare or Medicaid), or borrow on the world market.

In short, paying Social Security to older citizens in the future will draw huge amounts of money from the working population. That is why there is so much discussion in the media today about what to do to save Social Security.

The Increase in the Number of Single-Parent Families It

is a tremendous task to work full-time and raise a family. Thus, the growth of single-parent households has also had a major effect on businesses. Whereas only 7 percent of parents were single in 1950, today a third of the children in the United States live with a single parent.²⁷ Single parents, including those forced by welfare rules to return to work after a certain benefit period, have encouraged businesses to implement programs such as family leave (giving workers time off to attend to a sick child or elder relative) and flextime (allowing workers to arrive or leave at selected times). You will read about such programs in more detail in Chapter 11.

The Rise of Gen Z's Economic Influence Generation Z (those born after the mid-1990s) will soon be the largest group of consumers in the world, accounting for as much as \$143 billion in spending power in the United States alone. Designing products and services to meet the broad tastes of this demographic is critical to the success of many companies. In order to reach these consumers, marketers have to use a variety of tools to capture their attention and engage them. The Connecting through Social Media box discusses how a few companies are using social media to connect with Gen Zers.



Ariel Skelley/Getty Images

More and more working families consist of single parents who must juggle the demands of a job and the responsibilities of raising children. What can managers do to try to retain valued employees who face such challenges?









CONNECTING THROUGH SOCIAL MEDIA

The Lucrative Challenge of Connecting with Gen Z Online

he Internet has always existed for Generation Z. As a result, this techsavvy generation spends a ton of time on social media, especially platforms like Instagram, YouTube, and TikTok. Although reaching young people online can be a challenge for companies, the potential rewards for doing so are too significant to ignore given the size of this demographic group. And while social media will play a major role in this group's future purchasing decisions, they may not use it in the ways that some would expect.

For instance, while it might seem logical to assume that Gen Zers do all their shopping online, studies show that they love the experience of brick-and-mortar stores and malls. While they're out shopping, they are constantly on their smartphones seeking deals on social media.

As the social network of choice for many influencers,



Paul Bradbury/Getty Images

Facebook-owned Instagram has become an incredibly powerful force in branding. Experts expect it will stay that way since the platform has more than 1 billion active users. In fact, social networks like Instagram and

YouTube have grown so big that tech developers have largely stopped trying to create new apps to compete with them. Instead, many of today's social media start-ups focus on creating tools that can then be used on major platforms. For example, John Barnett worked as a developer at Snapchat and Instagram before founding his own company called Chroma Stories, an app that helps users make visual "stories" on social media. "We're focused on helping people create for whatever platform they're on, if it's Facebook, Instagram, Snap, WhatsApp, Pinterest, Twitter," said Barnett. Like the members of Generation Z themselves, modern companies will need to be similarly versatile in order to appeal to young consumers.

Sources: Craig Giammona and Tiffany Kary, "What Gen Z Wants," Bloomberg Businessweek, April 29, 2019; Jordyn Holman, Tiffany Kary, and Kim Bhasin, "A New Crop of Mall Rats," Bloomberg Businessweek, April 29, 2019; Katherine Bindley, "Catching Gen Z Requires a Big Fish: Instagram The Wall Street Journal, September 28, 2019: Kathryn Lundstrom, "How to Reach Gen Z in 2020—Beyond Authenticity," Adweek, adweek.com January 2, 2020.

LO 1-7

Identify what businesses must do to meet global challenges, including war and terrorism.

The Global Environment

The global environment of business is so important that we show it as surrounding all other environmental influences (see again Figure 1.3). Two important issues here are the growth of global competition and the negotiation of trade agreements among nations.

16

CHAPTER 1 TAKING RISKS AND MAKING PROFITS WITHIN THE DYNAMIC BUSINESS ENVIRONMENT

World trade, or *globalization*, has grown due to the development of efficient distribution systems (we'll talk about these in Chapter 15) and technological advances such as online communication systems. Globalization has greatly improved living standards around the world. China and India have become major U.S. competitors. Shop at Walmart and most other U.S. retail stores, and you can't help but notice the number of "Made in China" stickers you see. Call for computer help, and you are as likely to be talking with someone in India as someone in the United States.

World trade has its benefits and costs. You'll read much more about its importance in Chapter 3 and in the Reaching beyond Our Borders boxes throughout the text. This chapter's Reaching beyond Our Borders box on the next page discusses how Coca-Cola adapted its products to meet the needs of its global markets.

War and Terrorism War and terrorism have drained trillions of dollars a year from the U.S. economy. Some companies—like those that make bullets, tanks, and uniforms—have benefited greatly. Others, however, lost workers to the armed forces, and still others have grown more slowly as money was diverted to the war effort. The threat of more wars and terrorism leads the government to spend even more money on spying and the military. Such expenditures are subject to much debate. The increased unrest in the world adds great uncertainty. This uncertainty is considered by some to be the biggest risk in business. It is difficult to plan when there are so many unknown factors such as how changes in military policy will affect the economy. 9

How Global Changes Affect You As businesses expand to serve global markets, new jobs will be created in both manufacturing and service industries. Global trade also means global competition. The students who will prosper will be those prepared for the markets of tomorrow. Rapid changes create a need for continuous learning, so be prepared to continue your education throughout your career. You'll have every reason to be optimistic about job opportunities in the future if you prepare yourself well.

The Ecological Environment Few issues have captured the attention of the international business community more than climate change. **Climate change** is the movement of the temperature of the planet up or down over time. There are some who remain unconvinced of the dangers of global warming. However, most scientists and many of the world's largest firms—including General Electric, Coca-Cola, Shell, Nestlé, DuPont, Johnson & Johnson, British Airways, and Shanghai Electric—say the evidence for climate change is overwhelming. Saving energy and producing products that cause less harm to the environment, such as solar energy, is called **greening**.

climate change

The movement of the temperature of the planet up or down over time.

greening

The trend toward saving energy and producing products that cause less harm to the environment.

TESTPREP

- What are four ways the government can foster entrepreneurship?
- What are the differences among effectiveness, efficiency, and productivity?
- What is empowerment?
- What are some of the major issues affecting the economy today?

LO 1-8

Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.

The Evolution of U.S. Business

Businesses in the United States have become so productive that they need fewer workers than ever before to produce goods. If global competition and improved technology are









Coca-Cola's Global Offerings Expand Far beyond Soda

coca-colacompany.com

or more than a century, Coca-Cola's immense branding power has centered on its signature soft drink. But the company's namesake is far from the only beverage in its enormous roster of products. In fact, Coca-Cola owns hundreds of drink brands that cater to the diverse needs of markets around the world. The company carefully researches local tastes and incorporates these flavors into beverages that appeal to a variety of global consumers.

One such drink is Mazza
Chunky, an Indian fruit juice that includes chunks of mango. Coca-Cola researchers thought of the idea when they noticed that many people in the country liked to drink mango pulp straight from the fruit. Keeping an eye on local trends also led to products like a sesame-and-walnut drink in China, as well as a Brazilian line of whey shakes. Some flavors that perform well in global markets are eventually introduced to American consumers. For instance, in 2019



Koktaro/Shutterstock

the company launched Coca-Cola Energy in countries like Germany, the United Kingdom, Spain, and many others. The drink was such a success that Coca-Cola introduced it to the United States less than a year later.

Quickly bringing new products to market has become a top priority for the company as it continues to expand its global offerings. In the past, Coca-Cola spent at least a year developing a drink before it launched. These days, though,

the company can finish the process in as little as four months. By dedicating so many resources to new-product development, Coca-Cola has built a worldwide empire of soft drinks that should only grow larger in the years to come.

Sources: Eric Bellman and Jennifer Maloney, "Coca-Cola Launched 500 Drinks Last Year. Most Taste Nothing Like Coke," *The Wall Street Journal*, August 23, 2018; Jasmine Wu, "Coca-Cola to Launch Coke-Branded Energy Drink in US, in a Bid for More Growth," *CNBC*, cnbc.com, October 1, 2019; Coca-Cola Company, coca-colacompany.com, accessed January 2020.

putting skilled people out of work, should we be concerned about the prospect of high unemployment rates and low incomes? Where will the jobs be when you graduate? These important questions force us all to look briefly at the U.S. economy and its future.

Progress in the Agricultural and Manufacturing Industries

The United States has experienced strong economic development since the 1800s. The agricultural industry led the way, providing food for the United States and much of the world. Cyrus McCormick's invention of the harvester in 1834, other inventions such as Eli Whitney's cotton gin, and modern improvements on such equipment did much to make large-scale farming successful. Technology has made modern farming so efficient that the number of farmers has dropped from about 33 percent of the population to less than 1 percent today. However, average farm size is now about 430 acres versus 150 acres in the past.³¹

Agriculture is still a major industry in the United States. What has changed is that the millions of small farms that existed previously have been replaced by some huge farms, some

18







merely large farms, and some small but highly specialized farms. The loss of farmworkers over the past century is not a negative sign. It is instead an indication that U.S. agricultural workers are the most productive in the world.

Most farmers who lost their jobs during the 19th and 20th centuries went to work in factories springing up around the country. Manufacturers, like farms, began using new technology, new tools, and machines to become more productive. Eventually the consequence in manufacturing, as in farming, was the elimination of many jobs.



baranozdemir/Getty Images

Again, the loss to society is minimized if the wealth created by increased productivity and efficiency creates new jobs elsewhere—and that's exactly what has happened over the past 50 years. Many workers in the industrial sector found jobs in the growing service sector. Most of those who can't find work today are people who need retraining and education to become qualified for jobs that now exist or will exist in the near future, such as building wind farms or making electric automobiles. We'll discuss the manufacturing sector and production in more detail in Chapter 9.

Progress in Service Industries

In the past, the fastest-growing industries in the United States produced goods like steel, automobiles, and machine tools. Today, the fastest-growing firms provide services in areas such as law, health, telecommunications, entertainment, and finance.

Since the mid-1980s, the service sector has generated almost all the increases in employment. Together, services employ about 85 percent of workers in the United States.³² Chances are very high that you'll work in a service job at some point in your career. Figure 1.4 lists many service-sector jobs; look it over to see where the careers of the future are likely to be. Retailers like Nordstrom Rack are part of the service sector. Each new retail store can create managerial jobs for college graduates.

Another bit of good news is that there are *more* high-paying jobs in the service sector than in the goods-producing sector. High-paying service-sector jobs abound in health care, accounting, finance, entertainment, telecommunications, architecture, law, software engineering, and more.³³ Projections are that some areas of the service sector will grow rapidly, while others may have much slower growth. The strategy for college graduates is to remain flexible, find out where jobs are being created, and move when appropriate.

Progress in the Information Age

Despite the growth in the service sector we've described above, the service era is giving way to a new era. We're in the midst of an information-based global and technical revolution that is altering all sectors of the economy: agricultural, industrial, and service. In the Information Age, a significant portion of a company's value is based on its intellectual capital. *Intellectual capital* includes employee knowledge and skills that can be used to create new products, attract new customers, and increase profits.³⁴

The new or enhanced products and services created by intellectual expertise in areas such as the technical and scientific fields encourage innovation in the economy as a whole. For example, universities and companies engaging in research and development may develop new software and search engines that can be passed on to workers in more traditional fields. Doctors can use the new technology to offer improved treatments such as robot-assisted surgeries. Farmers can use the new software applications to manage their farm crops. Schools can provide students with digital study aids and online courses.³⁵

Agriculture is one of the largest and most important industries in the United States. Technology has increased productivity and made farmers more efficient, allowing for larger farms. This trend has helped reduce the increase in price of some foods for consumers, but has also reduced the number of small, family-run farms. Does the new technology also help smaller farms compete? If so, how?







FIGURE 1.4 WHAT IS THE SERVICE SECTOR?

There's much talk about the service sector, but few discussions actually list what it includes. Here are examples of businesses in the service sector.

	Examples of Businesses in the Service Sector						
Amusement and Recreation Services	Amusement parks	Ice skating rinks	Bowling alleys	Pool halls	Botanical gardens	Infotainment	Carnivals
	Race tracks	Circuses	Golf courses	Symphony orchestras	Restaurants	Fairs	Video rentals
Business Services	Collection agencies	Management services	Equipment rental	Trash collection	Computer programming	Exterminating	Research & development labs
	Window cleaning	Tax preparation	Web design	Commercial photography	Accounting	Commercial art	Ad agencies
	Public relations	Consulting	Detective agencies	Interior design	Stenographic services	Employment agencies	
Legal Services	Lawyers	Paralegals	Notary public				
Educational Services	Schools	Libraries	Online schools	Computer schools			
Health Services	Chiropractors	Nursery care	Dentists	Physicians	Medical labs	Dental labs	
Motion Picture Industry	Production	Distribution	Theaters	Drive-ins			
Social Services	Job training	Elder care	Family services	Child care			
Automotive Repair Services and Garages	Transmission repair Car washes	Tire retreading	Exhaust system shops	Truck rental	Auto rental	Paint shops	Parking lots
Financial Services	Banking	Real estate agencies	Investment firms (brokers)	Insurance			
Personal Services	Photographic studios	Shoe repair	Tax preparation	Laundries	Funeral homes	Linen supply	
	Beauty shops	Child care	Health clubs	Diaper service	Carpet cleaning		
Lodging Services	Hotels, rooming houses, and other lodging places	Sporting and recreation camps	Trailer parks and campsites for transients				
Cultural Institutions	Noncommercial museums	Art galleries	Botanical and zoological gardens				
Selected Membership Organizations	Civic associations	Business associations					
Miscellaneous Services	Tele- communications	Architectural	Engineering	Utilities	Lawn care	Vending	Delivery
	Surveying	Septic tank cleaning	Radio and television	Sharpening	Reupholstery	Watch	Welding

Your Future in Business

It's exciting to think about the role you'll play in business. You may be a leader who will implement the changes and accept the challenges of world competition based on world







CHAPTER 1 TAKING RISKS AND MAKING PROFITS WITHIN THE DYNAMIC BUSINESS ENVIRONMENT

quality standards. This book will introduce you to some of the concepts that make such leadership possible, not just in business but also in government agencies and nonprofit organizations. Business can't prosper in the future without the cooperation of government and social leaders throughout the world.

TESTPREP

- What major factor caused people to move from farming to manufacturing and from manufacturing to the service sector?
- What does the future look like for tomorrow's college graduates?

SUMMARY

Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

What is the relationship of businesses' profit to risk assumption?

Profit is money a business earns above and beyond the money that it spends for salaries and other expenses. Businesspeople make profits by taking risks. *Risk* is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable. A loss occurs when a business's costs and expenses are higher than its revenues.

Who are stakeholders, and which stakeholders are most important to a business?

Stakeholders include customers, employees, stockholders, suppliers, dealers, bankers, the media, people in the local community, environmentalists, and elected government leaders. The goal of business leaders is to try to recognize and respond to the needs of these stakeholders and still make a profit.

LO 1–2 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

What are the advantages and disadvantages of entrepreneurship?

Working for others means getting benefits like paid vacations and health insurance. Entrepreneurs take more risks and lose those benefits. They gain the freedom to make their own decisions, more opportunity, and possible wealth.

What are the five factors of production?

The five factors of production are land, labor, capital, entrepreneurship, and knowledge. Of these, the most important are entrepreneurship and knowledge. Entrepreneurs are people who risk time and money to start and manage a business. What makes rich countries rich today is a combination of *entrepreneurship* and the effective use of *knowledge*.







Analyze the effects of the economic environment and taxes on businesses.

What can governments in developing countries do to reduce the risk of starting businesses and thus help entrepreneurs?

The government may allow private ownership of businesses, pass laws that enable businesspeople to write contracts that are enforceable in court, establish a currency that's tradable in world markets, help lessen corruption in business and government, and keep taxes and regulations to a minimum. From a business perspective, lower taxes mean lower risks, more growth, and thus more money for workers and the government.

LO 1–4 Describe the effects of technology on businesses.

How has technology benefited workers, businesses, and consumers?

Technology enables workers to be more effective, efficient, and productive. *Effectiveness* means doing the right thing in the right way. *Efficiency* means producing items using the least amount of resources. *Productivity* is the amount of output you generate given the amount of input (e.g., hours worked).

LO 1-5 Demonstrate how businesses can meet and beat competition.

• What are some ways in which businesses meet and beat competition?

Some companies have found a competitive edge by focusing on making high-quality products, all the way to zero defects. Companies also aim to exceed customer expectations. Often that means *empowering* frontline workers by giving them more training and more responsibility and authority.

LO 1–6 Analyze the social changes affecting businesses.

How have social changes affected businesses?

Diversity has come to mean much more than recruiting and keeping minority and female employees. Diversity efforts now include older adults, people with disabilities, people with different sexual orientations, atheists, religious people, extroverts, introverts, married people, and single people. Managing diversity means dealing sensitively with workers and cultures around the world. Providing Social Security benefits to older citizens in the future will draw huge amounts of money from the working population. That is why there is so much discussion about Social Security in the media today.

LO 1-7 Identify what businesses must do to meet global challenges, including war and terrorism.

- Which countries are creating the greatest competitive challenges?
 China and India are two major competitors.
- What will be the impacts of future wars and terrorism?
 Some businesses, such as those in the defense industry, may prosper. Others, such as tourism, may suffer. One way to minimize world tensions is to help less-developed countries become more prosperous.
- Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.
- What is the history of our economic development in the United States, and what does it tell us about the future?

Agricultural workers displaced by improved farm technology went to work in factories. Improved manufacturing productivity and increased competition from foreign firms







CHAPTER 1 TAKING RISKS AND MAKING PROFITS WITHIN THE DYNAMIC BUSINESS ENVIRONMENT

contributed to the development of a service economy in the United States. The service era is now giving way to an information-based global revolution that will affect all sectors of the economy. The secret to long-term success in such an economy is flexibility and continuing education to be prepared for the opportunities that are sure to arise.

What job opportunities for college graduates exist in the service sector?

Check over Figure 1.4, which outlines the service sector. That is where you are most likely to find the fast-growing firms of the future.

business 4 factors of production 8 profit 4 business environment 9 goods 4 quality of life 5 climate change 18 revenue 4 greening 18 database 13 identity theft 13 risk 5 demography 14 loss 4 services 4 nonprofit organization 7 stakeholders 6 e-commerce 12 empowerment 14 outsourcing 6 standard of living 5 entrepreneur 4 productivity 12 technology 11

KEY TERMS

Imagine you are thinking of starting a restaurant in your community. Answer the following questions:

- 1. Who will be the various stakeholders of your business?
- 2. What are some of the things you can do to benefit your community other than providing jobs and tax revenue?
- 3. How will you establish good relationships with your suppliers? With your employees?
- 4. Do you see any conflict between your desire to be as profitable as possible and your desire to pay employees a living wage?
- 5. Which of the environmental factors outlined in this chapter might have the biggest impact on your business? How?

CRITICAL THINKING

PURPOSE

To learn what changes are occurring in the business environment today and how those changes are affecting businesses.

EXERCISE

- 1. Go to the National Taxpayers Union website (ntu.org). Search for "Who Pays Income Taxes?" Study the tables showing what percentage of taxes the various income groups pay. Do you think that everyone pays their fair share? What percentage of taxes does the top 1 percent of earners pay? What about the top 5 percent? The lowest 50 percent? How do such tax rates affect incentives to become a successful entrepreneur?
- 2. Go to the Census Bureau's website (census.gov) and learn what the population of the United States is at this moment. While at the site, you may want to look up the population in your town or city. Explore what other data is available at this site. What trends seem most important to you and to businesspeople in general?
- 3. Do a Google search for "business blogs" and check out some of the available results. Go to one of the blogs that seems interesting to you and write a brief paragraph about it—including such things as who sponsors it, who contributes the posts, and what other features it has—and how it may help a student in an introductory business course.

PUTTING PRINCIPLES TO WORK



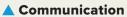




DEVELOPING **CAREER SKILLS**

KEY: • Team





Technology



1. Poll the class and determine which students believe that climate change is primarily caused by humans and which believe that other factors, such as climate cycles or sun spots, are the primary cause. Discuss what students can do to minimize human effects on the environment regardless of the primary causes of climate change. Are there any negative consequences to trying to minimize humans' impact on the environment?



2. Imagine you are a local businessperson who has to deal with the issue of outsourcing. You want to begin with the facts. How many, if any, jobs have been lost to outsourcing in your area? Are there any foreign firms in your area that are creating jobs (insourcing)? You will need to go online to find the data you need.



🛪 3. What indicates that you and other people in the United States have a high standard of living? What are some signs that maintaining such a high standard of living may have a negative impact on quality of life? Does everyone in the United States enjoy a high standard of living? If not, how does this impact their quality of life?



● ■ ▲ ★ 4. Use Yelp to find five businesses that provide services in your area. List those businesses and, for each, describe how social trends, such as building a diverse workforce, might affect them. Be prepared to explain your descriptions to your team or the whole class, as your instructor directs.



5. Form into teams of four or five and discuss the technological and e-commerce revolutions. How often do students shop for goods and services online? What have been their experiences? What other technology do they use (smartphones, tablets, laptops, etc.)? Discuss what life, school, and work would be like without these devices.



At the end of each chapter, we offer a brief list of potential careers that deal with the concepts present in the chapter. Since this first chapter is an overview of all the different fields of business, we thought we'd concentrate on identifying a few careers in the sector with the most jobs: services. Find out about the tasks performed, skills needed, pay, and opportunity outlook in these careers in the Occupational Outlook Handbook (OOH) at bls.gov.

- Lodging manager—ensures that guests on vacation or business travel have a pleasant experience at a hotel, motel, or other type of establishment with
- accommodations and that the business is run efficiently and profitably.
- Meeting and event planner—coordinates all aspects of events and professional meetings, including arranging meeting locations, transportation, and other details.
- **Interior designer**—selects and specifies colors, furniture, and other materials to create useful and stylish interiors for buildings.
- Network and computer systems administratorresponsible for the day-to-day operation of computer networks.

VIDEO CASE

Building a Shopping Community of People



If you have the inspiration and tenacity to become an entrepreneur, the service industry offers great possibilities. Services are now the largest area of growth in the United States. A great idea and hard work can lead to great success. In 2007, Manish Chandra realized that the move to

environmental sustainability and advances in technology could shift the fashion industry away from its traditional focus of selling new products toward providing a service centered on exchanging gently used clothing. He knew that people all across America often ask the same question:





"What do I do with clothing I no longer wear?" Chandra developed and founded Poshmark, a social commerce platform that boasts 60 million users who list 38 million products daily.

Like other successful entrepreneurs, Chandra was able to start Poshmark and expand it rapidly thanks to the business environment in the United States. To be successful, businesses must navigate factors that impact the five key business environments in the U.S. economy: the social environment, the technological environment, the economic and legal environment, the competitive environment, and the global environment. Even though businesses cannot control these environments, they must be quick to adapt to changes in key environments that affect them.

For instance, changes in the social environment in the United States had a significant impact on Poshmark since its launch in 2010. Building a community-centric organization was a key shift in online retailing, Changing demographics and values of Millennials and Gen Z consumers fit perfectly with Poshmark's business model. The advent of mobile technology vastly expanded the market opportunities for the company, and the growth of the circular economy also provided a major benefit. The circular economy encourages reusing and recycling products rather than discarding them in a landfill. This shift in social perspective assisted Poshmark in being at the forefront of the movement away from fast fashion toward a sustainable method of consumption.

The expanding technological environment, especially mobile technology, contributed heavily to the success of Poshmark. Without the tremendous growth of technology, Poshmark would not be feasible. Chandra credits the introduction of iPhone 4 in 2010 as a turning point in Poshmark's growth. The iPhone 4 was introduced with a great camera that expanded the ease of use and viability of Poshmark's business plan. Shoppers could now take photos in real time, then merchandise and market their items to others. The vibrant mobile platform developed by Poshmark allowed customers to place orders instantly. Packaging assistance offered by the company simplified the delivery of clothing items.

The economic and legal environment in the United States is very favorable for businesses like Poshmark. The government supports private ownership of businesses by providing a stable currency and a legal system that enforces

contracts, keeps regulations to a minimum, and avoids bureaucratic roadblocks that hinder businesses. Transportation and distribution in the United States make shipment of products easy and efficient. However, companies like Poshmark must make sure to follow any laws and regulations that apply to their industry.

When the company first entered the market, competition was limited. That's not the case today. With competitors such as thredUP, Etsy, the RealReal, and others offering stiff competition, Poshmark knows it faces daily challenges to its community of "poshers." That's a key reason why the company moved from operating purely online to establishing a presence in the real world. Poshmark hosts a number of real-life community programs such as "Posh Parties" where poshers can exchange their experiences and offer marketing tips to fellow sellers. The company's two-day conference called "Posh Fest" has grown every year and sells out. Even though Poshmark holds the advantage of being in business the longest, the company must still work hard every day to keep its 60 million users happy and loyal.

In business today, every company needs to consider the global environment. Poshmark has not made major efforts to expand its business beyond the United States and Canada. Still, Poshmark's ease of operation and openness of its app makes global expansion in the future very possible. Clearly, advances in communication and the Internet make it possible for the company to build a presence overseas.

In the years since its founding, Poshmark has had a tremendous impact on the fashion industry and has been very profitable. Going forward, the company must remain committed to connecting people through its app as well as socially with its events. By responding to the challenges of the business environment and improving the experience for shoppers, Poshmark plans to be part of the U.S. business landscape for the long term.

THINKING IT OVER

- 1. Which of the five environmental factors are most critical to Poshmark's continued success and stability?
- 2. How did iPhone 4 provide the boost Poshmark needed to expand its business model in the online market?
- 3. How do "Posh Parties" and "Posh Fest" help expand Poshmark's business and build the loyalty of Poshmark customers?

NOTES

- 1. Forbes, forbes.com, accessed January 2020.
- "Global Wealth 2019," Boston Consulting Group, bcg.com, accessed January 2020.
- U.S. Bureau of Labor Statistics, bls.gov, accessed January 2020.
- 4. Nick Routley, "Walmart Nation," *Visual Capitalist*, visualcapitalist.com, January 24, 2019.
- Terin Miller, "What Is a Stakeholder and Why Is It Important for Business?," *TheStreet*, thestreet.com, February 10, 2019; Mona Mortazavi, "2 Key Tools for Stakeholder Analysis," *PMWorld 360 Magazine*, pmworld360.com, accessed January 2020.
- Michelle Chapman, "Top US CEOs Rethink the Meaning of Shareholder Value," St. Louis Post-Dispatch,



