

TWELFTH EDITION

# BUSINESS

PRIDE • HUGHES • KAPOOR





## Letter FROM THE AUTHORS

### Dear Business Students:

How do you define success? For some, success is a high-paying job, promotions, and financial security. For others, success is finding a rewarding balance between work and personal time. Regardless of how you define success or what your personal goals are, we wrote this text with one purpose: to help you succeed in today's competitive business world.

As authors, we believe that success is measured not only by the grade you receive at the end of the semester, but also by how you use the information and concepts in this text to build a foundation for a better life. It is important to begin reading this text with one thing in mind. This business course doesn't have to be difficult. In fact, learning about business and how you can become successful can be fun. To help you succeed, this edition of *Business* is packed with updated content and information that can help you not only get a better grade, but also help you reach your personal goals and enjoy a successful life.

We worked hard to make sure there is something in every chapter to help you understand the world of business and become a better employee, a more informed consumer, and, if it is your dream—a successful business owner. All new boxed features help reinforce the success theme, including Career Success, Ethical Success or Failure, Entrepreneurial Success, and Going for Success. You can also use the chapter summary, review and discussion questions, and case problems to reinforce important concepts. And the activities in the Building Skills for Career Success section will help to improve the skills you need for success.

We are especially proud of the CourseMate Web site that accompanies the text. The Web site contains more student learning activities and an eBook—all designed to help you experience success. For those who want even more state-of-the-art technology, there are other online solutions that accompany this text, including MindTap and CengageNOW. A number of learning activities—all designed to help you to experience success—are available at CengageBrain.com. There you will find:

- Interactive quizzes
- Student PowerPoint slides
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- Chapter audio reviews
- Games and crossword puzzles
- Interactive flashcards

We invite you to examine the visual guide that follows to see how Pride/Hughes/Kapoor can help you learn about business and enjoy success in not only your career, but also your life.

Sincerely

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# BUSINESS

TWELFTH EDITION

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*To Nancy, Allen, Mike, Ashley, and Charlie Pride*

*To my wife Peggy and to my mother Barbara Hughes*

*To my wife Theresa; my children Karen, Kathryn, and Dave; and in  
memory of my parents Ram and Sheela Kapoor*





# BRIEF CONTENTS

1

## The Environment of Business

1

- 1. Exploring the World of Business and Economics 2
- 2. Being Ethical and Socially Responsible 35
- 3. Exploring Global Business 69

2

## Business Ownership and Entrepreneurship

103

- 4. Choosing a Form of Business Ownership 104
- 5. Small Business, Entrepreneurship, and Franchises 133

3

## Management and Organization

163

- 6. Understanding the Management Process 164
- 7. Creating a Flexible Organization 188
- 8. Producing Quality Goods and Services 211

4

## Human Resources

243

- 9. Attracting and Retaining the Best Employees 244
- 10. Motivating and Satisfying Employees and Teams 273
- 11. Enhancing Union-Management Relations 302

5

## Marketing

329

- 12. Building Customer Relationships Through Effective Marketing 330
- 13. Creating and Pricing Products That Satisfy Customers 357
- 14. Wholesaling, Retailing, and Physical Distribution 394
- 15. Developing Integrated Marketing Communications 423

6

## Social Media, e-Business, and Accounting

455

- 16. Exploring Social Media and e-Business 456
- 17. Using Management and Accounting Information 486

7

## Finance and Investment

519

- 18. Understanding Money, Banking, and Credit 520
- 19. Mastering Financial Management 550
- 20. Understanding Personal Finances and Investments 579

Glossary 615

Name Index 627

Subject Index 634

The following appendixes appear on the companion site [www.cengage.brain.com](http://www.cengage.brain.com)

Appendix A: Careers in Business

Appendix B: Risk Management and Insurance

Appendix C: Business Law, Regulation, and Taxation

# CONTENTS

## 1 The Environment of Business 1

### Chapter 1: Exploring the World of Business and Economics 2

#### Inside Business: Zynga Zooms into Business 3

Your Future in the Changing World of Business 4

*Why Study Business?, 5*

**Career Success: Show Off Your Skills with Digital Merit Badges 6**

*Special Note to Business Students, 8*

Business: A Definition 10

*The Organized Effort of Individuals, 10 • Satisfying Needs, 10 • Business Profit, 11*

**Sustaining the Planet: Honda: Not Just Another Automobile Manufacturer 12**

Types of Economic Systems 12

**Entrepreneurial Success: Building a Million-Dollar App Business 13**

*Capitalism, 14 • Capitalism in the United States, 15 • Command Economies, 16*

Measuring Economic Performance 17

*The Importance of Productivity in the Global Marketplace, 18 • The Nation's Gross Domestic Product, 18 • Important Economic Indicators that Measure a Nation's Economy, 19*

The Business Cycle 20

Types of Competition 21

*Perfect Competition, 22 • Monopolistic Competition, 23 • Oligopoly, 24 • Monopoly, 24*

American Business Today 24

*Early Business Development, 25 • Business Development in the 1900s, 25 • A New Century: 2000 and Beyond, 26 • The Current Business Environment, 26 • The Challenges Ahead, 27*

#### Return to Inside Business: Zynga 28

Summary 29

Key Terms 30

Review Questions 30

Discussion Questions 31

Video Case 1.1: Entertainment Means Profits for Nederlander Concerts 31

Case 1.2: The Walt Disney Company Entertains the World 32

Building Skills for Career Success 32

Endnotes 33

### Chapter 2: Being Ethical and Socially Responsible 35

#### Inside Business: Panera Cares About Its Communities 36

Business Ethics Defined 37

Ethical Issues 37

*Fairness and Honesty, 38 • Organizational Relationships, 38 • Conflict of Interest, 39 • Communications, 39*

Factors Affecting Ethical Behavior 39

*Individual Factors Affecting Ethics, 40 • Social Factors Affecting Ethics, 40 • "Opportunity" as a Factor Affecting Ethics, 40*

Encouraging Ethical Behavior 41

*Government's Role in Encouraging Ethics, 41 • Trade Associations' Role in Encouraging Ethics, 41 • Individual Companies' Role in Encouraging Ethics, 41*

Social Responsibility 44

The Evolution of Social Responsibility in Business 47

*Historical Evolution of Business Social Responsibility, 47*

Two Views of Social Responsibility 49

*The Economic Model, 49 • The Socioeconomic Model, 49 • The Pros and Cons of Social Responsibility, 49*

Consumerism 51

*The Six Basic Rights of Consumers, 51 • Major Consumerism Forces, 52*

**Ethical Success or Failure?: Is Personal Data Really Private? 53**

Employment Practices 55

*Affirmative Action Programs, 55 • Training Programs for the Hard-Core Unemployed, 56*

Concern for the Environment 57

*Effects of Environmental Legislation, 57*

**Sustaining the Planet: Social Responsibility at Xerox 59**

**Entrepreneurial Success: Social Entrepreneurs of Tomorrow 61**

*Who Should Pay for a Clean Environment?, 61*

Implementing a Program of Social Responsibility 61

*Developing a Program of Social Responsibility, 61 • Funding the Program, 62*

#### Return to Inside Business: Panera Cares 63

Summary 63

Key Terms 64

Review Questions 64

Discussion Questions 65

Video Case 2.1: Scholfield Honda—Going Green with Honda 65  
Case 2.2: Unilever’s Plan for Green and Clean Growth 66  
Building Skills for Career Success 66  
Endnotes 67

## Chapter 3: Exploring Global Business 69

**Inside Business: Volkswagen Speeds Along on Global Sales 70**

The Basis for International Business 71  
*Absolute and Comparative Advantage, 71 • Exporting and Importing, 72*

**Career Success: Want to Work Overseas? Get Ready Now! 74**

Restrictions to International Business 74  
*Types of Trade Restrictions, 75 • Reasons for Trade Restrictions, 76 • Reasons Against Trade Restrictions, 77*

The Extent of International Business 78  
*The World Economic Outlook for Trade, 78*

International Trade Agreements 81  
*The General Agreement on Tariffs and Trade and the World Trade Organization, 81 • World Trade and the Global Economic Crisis, 82 • International Economic Organizations Working to Foster Trade, 83*

**Sustaining the Planet: 2degrees: A Global Community 85**

Methods of Entering International Business 85  
*Licensing, 85 • Exporting, 86 • Joint Ventures, 87 • Totally Owned Facilities, 87*

**Going for Success: Services Team Up to Enter India 88**  
*Strategic Alliances, 88 • Trading Companies, 89 • Countertrade, 89 • Multinational Firms, 89*

Sources of Export Assistance 90

Financing International Business 91  
*The Export-Import Bank of the United States, 91 • Multilateral Development Banks, 92 • The International Monetary Fund, 93 • The Challenges Ahead, 93*

**Return to Inside Business: Volkswagen 94**

Summary 94  
Key Terms 95  
Review Questions 95  
Discussion Questions 96  
Video Case 3.1: Keeping Brazil’s Economy Hot 96  
Case 3.2: Global Profits Are a Menu Mainstay at McDonald’s 97  
Building Skills for Career Success 98

**Running a Business: Part 1: Graeter’s 99**  
**Building a Business Plan: Part 1 100**

Endnotes 102

## 2 Business Ownership and Entrepreneurship 103

### Chapter 4: Choosing a Form of Business Ownership 104

**Inside Business: Kimpton Hotel & Restaurant Group Strives for Perfection! 105**

Sole Proprietorships 106  
*Advantages of Sole Proprietorships, 107 • Disadvantages of Sole Proprietorships, 108*

**Entrepreneurial Success: Why Sell a Small Business to a Big Business? 109**  
*Beyond the Sole Proprietorship, 109*

Partnerships 110  
*Types of Partners, 110 • The Partnership Agreement, 111*

Advantages and Disadvantages of Partnerships 111  
*Advantages of Partnerships, 111 • Disadvantages of Partnerships, 113 • Beyond the Partnership, 114*

Corporations 114  
*Corporate Ownership, 115 • Forming a Corporation, 115 • Corporate Structure, 117*

**Ethical Success or Failure?: Do We Need More Women in the Board Room? 118**

Advantages and Disadvantages of Corporations 118  
*Advantages of Corporations, 119 • Disadvantages of Corporations, 119*

**Social Media: Going Social with Score 120**

Special Types of Business Ownership 121  
*S-Corporations, 121 • Limited-Liability Companies, 121 • Not-for-Profit Corporations, 122*

Cooperatives, Joint Ventures, and Syndicates 123  
*Cooperatives, 123 • Joint Ventures, 123 • Syndicates, 123*

Corporate Growth 124  
*Growth from Within, 124 • Growth Through Mergers and Acquisitions, 124 • Merger and Acquisition Trends for the Future, 126*

**Return to Inside Business: Kimpton Hotel & Restaurant Group 127**

Summary 127  
Key Terms 128  
Review Questions 129  
Discussion Questions 129  
Video Case 4.1: AT&T and T-Mobile: What Went Wrong with Their Merger? 129  
Case 4.2: The Conglomerate Success of Berkshire Hathaway 130  
Building Skills for Career Success 131  
Endnotes 132

### Chapter 5: Small Business, Entrepreneurship, and Franchises 133

**Inside Business: Locker Lookz Looks for Higher Sales 134**

Small Business: A Profile 135  
*The Small-Business Sector, 135 • Industries That Attract Small Businesses, 136*

The People in Small Businesses: The Entrepreneurs 137  
*Characteristics of Entrepreneurs, 137 • Other Personal Factors, 137 • Motivation, 138 • Women as Small-Business Owners, 138*

**Career Success: Is Entrepreneurship in Your Future?** 139  
*Teenagers as Small-Business Owners, 139 • Why Some Entrepreneurs and Small Businesses Fail, 140*

The Importance of Small Businesses in Our Economy 140  
*Providing Technical Innovation, 141 • Providing Employment, 141*

**Sustaining the Planet: Green Citizenship on a Smaller Scale** 142  
*Providing Competition, 142 • Filling Needs of Society and Other Businesses, 142*

The Pros and Cons of Smallness 142  
*Advantages of Small Business, 143 • Disadvantages of Small Business, 143 • The Importance of a Business Plan, 144*

**Entrepreneurial Success: Students by Day, Entrepreneurs by Night** 145  
*Components of a Business Plan, 145*

The Small Business Administration 147  
*SBA Management Assistance, 147 • Help for Minority-Owned Small Businesses, 148 • SBA Financial Assistance, 150 • State of Small Business During the Recession, 150*

Franchising 151  
*What Is Franchising?, 151 • Types of Franchising, 151*

The Growth of Franchising 153  
*Are Franchises Successful?, 153 • Advantages of Franchising, 154 • Disadvantages of Franchising, 154*

Global Perspectives in Small Business 155

**Return to Inside Business: Locker Lookz** 156

Summary 157  
 Key Terms 157  
 Review Questions 158  
 Discussion Questions 158  
 Video Case 5.1: Murray's Cheese: More Cheese Please 158  
 Case 5.2: Warby Parker's Business Vision 159  
 Building Skills for Career Success 160

**Running a Business: Part 2: Graeter's** 161  
**Building a Business Plan: Part 2** 162

Endnotes 162

### 3 Management and Organization 163

## Chapter 6: Understanding the Management Process 164

**Inside Business: IBM's New CEO Feels Technological Leadership Is Key** 165

What Is Management? 165  
 Basic Management Functions 167  
*Planning, 167*

**Ethical Success or Failure?: Digging Deep to Research Competitors** 169  
*Organizing the Enterprise, 171 • Leading and Motivating, 171 • Controlling Ongoing Activities, 172*

Kinds of Managers 172  
*Levels of Management, 172 • Areas of Management Specialization, 173*

**Going for Success: Steve Jobs: Futurist Extraordinaire** 174  
 Key Skills of Successful Managers 175  
*Conceptual Skills, 175 • Analytic Skills, 176 • Interpersonal Skills, 176 • Technical Skills, 176 • Communication Skills, 176*

Leadership 177  
*Formal and Informal Leadership, 177 • Styles of Leadership, 177 • Which Leadership Style Is the Best?, 178*

Managerial Decision Making 179  
*Identifying the Problem or Opportunity, 179 • Generating Alternatives, 179 • Selecting an Alternative, 179*

**Social Media: Through Social Media, Do Workers Create Problems for Their Employers?** 180  
*Implementing and Evaluating the Solution, 180*

Managing Total Quality 181

**Return to Inside Business: IBM** 182

Summary 182  
 Key Terms 183

Review Questions 183  
 Discussion Questions 184  
 Video Case 6.1: L.L.Bean Relies on Its Core Values and Effective Leadership 184  
 Case 6.2: What's next for "Earth's Biggest Bookstore"? 185  
 Building Skills for Career Success 186  
 Endnotes 187

## Chapter 7: Creating a Flexible Organization 188

**Inside Business: Crafting a Split of Snacks and Groceries at Kraft** 189

What Is an Organization? 190  
*Developing Organization Charts, 190 • Major Considerations for Organizing a Business, 192*

Job Design 192  
*Job Specialization, 192 • The Rationale for Specialization, 192 • Alternatives to Job Specialization, 192*

Departmentalization 193  
*By Function, 193 • By Product, 193 • By Location, 193 • By Customer, 193 • Combinations of Bases, 194*

Delegation, Decentralization, and Centralization 194  
*Delegation of Authority, 194*

**Going for Success: Dell Restructures to Jump-Start Innovation** 195  
*Decentralization of Authority, 195*

The Span of Management 196  
*Wide and Narrow Spans of Management, 197 • Organizational Height, 197*

Forms of Organizational Structure 198  
*The Line Structure, 198 • The Line-and-Staff Structure, 198 • The Matrix Structure, 199 • The Network Structure, 201*

Corporate Culture 201

**Ethical Success or Failure?: Internships—Who Benefits?** 203

**Sustaining the Planet: Take the “R” For Tomorrow** 203

Committees and Task Forces 204

The Informal Organization and the Grapevine 204

**Return to Inside Business: Kraft Foods** 205

Summary 205

Key Terms 206

Review Questions 207

Discussion Questions 207

Video Case 7.1: At Numi Organic Tea, Teams and Organizational Culture Are Critical 207

Case 7.2: HP’s Corporate Challenge: To Remain Agile and Responsive in an Ever-Changing Environment 208

Building Skills for Career Success 209

Endnotes 210

## Chapter 8: Producing Quality Goods and Services 211

**Inside Business: Unilever: Producing Quality Goods the Green Way** 212

What Is Production? 213

*How American Manufacturers Compete in the Global Marketplace, 213 • Careers in Operations Management, 215*

The Conversion Process 215

*Factors That Affect a Conversion Process, 215*

The Increasing Importance of Services 217

*Planning Quality Services, 217 • Evaluating the Quality of a Firm’s Services, 218*

Where Do New Products and Services Come From? 218

*Research and Development, 219 • Product Extension and Refinement, 219*

**Career Success: If at First You Don’t Succeed . . .** 220

How Do Managers Plan Production? 220

*Design Planning, 220*

**Sustaining the Planet: Saving Energy—And the Environment** 222

*Site Selection and Facilities Planning, 222 • Operational Planning, 223*

Operations Control 225

*Purchasing, 225*

**Entrepreneurial Success: Africa’s New Role in Socially-Responsible Production** 226

*Inventory Control, 226 • Scheduling, 227 • Quality Control, 229*

Improving Productivity with Technology 232

*Productivity Trends, 232 • Improving Productivity Growth, 232 • The Impact of Automation, Robotics, and Computers on Productivity, 233 • Sustainability and Technological Displacement, 234*

**Return to Inside Business: Unilever** 235

Summary 235

Key Terms 237

Review Questions 237

Discussion Questions 237

Video Case 8.1: Burton Snowboards’ High-Quality Standards 237

Case 8.2: Inside Boeing’s Jet Factories 238

Building Skills for Career Success 239

**Running a Business: Part 3: Graeter’s** 240

**Building a Business Plan: Part 3** 241

Endnotes 242

## 4 Human Resources 243

## Chapter 9: Attracting and Retaining the Best Employees 244

**Inside Business: Companies and Job Candidates Get LinkedIn** 245

Human Resources Management: An Overview 246

*HRM Activities, 246 • Responsibility for HRM, 246*

Human Resources Planning 247

*Forecasting Human Resources Demand, 247 • Forecasting Human Resources Supply, 248 • Matching Supply with Demand, 248*

Cultural Diversity in Human Resources 249

**Going for Success: What Does a Chief Diversity Officer Do?** 250

Job Analysis 251

Recruiting, Selection, and Orientation 252

*Recruiting, 252 • Selection, 253*

**Career Success: Click Here to Be Tested** 255

*Orientation, 256*

Compensation and Benefits 256

*Compensation Decisions, 256 • Comparable Worth, 257 • Types of Compensation, 258 • Employee Benefits, 259*

Training and Development 260

*Analysis of Training Needs, 260 • Training and Development Methods, 261 • Evaluation of Training and Development, 261*

Performance Appraisal 261

**Social Media: Nuts About Southwest** 261

*Common Evaluation Techniques, 262 • Performance Feedback, 263*

The Legal Environment of HRM 264

*National Labor Relations Act and Labor–Management Relations Act, 264*

*• Fair Labor Standards Act, 264 • Equal Pay Act, 264 • Civil Rights Acts, 265*

*• Age Discrimination in Employment Act, 265 • Occupational Safety and Health Act, 266 • Employee Retirement Income Security Act, 266 • Affirmative Action,*

*266 • Americans with Disabilities Act, 266*

**Return to Inside Business: LinkedIn** 267

Summary 267

Key Terms 268

Review Questions 268

Discussion Questions 269

Video Case 9.1: Whirlpool’s Award-Winning Diversity Program Is Facilitated Through Employee Network 269

Case 9.2: High Tech Recruiting Is a No-Brainer at Intel 269

Building Skills for Career Success 270

Endnotes 271

## Chapter 10: Motivating and Satisfying Employees and Teams 273

**Inside Business:** REI Remains True to Its Roots 274

What Is Motivation? 275

Historical Perspectives on Motivation 275

*Scientific Management, 275 • The Hawthorne Studies, 276 • Maslow's Hierarchy of Needs, 277 • Herzberg's Motivation-Hygiene Theory, 278 • Theory X and Theory Y, 279 • Theory Z, 280 • Reinforcement Theory, 281*

Contemporary Views on Motivation 282

*Equity Theory, 282*

**Going for Success:** The Gamification of Motivation 283

*Expectancy Theory, 283 • Goal-Setting Theory, 284*

Key Motivation Techniques 285

*Management by Objectives, 285*

**Career Success:** Are You Ready for Frequent Feedback? 287

*Job Enrichment, 287 • Behavior Modification, 288 • Flextime, 288*

*• Part-Time Work and Job Sharing, 289*

**Sustaining the Planet:** Cash for Conservation? 290

*Telecommuting, 290 • Employee Empowerment, 291 • Employee Ownership, 291*

Teams and Teamwork 292

*What Is a Team?, 292 • Types of Teams, 292 • Developing and Using Effective Teams, 293 • Roles Within a Team, 294 • Team Cohesiveness, 295 • Team Conflict and How to Resolve It, 295 • Benefits and Limitations of Teams, 295*

**Return to Inside Business:** REI 296

Summary 296

Key Terms 297

Review Questions 297

Discussion Questions 298

Video Case 10.1: At L.L.Bean, Everyone Is Family 298

Case 10.2: Culture of Caring Pays Off at The Container Store 299

Building Skills for Career Success 299

Endnotes 300

## Chapter 11: Enhancing Union-Management Relations 302

**Inside Business:** Saving the National Basketball Association's Season 303

The Historical Development of Unions 304

*Early History, 304 • Evolution of Contemporary Labor Organizations, 305*

Organized Labor Today 306

*Union Membership, 306*

**Social Media:** Union Tweeting 307

*Union-Management Partnerships, 308*

Labor-Management Legislation 309

*Norris-LaGuardia Act, 309 • National Labor Relations Act, 309 • Fair Labor Standards Act, 309*

**Ethical Success or Failure?:** Should Public-Sector Unions Have Collective Bargaining Rights? 310

*Labor-Management Relations Act, 310 • Landrum-Griffin Act, 310*

The Unionization Process 311

*Why Some Employees Join Unions, 311 • Steps in Forming a Union, 311 • The Role of the NLRB, 313*

Collective Bargaining 313

*The First Contract, 313 • Later Contracts, 314*

Union-Management Contract Issues 314

**Going for Success:** Arbitration Down Under 315

*Employee Pay, 315 • Working Hours, 316 • Security, 316 • Management Rights, 317 • Grievance Procedures, 317*

Union and Management Negotiating Tools 318

*Strikes, 318 • Slowdowns and Boycotts, 319 • Lockouts and Strikebreakers, 320 • Mediation and Arbitration, 320*

**Return to Inside Business:** National Basketball Association 321

Summary 321

Key Terms 322

Review Questions 322

Discussion Questions 322

Video Case 11.1: Understanding Labor Unions with the Writers Guild of America 323

Case 11.2: When Nurses and Hospitals Don't Agree 323

Building Skills for Career Success 324

**Running a Business: Part 4: Graeter's 325**

**Building a Business Plan: Part 4 327**

Endnotes 327

## 5 Marketing 329

## Chapter 12: Building Customer Relationships Through Effective Marketing 330

**Inside Business:** At \$62 a Pound, Single-Serve Coffee is Hot! 331

Managing Customer Relationships 332

**Ethical Success or Failure?:** The Customer Is Always Right—Or Not 333

Utility: The Value Added by Marketing 333

The Marketing Concept 334

*Evolution of the Marketing Concept, 335 • Implementing the Marketing Concept, 335*

Markets and Their Classification 336

*Developing Marketing Strategies, 337 • Target Market Selection and Evaluation, 337 • Creating a Marketing Mix 340*

Marketing Strategy and the Marketing Environment 341

**Social Media:** Online Videos Add Vitality to Marketing Mix 342

Developing a Marketing Plan 342  
Market Measurement and Sales Forecasting 343  
Marketing Information 344  
*Marketing Information Systems, 344 • Marketing Research, 344*

**Going for Success: Using Neuroscience for Marketing Research** 346  
*Using Technology to Gather and Analyze Marketing Information, 346*  
Types of Buying Behavior 348  
*Consumer Buying Behavior, 348 • Business Buying Behavior, 349*

**Return to Inside Business: Nespresso** 350

Summary 350  
Key Terms 352  
Review Questions 352  
Discussion Questions 352  
Video Case 12.1: Raleigh Wheels Out Steel Bicycle  
Marketing 352  
Case 12.2: PepsiCo Tailors Tastes to Tantalize Tastebuds of  
Target Markets 353  
Building Skills for Career Success 354  
Endnotes 355

## Chapter 13: Creating and Pricing Products That Satisfy Customers 357

**Inside Business: PepsiCo's Pantry of Billion-Dollar Brands** 358

Classification of Products 359  
*Consumer Product Classifications, 359 • Business Product Classifications, 359*  
The Product Life-Cycle 360  
*Stages of the Product Life-Cycle, 361 • Using the Product Life-Cycle, 363*  
Product Line and Product Mix 363  
Managing the Product Mix 364  
*Managing Existing Products, 364 • Deleting Products, 365 • Developing New Products, 365*

**Entrepreneurial Success: Yak to the Future: From the Himalayas to the World** 366  
*Why Do Products Fail?, 369*

Branding, Packaging, and Labeling 369  
*What Is a Brand?, 369 • Types of Brands, 370 • Benefits of Branding, 370*

**Social Media: Social Networking for Success: Small Businesses Turn to Social Media for Effective Marketing** 372  
*Choosing and Protecting a Brand, 372 • Branding Strategies, 373 • Brand Extensions, 373 • Packaging, 373 • Labeling, 375*

Pricing Products 375  
*The Meaning and Use of Price, 375 • Supply and Demand Affects Prices, 376 • Price and Non-Price Competition, 377 • Buyers' Perceptions of Price, 377*

Pricing Objectives 378  
*Survival, 378 • Profit Maximization, 378 • Target Return on Investment, 378 • Market-Share Goals, 378 • Status-Quo Pricing, 378*

Pricing Methods 378  
*Cost-Based Pricing, 379 • Demand-Based Pricing, 379*

**Ethical Success or Failure?: Amazon's Price-Check App: Is This OK?** 381  
*Competition-Based Pricing, 381*

Pricing Strategies 381  
*New-Product Pricing, 382 • Differential Pricing, 382 • Psychological Pricing, 383 • Product-Line Pricing, 384 • Promotional Pricing, 385*

Pricing Business Products 385  
*Geographic Pricing, 386 • Transfer Pricing, 386 • Discounting, 386*

**Return to Inside Business: PepsiCo** 387

Summary 387  
Key Terms 388  
Review Questions 389  
Discussion Questions 389  
Video Case 13.1: From Artistic Roots, Blu Dot Styles Marketing  
Strategy 390  
Case 13.2: Will the "G" Branding Initiatives for Gatorade  
Work? 390  
Building Skills for Career Success 391  
Endnotes 392

## Chapter 14: Wholesaling, Retailing, and Physical Distribution 394

**Inside Business: Through Distribution, Chobani Climbs to Number One** 395

Channels of Distribution 396  
*Channels for Consumer Products, 396 • Multiple Channels for Consumer Products, 396 • Channels for Business Products, 397*  
Level of Market Coverage 397  
Partnering Through Supply-Chain Management 399  
Vertical Marketing Systems 399  
Marketing Intermediaries: Wholesalers 400  
*Justifications for Marketing Intermediaries, 400 • Wholesalers' Services to Retailers, 401 • Wholesalers' Services to Manufacturers, 401*  
Types of Wholesalers 402  
*Merchant Wholesalers, 402 • Commission Merchants, Agents, and Brokers, 403 • Manufacturers' Sales Branches and Sales Offices, 403*  
Marketing Intermediaries: Retailers 403  
*Classes of In-Store Retailers, 404*

**Entrepreneurial Success: Small Business Saturday, a Day to Shop Local** 405  
*Kinds of Nonstore Retailing, 407*

**Going for Success: Next-Generation Vending Machines** 410  
Planned Shopping Centers 410  
*Lifestyle Shopping Centers, 411 • Neighborhood Shopping Centers, 411 • Community Shopping Centers, 411 • Regional Shopping Centers, 411*

Physical Distribution 412  
*Inventory Management, 412 • Order Processing, 413 • Warehousing, 413 • Materials Handling, 414 • Transportation, 414*

**Sustaining the Planet: Green Logistics** 414

**Return to Inside Business: Chobani** 417

Summary 417  
Key Terms 418  
Review Questions 418  
Discussion Questions 419  
Video Case 14.1: Taza Cultivates Channel Relationships with  
Chocolate 419  
Case 14.2: Dell Direct and Not-So-Direct 420  
Building Skills for Career Success 421  
Customer Survey 422  
Endnotes 422

## Chapter 15: Developing Integrated Marketing Communications 423

**Inside Business:** By Incorporating Hot Guys and Humor, Old Spice Heats Up on Profits 424

What Is Integrated Marketing Communications? 425

The Role of Promotion 425

The Promotion Mix: An Overview 426

Advertising 427

*Types of Advertising by Purpose, 427 • Advertising Media 428*

**Going for Success:** IKEA Remodels Perceptions with *Fix This Kitchen* 431

**Social Media:** The Best Snacks on Earth 432

Major Steps in Developing an Advertising Campaign 432

**Entrepreneurial Success:** Via Ad Agency 435

*Advertising Agencies, 435*

Personal Selling 436

*Kinds of Salespersons, 436 • The Personal-Selling Process, 437 • Managing Personal Selling, 438*

Sales Promotion 439

*Sales Promotion Objectives, 439 • Sales Promotion Methods, 439*

Public Relations 442

*Types of Public-Relations Tools, 442 • The Uses of Public Relations, 442*

Promotion Planning 443

*Promotion and Marketing Objectives, 444 • Developing the Promotion Mix, 444*

Criticisms of Promotion 445

**Return to Inside Business:** Old Spice 446

Summary 447

Key Terms 448

Review Questions 448

Discussion Questions 449

Video Case 15.1: L.L.Bean Employs a Variety of Promotion

*Methods to Communicate with Customers 449*

Case 15.2: Rebuilding Trust at Toyota 450

Building Skills for Career Success 451

**Running a Business: Part 5: Graeter's 452**

**Building a Business Plan: Part 5 453**

Endnotes 454

## 6 Social Media, e-Business, and Accounting 455

### Chapter 16: Exploring Social Media and e-Business 456

**Inside Business:** The Big Business of Angry Birds 457

Why Is Social Media Important? 458

*What Is Social Media and How Popular Is It?, 458 • Why Businesses Use Social Media, 459*

Social Media Tools for Business Use 460

*Business Use of Blogs, 460 • Photos, Videos, and Podcasts, 461 • Social Media Ratings, 461 • Social Games, 461*

Achieving Business Objectives Through Social Media 462

*Social Media Communities, 462 • Crisis and Reputation Management, 463 • Listening to Stakeholders, 463 • Targeting Customers, 463 • Social Media Marketing, 464 • Generating New Product Ideas, 465*

**Career Success:** Make a Good Impression Using Social Media 466

*Recruiting Employees, 466*

Developing a Social Media Plan 467

*Steps to Build a Social Media Plan, 467 • Measuring and Adapting a Social Media Plan, 469*

Defining e-Business 470

*Organizing e-Business Resources, 470 • Satisfying Needs Online, 471 • Creating e-Business Profit, 472*

Fundamental Models of e-Business 473

**Going for Success:** Macy's and m-Commerce 474

*Business-to-Business (B2B) Model, 474*

*Business-to-Consumer (B2C) Model, 475*

The Future of the Internet, Social Media, and e-Business 475

*Internet Growth Potential, 476 • Ethical and Legal Concerns, 476 • Future Challenges for Computer Technology, Social Media, and e-Business, 477*

**Sustaining the Planet:** Lululemon Develops Lasting Legacies 477

**Return to Inside Business:** Angry Birds 479

Summary 479

Key Terms 481

Review Questions 481

Discussion Questions 481

Video Case 16.1: Luke's Lobster: Entrepreneurs Use Social Networking to Claw Their Way up the Food Chain 482

Case 16.2: Facebook's Rise From Dorm Room to Board Room 483

Building Skills for Career Success 483

Endnotes 484

### Chapter 17: Using Management and Accounting Information 486

**Inside Business:** PricewaterhouseCoopers Innovates Through PowerPitch 487

How Can Information Reduce Risk When Making a Decision? 488

*Information and Risk, 488 • Information Rules, 489 • The Difference Between Data and Information, 489 • Knowledge Management, 489*

What Is a Management Information System? 490

*A Firm's Information Requirements, 490 • Size and Complexity of the System, 491*

How Do Employees Use a Management Information System? 492

*Step 1: Collecting Data, 492 • Step 2: Storing Data, 493 • Step 3: Updating Data, 493 • Step 4: Processing Data, 493 • Step 5: Presenting Information, 494*



**Going for Success: Information Technology and the Tablet** 496

*Making Smart Decisions, 496*

**Why Accounting Information Is Important** 497

*Why Audited Financial Statements Are Important, 497 • Reform: The Sarbanes–Oxley Act of 2002, 498 • Different Types of Accounting, 498 • Careers in Accounting, 499*

**Social Media: The Big Four Go Social** 499

**The Accounting Equation and the Balance Sheet** 500

*The Accounting Equation, 500 • The Balance Sheet, 500 • Assets, 501 • Liabilities and Owners' Equity, 503*

**The Income Statement** 504

*Revenues, 505 • Cost of Goods Sold, 506 • Operating Expenses, 506 • Net Income, 506*

**Entrepreneurial Success: Accounting for First-Time**

**Entrepreneurs** 507

**The Statement of Cash Flows** 507

**Evaluating Financial Statements** 508

*Comparing Financial Data, 508 • Financial Ratios, 510*

**Return to Inside Business: PricewaterhouseCoopers** 511

**Summary** 511

**Key Terms** 513

**Review Questions** 513

**Discussion Questions** 513

**Video Case 17.1: Information Helps Level the Playing Field for The Little Guys** 514

**Case 17.2: Making the Numbers or Faking the Numbers?** 514

**Building Skills for Career Success** 515

**Running a Business: Part 6: Graeter's** 516

**Building a Business Plan: Part 6** 518

**Endnotes** 518

**7 Finance and Investment 519**

**Chapter 18: Understanding Money, Banking, and Credit 520**

**Inside Business: How Umpqua Bank Became “The World’s Greatest Bank”** 521

**What Is Money?** 522

*The Functions of Money, 522 • Important Characteristics of Money, 524 • The Supply of Money:  $M_1$  and  $M_2$ , 524*

**The Federal Reserve System** 525

*Economic Crisis and the Fed’s Response, 526 • Regulation of Reserve Requirements, 527 • Regulation of the Discount Rate, 528 • Open-Market Operations, 528 • Other Fed Responsibilities, 529*

**The American Banking Industry** 530

*Banking and Financial Reform: New Regulations, 530 • Commercial Banks, 531 • Other Financial Institutions, 531 • Careers in the Banking Industry, 533*

**Traditional Services Provided by Financial Institutions** 533

*Checking Accounts, 533 • Savings Accounts, 534 • Short- and Long-Term Loans, 534*

**Entrepreneurial Success: Kiva.org Connects Microloan Borrowers and Lenders** 535

**Social Media: Outsmart the Scam Artists** 536

*Credit Card and Debit Card Transactions, 536*

**Innovative Banking Services** 536

*Changes in the Banking Industry, 536*

**Going for Success: Vying to Run Your Digital Wallet** 537

*Online, Mobile, and International Banking, 537*

**The FDIC and NCUA** 539

**Effective Credit Management** 540

*Getting Money from a Bank or Lender after the Economic Crisis, 540 • The Five C’s of Credit Management, 541 • Checking Credit Information, 541 • Protection for Consumers, 543*

**Return to Inside Business: Umpqua Bank** 543

**Summary** 544

**Key Terms** 545

**Review Questions** 545

**Discussion Questions** 546

**Video Case 18.1: Chase Bank Helps Small Business Owners** 546

**Case 18.2: Bank of Hawaii Says “Aloha” to Customers and Communities** 547

**Building Skills for Career Success** 547

**Endnotes** 549

**Chapter 19: Mastering Financial Management 550**

**Inside Business: How J. M. Smucker Manages Its Money** 551

**Why Financial Management?** 552

*The Need for Financial Management, 552 • Financial Reform After the Economic Crisis, 553 • Careers in Finance, 553*

**The Need for Financing** 554

*Short-Term Financing, 554 • Long-Term Financing, 556 • The Risk–Return Ratio, 556*

**Planning—The Basis of Sound Financial Management** 556

*Developing the Financial Plan, 556 • Monitoring and Evaluating Financial Performance, 559*

**Sources of Short-Term Debt Financing** 559

*Sources of Unsecured Short-Term Financing, 559 • Sources of Secured Short-Term Financing, 561 • Factoring Accounts Receivable, 562 • Cost Comparisons, 562*

**Sources of Equity Financing** 563

*Selling Stock, 563*

**Going for Success: Investor Relations in the Social Media Era** 565

**Social Media: Talk to Chuck** 566

*Retained Earnings, 566*

**Entrepreneurial Success: Looking for Venture Capital from Corporations** 567

*Venture Capital and Private Placements, 567*

**Sources of Long-Term Debt Financing** 568

*Long-Term Loans, 568 • Corporate Bonds, 569 • Cost Comparisons, 571*

## Return to Inside Business: The J. M. Smucker Company 572

- Summary 573
- Key Terms 574
- Review Questions 574
- Discussion Questions 575
- Video Case 19.1: Financial Planning Equals Profits for Nederlander Concerts 575
- Case 19.2: Darden Restaurants Serve Up Long-Term Growth 576
- Building Skills for Career Success 577
- Endnotes 578

## Chapter 20: Understanding Personal Finances and Investments 579

### Inside Business: The Vanguard Group Thinks Low-Cost and High-Tech 580

- Managing Your Personal Finances 581
  - Step 1: Tracking Your Income, Expenses, Assets, and Liabilities, 581 • Step 2: Developing a Budget that Works, 581 • Step 3: Managing Credit Card Debt, 582 • Investment Goals, 582 • A Personal Investment Program, 583 • Monitoring the Value of Your Investment Program, 584
- Important Factors in Personal Investment 584
  - Safety and Risk, 584 • Investment Income, 585 • Investment Growth, 585 • Investment Liquidity, 586
- Factors That Can Improve Your Investment Decisions 586
  - Portfolio Management, 587 • Asset Allocation, the Time Factor, and Your Age, 587 • Your Role in the Investment Process, 588
- Conservative Investment Alternatives 588
  - Bank Accounts, 588 • Corporate and Government Bonds, 588
- Ethical Success or Failure?: Invest in Green Bonds? 589**
- More Speculative Investments 591
  - Common Stock, 591 • Preferred Stock, 592

## Sustaining the Planet: Green Investing 593

- Mutual Funds and Exchange-Traded Funds, 593 • Real Estate, 595 • The Most Speculative Investment Techniques, 596
- Sources of Financial Information 598
  - The Internet, 598 • Professional Advisory Services, 599 • Financial Coverage of Securities Transactions, 599 • Other Sources of Financial Information, 602 • Security Averages, 603

## Career Success: You'll Need a License to Trade 603

- How Investments Are Bought and Sold 603
  - Purchasing Stocks and Bonds, 604 • Purchasing Mutual Funds, Real Estate, and Other Investments, 605 • Regulation of Securities Trading, 606

## Return to Inside Business: The Vanguard Group 607

- Summary 607
- Key Terms 608
- Review Questions 609
- Discussion Questions 609
- Video Case 20.1: Taming the Debt Monster One
  - Budget at a Time 609
- Case 20.2: Fidelity Helps Investors Prepare for Their Financial Future 610
- Building Skills for Career Success 611
- Running a Business: Part 7: Graeter's 612**
- Building a Business Plan: Part 7 613**
- Endnotes 614

- Glossary 615
- Name Index 627
- Subject Index 634

The following appendixes appear on the companion site [www.cengage.brain.com](http://www.cengage.brain.com)

- Appendix A: Careers in Business
- Appendix B: Risk Management and Insurance
- Appendix C: Business Law, Regulation, and Taxation

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W. Gale Mueller  
*Spokane Community College*

C. Mullery  
*Humboldt State University*

Robert J. Mullin  
*Orange County Community College*

Patricia Murray  
*Virginia Union University*

Robert Nay  
*Stark Technical College*

James Nead  
*Vincennes University*

Jerry Novak  
*Alaska Pacific University*

Grantley Nurse  
*Raritan Valley Community College*

Gerald O'Bryan  
*Danville Area Community College*

Larry Olanrewaju  
*Virginia Union University*

David G. Oliver  
*Edison Community College*

John R. Pappalardo  
*Keene State College*

Dennis Pappas  
*Columbus Technical Institute*

Roberta F. Passenant  
*Berkshire Community College*

Clarissa M. H. Patterson  
*Bryant College*

Dyan Pease  
*Sacramento City College*

Kenneth Peissig  
*College of Menominee Nation*

Jeffrey D. Penley  
*Catawba Valley Community College*

Constantine Petrides  
*Manhattan Community College*

Donald Pettit  
*Suffolk County Community College*

Norman Petty  
*Central Piedmont Community College*

Joseph Platts  
*Miami-Dade Community College*

Gloria D. Poplawsky  
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Fred D. Pragasam  
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Peter Quinn  
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Kimberly Ray  
*North Carolina A & T State University*

Robert Reinke  
*University of South Dakota*

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*Richland College*

William Ritchie  
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Kenneth Robinson  
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Kim Rocha  
*Barton College*

John Roisch  
*Clark County Community College*

Rick Rowray  
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Jill Russell  
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Karl C. Rutkowski  
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Martin S. St. John  
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# The Environment of Business

## PART 1

**In Part 1** of *Business*, we begin by examining the world of business and how the economy affects your life. Next, we discuss ethical and social responsibility issues that affect business firms and our society. Then we explore the increasing importance of international business.

- CHAPTER 1** Exploring the World of Business and Economics
- CHAPTER 2** Being Ethical and Socially Responsible
- CHAPTER 3** Exploring Global Business



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# 1

## Exploring the World of Business and Economics

### LEARNING OBJECTIVES

What you will be able to do once you complete this chapter:

- 1 Discuss what you must do to be successful in the world of business.
- 2 Define *business* and identify potential risks and rewards.
- 3 Define *economics* and describe the two types of economic systems: capitalism and command economy.
- 4 Identify the ways to measure economic performance.
- 5 Examine the different phases in the typical business cycle.
- 6 Outline the four types of competition.
- 7 Summarize the factors that affect the business environment and the challenges that American businesses will encounter in the future.

## Zynga Zooms into Business

Zynga, named for its founder's American bulldog, is the fast-growing business behind some of the social media world's fastest-growing games. If you've ever tended crops on FarmVille, you know how addictive a Zynga game can be. Even though FarmVille was developed and launched in only six weeks, it instantly captured the imagination of millions of players who eagerly logged onto their Facebook accounts to plant trees or exchange seeds with "neighbors." Other popular Zynga games include CityVille, CastleVille, and Words with Friends.

Founder and CEO Mark Pincus is a seasoned entrepreneur who earned an MBA from Harvard University. Before Zynga, he had started four other Internet businesses—and earned millions of dollars from their success. In 2007, he came up with the idea for a game business in which players could get ahead by connecting with friends (think "neighbors" in FarmVille) and buying special items (such as virtual tractors and cows) that would give them a competitive edge.

Now, when players worldwide buy digital tractors and cows in FarmVille, they can pay with real money, which is why Zynga's profits are real. So real, in fact, that on the basis of its track record, Zynga was able to go public and sell shares of its corporate stock in December, 2011.

As Zynga continues to grow, Pincus and his managers are keeping their workforce satisfied by offering benefits such as surprise vacations and by making the workplace as comfortable as possible. Like many other high-tech firms, Zynga offers free lunch and dinner. Dogs are welcome at the San Francisco headquarters (and they get free dog nibbles, too). Employees can grab a cup of fresh-brewed espresso at the office's gourmet coffee station, sip tea in the Zen-style tea garden, work out in the fitness center, or take a break to play arcade games in the company lounge.

In today's fast-paced business environment, the online games that get everyone talking and clicking right now can become has-beens as soon as the next new thing comes to market. That's why Pincus and his entire team are working hard to keep Zynga zooming ahead year after year.<sup>1</sup>

# FYI

## Did You Know?

Zynga's CityVille game is the fastest-growing online game in history, attracting more than 84 million players within its first month of release on Facebook.

**W**ow! What a challenging world we live in. Just for a moment, think about the economic problems listed here and how they affect not only you, but also businesses in the United States and the global economy.

- U.S. unemployment rates hovering around 8 percent
- Reduced spending by worried consumers
- Increased government spending to stimulate a troubled economy that created the largest national debt in the nation's history
- A volatile stock market and concerns about banks and financial institutions
- Reform movements including the "Occupy Wall Street" movement that protest differences in wealth and income

In fact, just about every person around the globe was affected in some way by the economic crisis that began in late 2007. Despite the efforts of the U.S. government and other world governments to provide the economic stimulus needed to stabilize the economy, it took nearly four years before the economy began to improve. Today, even with signs of modest improvement, people still worry about their economic

future and the future of the nation. Hopefully, by the time you read this material, the nation's economy will be much stronger. Still, it is important to remember the old adage, "History is a great teacher." Both the nation and individuals should take a look at what went wrong to avoid making the same mistakes in the future.

In addition, it helps to keep one factor in mind: Our economy continues to adapt and change to meet the challenges of an ever-changing world and to provide opportunities for those who want to achieve success. Our economic system provides an amazing amount of freedom that allows businesses like Zynga—the Internet gaming company profiled in the Inside Business opening case for this chapter—to adapt to changing business environments. Despite troubling economic times and a weak economy, Zynga—and its 3,000 employees—is a success because it was able to introduce new games that players love, earn a profit, and sell stock to the general public.

Within certain limits, imposed mainly to ensure public safety, the owners of a business can produce any legal good or service they choose and attempt to sell it at the price they set. This system of business, in which individuals decide what to produce, how to produce it, and at what price to sell it, is called **free enterprise**. Our free-enterprise system ensures, for example, that Amazon.com can sell everything from televisions, toys, and tools to computers, cameras, and clothing. Our system gives Amazon's owners and stockholders the right to make a profit from the company's success. It gives Amazon's management the right to compete with bookstore rival Barnes & Noble and electronics giant Sony. It also gives you the right to choose.

In this chapter, we look briefly at what business is and how it became that way. First, we discuss what you must do to be successful in the world of business and explore some important reasons for studying business. Then we define *business*, noting how business organizations satisfy their customers' needs and earn profits. Next, we examine how capitalism and command economies answer four basic economic questions. Then our focus shifts to how the nations of the world measure economic performance, the phases in a typical business cycle, and the four types of competitive situations. Next, we look at the events that helped shape today's business system, the current business environment, and the challenges that businesses face.

Discuss what you must do to be successful in the world of business.

1

## YOUR FUTURE IN THE CHANGING WORLD OF BUSINESS

The key word in this heading is *changing*. When faced with both economic problems and increasing competition not only from firms in the United States but also from international firms located in other parts of the world, employees and managers began to ask the question: What do we do now? Although this is a fair question, it is difficult to answer. Certainly, for a college student taking business courses or an employee just starting a career, the question is even more difficult to answer. Yet there are still opportunities out there for people who are willing to work hard, continue to learn, and possess the ability to adapt to change. Let's begin our discussion in this section with three basic concepts.

- What do you want?
- Why do you want it?
- Write it down!

During a segment on a national television talk show, Joe Dudley, one of the world's most respected black business owners, gave the preceding advice to anyone who wanted to succeed in business. His advice can help you achieve success. What is so amazing about Dudley's success is that he started a manufacturing business in his own kitchen, with his wife and children serving as the new firm's only employees. He went on to develop his own line of hair-care and cosmetic products sold directly to cosmetologists, barbers, beauty schools, and consumers in the United States and 18 foreign countries. Today, Mr. Dudley has a multimillion-dollar empire—one of the

**free enterprise** the system of business in which individuals are free to decide what to produce, how to produce it, and at what price to sell it

most successful minority-owned companies in the nation. He is not only a successful business owner but also a winner of the Horatio Alger Award—an award given to outstanding individuals who have succeeded in the face of adversity.<sup>2</sup>

Although many people would say that Joe Dudley was just lucky or happened to be in the right place at the right time, the truth is that he became a success because he had a dream and worked hard to turn his dream into a reality. Today, Dudley’s vision is to see people succeed—to realize “The American Dream.” He would be the first to tell you that you have the same opportunities that he had. According to Mr. Dudley, “Success is a journey, not just a destination.”<sup>3</sup>

Whether you want to obtain part-time employment to pay college and living expenses, begin your career as a full-time employee, or start a business, you must *bring* something to the table that makes you different from the next person. Employers and our economic system are more demanding than ever before. Ask yourself: What can I do that will make employers want to pay me a salary? What skills do I have that employers need? With these two questions in mind, we begin the next section with another basic question: Why study business?

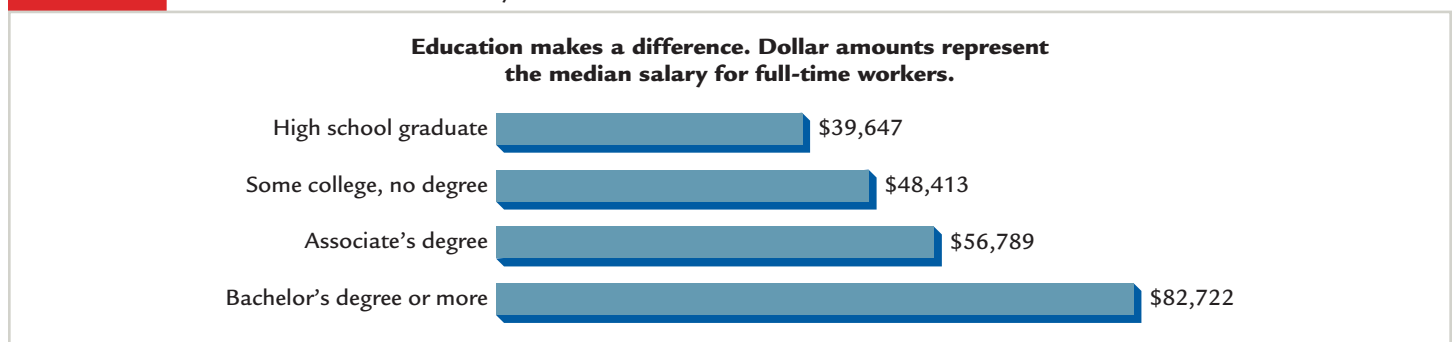
## Why Study Business?

The potential benefits of higher education are enormous. To begin with, there are economic benefits. Over their lifetimes, college graduates on average earn much more than high school graduates. Although lifetime earnings are substantially higher for college graduates, so are annual income amounts (see Figure 1.1). In addition to higher income, you will find at least five compelling reasons for studying business.

**For Help in Choosing a Career** What do you want to do with the rest of your life? At some time in your life, someone probably has asked you this same question. Like many people, you may find it a difficult question to answer. This business course will introduce you to a wide array of employment opportunities. In private enterprise, these range from small, local businesses owned by one individual to large companies such as American Express and Marriott International that are owned by thousands of stockholders. There are also employment opportunities with federal, state, county, and local governments and with charitable organizations such as the Red Cross and Save the Children. For help in deciding which career might be right for you, read Appendix A: Careers in Business, which appears on the text Web site. To view this information:

1. Go to [www.cengagebrain.com](http://www.cengagebrain.com).
2. At the CengageBrain.com home page, search for the ISBN for your book (located on the back cover of your book) using the search box at the top of the page. This will take you to the product page where free companion resources can be found.

**FIGURE 1.1** Who Makes the Most Money?



Source: The 2012 Statistical Abstract of the U.S. Web site at [www.census.gov](http://www.census.gov) (accessed January 10, 2012). Salary amounts were obtained from Table 692.

# Career SUCCESS



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## Show Off Your Skills with Digital Merit Badges

Made of pixels instead of fabric, the next generation of merit badges is on its way, bringing new possibilities for showing off your skills via digital badges on your Web site, blog, or Facebook page. The point is to encourage students, career-changers, veterans, and learners of all ages to acquire or polish skills that can be helpful in career moves and in life. Whether you're just entering the workforce or you want to branch out into a new field, take a look at what digital merit badges have to offer.

The MacArthur Foundation is partnering with organizations such as the Smithsonian and the U.S. Department of Veterans Affairs to encourage and recognize skill attainment in a variety of areas through its “Badges for Lifelong Learning” program.

In the works are badges for financial literacy, engineering design, filmmaking, mathematics proficiency, natural history, and military experience. “The badges are another way to tell the story of who you are and what you know,” explains a MacArthur executive.

TopCoder, a Connecticut company, awards digital badges (and cash) to those who earn top scores in its international programming competitions. NASA has teamed up with the Boy Scouts of America and the Girl Scouts of America to offer badges in robotics. Is a digital merit badge in your future?

Sources: Based on information in Anne Eisenberg, “For Job Hunters, Digital Merit Badges,” *New York Times*, November 20, 2011, p. BU-3; Sam Kilb, “Credentials, the Next Generation,” *New York Times Education Life*, November 6, 2011, p. 10; Leslie Katz, “Boy Scouts Can Now Earn Robotics Merit Badge,” *Cnet News*, April 10, 2011, <http://news.cnet.com>.

In addition to career information in Appendix A, a number of additional Web sites provide information about career development. For more information, visit the following sites:

- Career Builder at [www.careerbuilder.com](http://www.careerbuilder.com)
- Career One Stop at [www.careeronestop.org](http://www.careeronestop.org)
- Monster at [www.monster.com](http://www.monster.com)

To click your career into high gear, you can also use online networking to advance your career. Web sites like Facebook, Twitter, LinkedIn, and other social media sites can help you locate job openings, help prospective employers to find you, and make a good impression on current and future bosses. To make the most of online networking, begin by identifying and joining sites where you can connect with potential employers, former classmates, and others who may have or may hear of job openings. Next, be sure your online profiles, photographs, and posts communicate your abilities and interest without being offensive or overly revealing. Finally, be ready to respond quickly when you spot a job opening.

One thing to remember as you think about what your ideal career might be is that a person's choice of a career ultimately is just a reflection of what he or she values and holds most important. What will give one individual personal satisfaction may not satisfy another. For example, one person may dream of a career as a corporate executive and becoming a millionaire before the age of 30. Another may choose a career that has more modest monetary rewards but that provides the opportunity to help others. What you choose to do with your life will be based on what you feel is most important. And *you* are a very important part of that decision.

**To Be a Successful Employee** Deciding on the type of career you want is only the first step. To get a job in your chosen field and to be successful at it, you will have to develop a plan, or a road map, that ensures that you have the skills and knowledge the job requires. You will also be expected to have the ability to work well with many types of people in a culturally diverse workforce. **Cultural (or workplace) diversity** refers to the differences among people in a workforce owing to race, ethnicity, and

**cultural (or workplace) diversity** differences among people in a workforce owing to race, ethnicity, and gender



gender. These skills, together with a working knowledge of the American business system and an appreciation for a culturally diverse workplace, can give you an inside edge when you are interviewing with a prospective employer.

This course, your instructor, and all of the resources available at your college or university can help you to acquire the skills and knowledge you will need for a successful career. But do not underestimate your part in making your dream a reality. In addition to the job-related skills and knowledge you'll need to be successful in a specific job, employers will also look for the following characteristics when hiring a new employee or promoting an existing employee:

- Honesty and integrity
- Willingness to work hard
- Dependability
- Time management skills
- Self-confidence
- Motivation
- Willingness to learn
- Communication skills
- Professionalism

Employers will also be interested in any work experience you may have had in cooperative work/school programs, during summer vacations, or in part-time jobs during the school year. These things can make a difference when it is time to apply for the job you really want.

**To Improve Your Management Skills** Often, employees become managers or supervisors. In fact, many employees want to become managers because managers often receive higher salaries. Although management obviously can be a rewarding career, what is not so obvious is the amount of time and hard work needed to achieve the higher salaries. For starters, employers expect more from managers and supervisors than ever before. Typically, the heavy workload requires that managers work long hours, and most do not get paid overtime. They also face increased problems created by the economic crisis, increased competition, employee downsizing, the quest for improved quality, and the need for efficient use of the firm's resources.

To be an effective manager, managers must be able to perform four basic management functions: planning, organizing, leading and motivating, and controlling. All four topics are discussed in Chapter 6, Understanding the Management Process. To successfully perform these management functions, managers must possess four very important skills.

- *Interpersonal skills*—The ability to deal effectively with individual employees, other managers within the firm, and people outside the firm.
- *Analytic skills*—The ability to identify problems correctly, generate reasonable alternatives, and select the “best” alternatives to solve problems.
- *Technical skills*—The skill required to accomplish a specific kind of work being done in an organization. Although managers may not actually perform the technical tasks, they should be able to train employees and answer technical questions.
- *Conceptual skills*—The ability to think in abstract terms in order to see the “big picture.” Conceptual skills help managers understand how the various parts of an organization or idea can fit together.



## Personal APPS



**Sometimes you have to reach for success!** There's an old saying that if you choose a career you like, you never have to work a day in your life. For most people, the first decision is choosing a career. Then the material in the sections “To Be a Successful Employee” and “To Improve Your Management Skills” can help you achieve success.

In addition to the four skills just described, a successful manager will need many of the same characteristics that an employee needs to be successful.

**To Start Your Own Business** Some people prefer to work for themselves, and they open their own businesses. To be successful, business owners must possess many of the same characteristics that successful employees have, and they must be willing to work hard and put in long hours.

It also helps if your small business can provide a product or service that customers want. For example, Steve Demeter, the CEO and founder of the software development firm Demiforce, began his career by creating the *Trism* application for the Apple iPhone. *Trism* was an immediate sensation and sold 50,000 copies at \$4.99 in its first two months on Apple's AppStore. Now Demeter and the employees at Demiforce are working with a number of promising ideas in the works all with one goal in mind: to provide games and applications that people want.<sup>4</sup>

Unfortunately, many small-business firms fail: Approximately 70 percent of them fail within the first ten years. Typical reasons for business failures include undercapitalization (not enough money), poor business location, poor customer service, unqualified or untrained employees, fraud, lack of a proper business plan, and failure to seek outside professional help. The material in Chapter 5, Small Business, Entrepreneurship, and Franchises, and selected topics and examples throughout this text will help you to decide whether you want to open your own business. This material will also help you to overcome many of these problems.

**To Become a Better Informed Consumer and Investor** The world of business surrounds us. You cannot buy a home, a new Ford Fusion Hybrid from the local Ford dealer, a pair of jeans at Gap Inc., or a hot dog from a street vendor without entering a business transaction. Because you no doubt will engage in business transactions almost every day of your life, one very good reason for studying business is to become a more fully informed consumer.

Many people also rely on a basic understanding of business to help them to invest for the future. According to Julie Stav, Hispanic stockbroker-turned-author/radio personality, "Take \$25, add to it drive plus determination and then watch it multiply into an empire."<sup>5</sup> The author of *Get Your Share* believes that it is important to learn the basics about the economy and business, stocks, mutual funds, and other alternatives before investing your money. She also believes that it is never too early to start investing. Although this is an obvious conclusion, just dreaming of being rich does not make it happen. In fact, like many facets of life, it takes planning and determination to establish the type of investment program that will help you to accomplish your financial goals.

## Special Note to Business Students

It is important to begin reading this text with one thing in mind: *This business course does not have to be difficult.* We have done everything possible to eliminate the problems that you encounter in a typical class. All of the features in each chapter have been evaluated and recommended by instructors with years of teaching experience. In addition, business students were asked to critique each chapter component. Based on this feedback, the text includes the following features:

- *Learning objectives* appear at the beginning of each chapter.
- *Inside Business* is a chapter-opening case that highlights how successful companies do business on a day-to-day basis.
- *Margin notes* are used throughout the text to reinforce both learning objectives and key terms.
- *Two boxed features* in each chapter chosen from Career Success, Entrepreneurial Success, Ethical Success or Failure?, and Going for Success highlight how both employees and entrepreneurs can be successful.

- *Two Personal Apps* in each chapter provide special student-centered examples and explanations that help you immediately grasp and retain the material.
- *Sustaining the Planet* features provide information about companies working to protect the environment.
- *Social Media* features provide examples of how businesses and individuals are using social networking and social media sites.
- *End-of-chapter materials* provide questions about the opening case, a chapter summary, a list of key terms, review and discussion questions, and two cases.
- The last section of every chapter is entitled Building Skills for Career Success and includes exercises devoted to enhancing your social media skills, building communication skills with a journal exercise, developing critical-thinking skills, building team skills, and researching different careers.
- *End-of-part materials* provide a continuing video case about Graeter's Ice Cream, a company that operates a chain of retail outlets in the Cincinnati, Ohio, area and sells to Kroger Stores throughout the country. Also, at the end of each major part is an exercise designed to help you to develop the components that are included in a typical business plan.

In addition to the text, a number of student supplements will help you to explore the world of business. We are especially proud of the Web site that accompanies this edition. There, you will find online study aids, such as interactive quizzes, key terms and definitions, student PowerPoint slides, crossword puzzles, and links to the videos for each chapter. If you want to take a look at the Internet support materials available for this edition of *Business*,

1. Go to [www.cengagebrain.com](http://www.cengagebrain.com).
2. At the CengageBrain.com home page, search for the ISBN for your book (located on the back cover of your book) using the search box at the top of the page. This will take you to the textbook Web site where free companion resources can be found.

As authors, we want you to be successful. We know that your time is valuable and that your schedule is crowded with many different activities. We also appreciate the fact that textbooks are expensive. Therefore, we want you to use this text and get the most out of your investment. To help you get off to a good start, a number of suggestions for developing effective study skills and using this text are provided in Table 1.1.

**TABLE 1.1** Seven Ways to Use this Text and Its Resources

1. Prepare before you go to class.	Early preparation is the key to success in many of life's activities. Certainly, early preparation can help you to participate in class, ask questions, and improve your performance on examinations.
2. Read the chapter.	Although it may seem like an obvious suggestion, many students never take the time to really read the material. Find a quiet space where there are no distractions, and invest enough time to become a "content expert."
3. Underline or highlight important concepts.	Make this text yours. Do not be afraid to write on the pages of your text or highlight important material. It is much easier to review material if you have identified important concepts.
4. Take notes.	While reading, take the time to jot down important points and summarize concepts in your own words. Also, take notes in class.
5. Apply the concepts.	Learning is always easier if you can apply the content to your real-life situation. Think about how you could use the material either now or in the future.
6. Practice critical thinking.	Test the material in the text. Do the concepts make sense? To build critical-thinking skills, answer the questions that accompany the cases at the end of each chapter. Also, many of the exercises in the Building Skills for Career Success require critical thinking.
7. Prepare for the examinations.	Allow enough time to review the material before the examinations. Check out the summary and review questions at the end of the chapter. Then use the resources on the text Web site.

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