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CONTEMPORARY BUSINESS 18th EDITION



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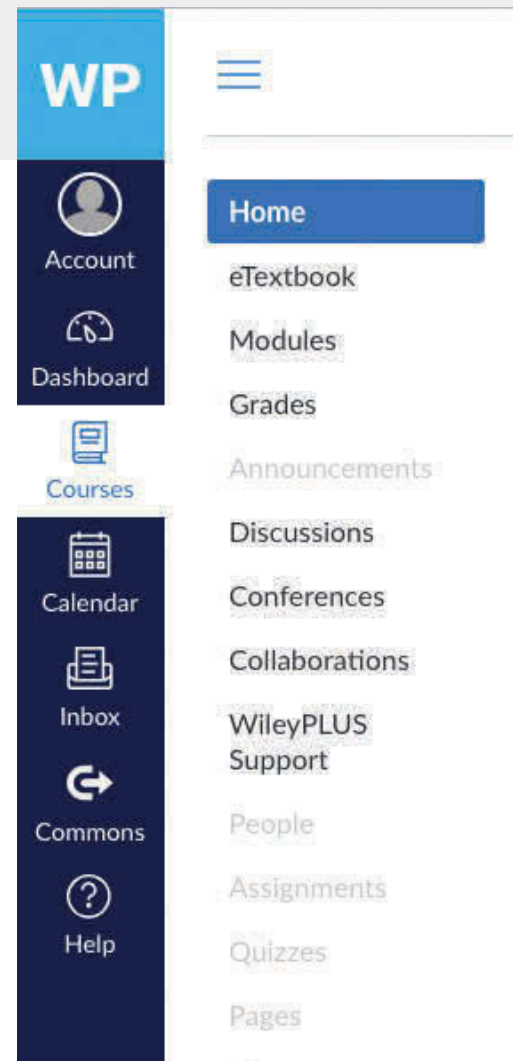
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Contemporary Business

18th Edition

DAVID L. KURTZ

University of Arkansas

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City College of San Francisco

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The 18th edition of *Contemporary Business* is dedicated to my wife, Diane. She is the best thing that ever happened to me.

—Dave Kurtz

To my personal Board of Directors: my son Samuel, as you enter your senior year of college, please know that you are, and will always be, my dream come true, my son, my moon, and my stars; and to my mom and dad, I love you both so much—thanks for never letting me quit. And last, to Sonja.

—Susan Berston

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About the Authors

During **DAVE KURTZ'S** high school days, no one in Salisbury, Maryland, would have mistaken him for a scholar. In fact, he was a mediocre student, so bad that his father steered him toward higher education by finding him a succession of back-breaking summer jobs. Thankfully, most of them have been erased from his memory, but a few linger, including picking peaches, loading watermelons on trucks headed for market, and working as a pipefitter's helper. Unfortunately, these jobs had zero impact on his academic standing. Worse yet for Dave's ego, he was no better than average as a high school athlete in football and track.

But four years at Davis & Elkins College in Elkins, West Virginia, turned him around. Excellent instructors helped get Dave on sound academic footing. His grade-point average soared—enough to get him accepted by the graduate business school at the University of Arkansas, where he met Gene Boone. Gene and Dave became longtime co-authors; together they produced more than 50 books. In addition to writing, Dave and Gene were involved in various entrepreneurial ventures.

This decades-long partnership ended with Gene's death in 2005, but *Contemporary Business* will always be the result of the diligent efforts of Boone and Kurtz.

During **SUSAN BERSTON'S** college years as a campus tour guide at the University of California, Berkeley, despite enduring hundreds of crammed elevator rides with visitors eager to reach the Campanile's observation deck 200 feet above, the excitement of being immersed in an academic environment never waned.

After completing an MBA at the University of San Francisco, Susan worked in the corporate banking division of a Japanese bank. Soon bit by the sales bug, she joined the sales force of printer R.R. Donnelley & Sons Company, which is where she realized her passion for satisfying customers, outsmarting competitors, providing creative solutions, and building relationships.

She returned to academia and campus life to eventually become a full-time professor at City College of San Francisco in 2005, where she teaches courses in introduction to business, management, and entrepreneurship—and where her father, also a textbook author, taught business for over five decades. Here Susan feels incredibly lucky mentoring her students, whether as a faculty advisor to various student-led clubs, or as a member of the Academic Senate Executive Council and Board of Directors of the bookstore. For Susan, bringing ideas to life inside and outside of the classroom and creating a personalized and collaborative student experience with the Next Generation of WileyPLUS is simply the icing on the cake.

Proud to continue the legacy of two of the industry's most prolific textbook authors, David L. Kurtz and the late Louis (Gene) Boone, Susan welcomes the opportunity to hear from you with questions, comments, or feedback about the 18th edition of *Contemporary Business* at sberston@ccsf.edu.

Preface

With the advent of artificial intelligence, machine learning, augmented and virtual reality, voice-controlled virtual assistants, Internet of Things, driverless cars, mobile commerce, diversity, inclusion, pay parity, tariff wars, and the sharing economy, businesses need to brace themselves for the biggest transformation—referred to as the “Fourth Industrial Revolution”—seen in the last five decades. Today, digital reality, robotics, cognitive, and block chain are redefining information technology, business, and society at large—and revolutionary growth is being created across businesses and industries. As companies reach market values of a trillion dollars, the impact of the FAANG companies (Facebook, Amazon, Apple, Netflix, and Google) on business, society, and the stock market remains intriguing, to say the least.

The result is exciting new opportunities and growth-oriented career prospects for business students. Now more than ever, business moves at an unimaginable pace. With this edition of *Contemporary Business*, we hope to take you on a journey filled with prospects for your own exciting growth and change.

The first edition of *Contemporary Business*, published in 1976, states, “Contemporary Business is a student’s textbook. It is designed to enlighten and enchant the reader as he or she is introduced to the fascinating world of business.” We remain committed to enlightening the reader; thus the 18th edition of *Contemporary Business* contains cutting-edge and timely business topics. You’ll find this newly revised edition provides context for what today’s business environment holds in store for today’s students.

A wide variety of global issues, ideas, industries, technologies, and career insights are presented in a straightforward, application-based format. The goal of *Contemporary Business* is to improve a student’s ability to evaluate and provide solutions to today’s global business challenges and ultimately to thrive in today’s fast-paced business environment.

Pedagogical Features

The 18th edition is filled with new pedagogy in each chapter, along with updates and revisions to key features:

- Each chapter begins with **Learning Objectives** that provide students with an overview of the major concepts covered in the chapter. Key terms are highlighted and defined in chapter margins.
- **Changemaker**, the opening vignette for each chapter, highlights business leaders within a variety of industries. Each opener lays the groundwork for discussing chapter topics, with the goal of drawing the student’s attention to a professional within a company or organization while highlighting an industry ripe with career opportunities for business

majors. Examples include Sundar Pichai of Google; Brian Chesky of Airbnb; Apple’s Angela Ahrendts; Nike CEO, Mark Parker; Elon Musk of Tesla and SpaceX; Reshma Saujani of Girls Who Code; and Deloitte CEO, Cathy Engelbert.

- The **Business Model** feature provides students with success stories that focus on traditional and start-up companies, business leaders, and entrepreneurs. Specific topics include digital technologies defining the automobile industry; the use of advertising on NBA jerseys; how startup Casper Mattress keeps the industry awake; the New York Stock Exchange’s first female president; and Harley Davidson’s efforts to target a younger generation.
- The **Clean & Green Business** feature highlights new and insightful ways companies are conducting business in a sustainable and socially responsible manner in an effort to protect the environment. Specific topics include Cheerio’s “No GMO” policy, transforming trash into fashion, and how Starbucks uses crowdsourcing for energy-saving ideas.
- The **Business Technology** feature highlights the intersection between business and technology for companies across many industries. Topics include Nordstrom’s technology overhaul, recruiting using cognitive and robotic technology, John Deere’s use of Artificial Intelligence to increase yield and kill weeds, how Instagram stories drive sales for brands, and L’Oreal’s virtual cosmetic counter.
- **Judgment Call** provides various business scenarios and ethical dilemmas where students are asked to decide what is appropriate. Examples include big pharma persuading the prescribers, soaring drug prices despite falling demand, the rise of activist investors, and the ethics of surge pricing for car sharing services. Each Judgment Call feature includes questions for individual or group discussion.
- The **Job Description** feature describes the responsibilities, requirements (including soft skills), and outlook for certain careers for business majors. Examples include fundraiser/development director, economic analyst, corporate communication specialist, marketing research analyst, accountant and auditor business operations associate, and investment banker.
- **End-of-Chapter Cases** enhance learning and fine-tune decision-making skills. Companies and topics discussed include Shinola, Yelp, SoFi (Social Finance), the Heinz–Kraft merger, and tax implications for the Internet of Things.
- To help understand introductory business concepts, **Video Cases** in 17 of the chapters highlight a range of companies and industries. Examples include Necco, Zipcar, Timberland, and TripAdvisor.

Also New to the 18th Edition

This edition of *Contemporary Business* has been thoroughly revised to reflect the major issues and trends influencing business today. In recent years, nothing has had a greater impact on business than technology, and in some shape or form every business is a technology business. Throughout the textbook, new material, updates, and overviews of new, global business and technology trends have been added. Some of these include:

- Disruptive technologies and trends
- Career readiness, soft skills, and career opportunities in various industries and sectors
- Integration of machines and AI in the workplace
- Updated U.S. merchandise Exports and imports
- Top global franchise companies
- Best industries for starting a small business
- Venture capital investment trends by industry
- Well-known mergers and acquisitions
- A comparison between entrepreneurship and starting a business or staying in school
- The impact of cognitive and robotic technology on human resources (recruitment and selection/employee evaluation)
- Unique and creative employee perks
- The impact of the Me Too movement in the workplace
- An explanation of digital marketing and analytics to quantify and analyze customer behavior through site visits and social media platforms, app downloads, mobile devices, and Twitter tweets
- Analysis of a stock market quote
- Fintech (financial technology) categories and companies

Teaching and Learning Program

With decades of experience teaching introduction to business courses, and an overwhelming amount of student feedback, the authors have updated each chapter of the 18th edition to include relevant, intriguing, and up-to-date examples designed to provide a greater understanding of the content presented. Diverse business sectors are highlighted throughout the chapters, including nonprofits, music, consumer products, hospitality, electronics, health and fitness, e-commerce, apparel, retail, manufacturing, financial services, and automobiles.

Topics, examples, and exercises have been carefully chosen to reflect the diverse range of interests and experiences of students who may be studying in the United States or abroad in a variety of educational settings. Along with those students who may be interested in simply learning more about what “business” really entails, *Contemporary Business* is written to appeal to students interested in or contemplating business as a major.

Designed to engage students and to enliven traditional and online classroom discussion and debate, the 18th edition has been written in a friendly and conversational manner. To further enhance the learning process with WileyPLUS Learning Space, instructors and students receive 24/7 access to adaptive learning and a variety of resources proven to promote positive learning outcomes.

The interactive **Learning Styles Survey**, an especially useful tool, helps students identify how they learn best and provides useful study tips for each type of learner. Resources throughout the learning program have been mapped for learning styles as well.

For Instructors A robust set of resources helps instructors easily navigate a traditional or online classroom learning environment. Designed to provide a “turnkey” solution for instructors working within diverse learning environments, materials engage students who possess different learning styles, and they are designed to aid in comprehension, critical thinking, and application of text concepts. All major teaching materials are contained within the Next Generation of WileyPLUS and include the Instructor’s Manual, PowerPoint Presentations, a comprehensive Test Bank, Weekly Updates, and the Wiley Business Video Series. Most resources also can be found on the book’s companion site at www.wiley.com/college/boone.

Additional Instructor Resources available with the Next Generation of WileyPLUS *WileyPLUS* provides students with a 24/7 customizable online platform with multiple resources that reinforces goals both inside and outside the classroom. Students have instant access to adaptive learning and feedback on their individual progress, while instructors can quickly analyze class results to assess areas of weakness in which students might need further assistance. The following resources are included and can be used for classroom presentations.

Ready-to-go teaching materials and assessments to help instructors maximize their time:

- Instructor’s Manual with teaching suggestions, lecture starters, ideas for classroom exercises, discussions, and questions by chapter.
- Lecture PowerPoint presentations
- Test bank
- Gradebook through *WileyPLUS*
- *Wiley Contemporary Business* Weekly Updates

Additional Student Resources available within the Next Generation of WileyPLUS

- Digital version of the complete textbook
- Interactive flash cards

- Practice exams
- Career-focused student case videos
- Interactive case studies
- Business hot topics (ethics, project management, sustainability, business plan, financial crisis)
- End-of-chapter videos
- Learning styles survey
- Crossword puzzles
- Study guide
- PowerPoint presentations
- Virtual Career Center, including career coaching videos, CareerShift, InsideTrack, and ePortfolio assistance

Acknowledgments

Contemporary Business has long benefited from the instructors who have offered their time as reviewers. A special thank you to Amit Shah and Brahm Canzer for their contributions to the ancillaries.

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Contemporary Business has clearly evolved since the first edition was published in 1976—the same year Steve Jobs and Steve Wozniak created a company called Apple, to sell small, easy-to-use computers. The 18th edition would not have been possible without the dedicated team of editorial, production, and marketing professionals from John Wiley and Sons. Many thanks to Alden Farrar, Assistant Editor, who possesses an unparalleled calm; Wendy Ashenberg, Digital Product Designer, whose boundless energy provides fun, insight, and learning; Anita Osborne, marketer extraordinaire who can execute on a dime; Lise Johnson and Jennifer Manias, my previous rock-solid editors and partners in crime who remain steadfastly loyal, and always there for me 24/7 to

provide input, intelligence, and ideas; Mike McDonald, Vice President and Director; Rachel Conrad, Senior Production Editor; Jon Boylan, Creative Director; Wendy Lai, Senior Designer; Jerry Marshall, Photo Editor; and Mickey Mankus, Project Manager at Aptara.

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Personal Appreciation from Susan Berston: To Dave Kurtz—from the first time I met you, Diane, and the canine kids—Lucy, Molly, and Daisy—I knew right away that I would be humbled and honored to have the opportunity to continue the lasting legacy created by you and Gene. Thank you.

Brief Contents

PREFACE vi

- 1** The Changing Face of Business 1
 - 2** Business Ethics and Social Responsibility 27
 - 3** Economic Challenges Facing Business Today 56
 - 4** Competing in World Markets 84
 - 5** Forms of Business Ownership and Organization 114
 - 6** Starting Your Own Business: The Entrepreneurship Alternative 148
 - 7** Management, Leadership, and the Internal Organization 171
 - 8** Human Resource Management: From Recruitment to Labor Relations 199
 - 9** Top Performance through Empowerment, Teamwork, and Communication 227
 - 10** Production and Operations Management 252
 - 11** Customer-Driven Marketing 279
 - 12** Product and Distribution Strategies 309
 - 13** Promotion and Pricing Strategies 341
 - 14** Using Technology to Manage Information 373
 - 15** Understanding Accounting and Financial Statements 401
 - 16** The Financial System 431
 - 17** Financial Management 463
 - 18** Trends in E-Commerce 488
- APPENDIX A Business Law 513
- APPENDIX B Insurance and Risk Management 529
- APPENDIX C Personal Financial Planning 539
- APPENDIX D Developing a Business Plan 550
- APPENDIX E Careers in Business Today 558
- APPENDIX F Launching Your Career 575
- GLOSSARY / NOTES / COMPANY INDEX / NAME INDEX / SUBJECT INDEX

Contents

PREFACE vi

1 The Changing Face of Business 1

- 1 What Is Business? 2
 - Not-for-Profit Organizations 3
- 2 Factors of Production 4
- 3 The Private Enterprise System 6
 - Basic Rights in the Private Enterprise System 6
 - The Entrepreneurship Alternative 7
- 4 Seven Eras in the History of Business 9
 - The Colonial Period 9
 - The Industrial Revolution 10
 - The Age of Industrial Entrepreneurs 10
 - The Production Era 11
 - The Marketing Era 11
 - The Relationship Era 12
 - The Social Era 12
- 5 Current Business Workforce Trends 14
 - Changes in the Workforce 14
- 6 Today's Manager 17
 - Importance of Vision 18
 - Importance of Critical Thinking and Creativity 18
 - Ability to Lead Change 20
- 7 What Makes a Company Admired? 20
 - What's Ahead 21
 - Chapter in Review 22
 - Summary of Learning Objectives 22
 - Business Terms You Need to Know 23
 - Review Questions 23
 - Projects and Teamwork Applications 24
 - Web Assignments 24
 - Case 1.1 Mars Expands Its Sweet Line of Business 25
 - Case 1.2 Jack Ma of Alibaba Helps China Breathe Easier 25
 - Case 1.3 TripAdvisor: "Speed Wins" 26

2 Business Ethics and Social Responsibility 27

- 1 Concern for Ethical and Societal Issues 28
- 2 The Contemporary Ethical Environment 29
 - Individuals Make a Difference 31
 - Development of Individual Ethics 31
 - On-the-Job Ethical Dilemmas 32
- 3 How Organizations Shape Ethical Conduct 35
 - Ethical Awareness 35
 - Ethical Education 35

Ethical Action 36

Ethical Leadership 37

- 4 Acting Responsibly to Satisfy Society 37
 - Responsibilities to the General Public 39
 - Responsibilities to Customers 43
 - Responsibilities to Employees 46
- 5 Responsibilities to Investors and the Financial Community 50
 - What's Ahead 51
 - Chapter in Review 51
 - Summary of Learning Objectives 51
 - Business Terms You Need to Know 52
 - Review Questions 52
 - Projects and Teamwork Applications 53
 - Web Assignments 53
 - Case 2.1 Whole Foods Shares Salary Data with Employees 53
 - Case 2.2 Tech Philanthropists Lead the Way 54
 - Case 2.3 Being Socially Responsible Helps Timberland Thrive 54

3 Economic Challenges Facing Business Today 56

- 1 Microeconomics: The Forces of Demand and Supply 57
 - Factors Driving Demand 58
 - Factors Driving Supply 60
 - How Demand and Supply Interact 62
- 2 Macroeconomics: Issues for the Entire Economy 63
 - Capitalism: The Private Enterprise System and Competition 64
 - Planned Economies: Socialism and Communism 66
 - Mixed Market Economies 67
- 3 Evaluating Economic Performance 68
 - Flattening the Business Cycle 68
 - Productivity and the Nation's Gross Domestic Product 69
 - Price-Level Changes 70
- 4 Managing the Economy's Performance 73
 - Monetary Policy 73
 - Fiscal Policy 74
- 5 Global Economic Challenges 76
 - What's Ahead 78
 - Chapter in Review 78
 - Summary of Learning Objectives 78
 - Business Terms You Need to Know 80
 - Review Questions 80
 - Projects and Teamwork Applications 81
 - Web Assignments 81

- Case 3.1 Big Mergers Get Blocked 82
 Case 3.2 Pawnshops: Fast Access to Capital 82
 Case 3.3 Secret Acres: Selling Comics Is Serious Business 82

4 Competing in World Markets 84

- 1 Why Nations Trade 85**
 International Sources of Factors of Production 85
 Size of the International Marketplace 86
 Absolute and Comparative Advantage 87
- 2 Measuring Trade between Nations 88**
 Major U.S. Exports and Imports 89
 Exchange Rates 90
- 3 Barriers to International Trade 91**
 Social and Cultural Differences 92
 Economic Differences 93
 Political and Legal Differences 94
 Types of Trade Restrictions 97
- 4 Reducing Barriers to International Trade 98**
 Organizations Promoting International Trade 98
 International Economic Communities 99
 NAFTA 100
 CAFTA-DR 100
 European Union 101
- 5 Going Global 102**
 Levels of Involvement 102
 From Multinational Corporation to Global Business 106
- 6 Developing a Strategy for International Business 107**
 Global Business Strategies 107
 Multidomestic Business Strategies 107
- What's Ahead 108**
Chapter in Review 109
 Summary of Learning Objectives 109
 Business Terms You Need to Know 110
 Review Questions 111
 Projects and Teamwork Applications 111
 Web Assignments 111
- Case 4.1 American Hipster Bikes Go Global 112
 Case 4.2 Chinese Consumers and Medical Tourism 112
 Case 4.3 Unbiased Travel Reviews: TripAdvisor Speaks Your Language 112

5 Forms of Business Ownership and Organization 114

- 1 Most Businesses Are Small Businesses 115**
 What Is a Small Business? 115
 Typical Small-Business Ventures 116
- 2 Contributions of Small Business to the Economy 118**
 Creating New Jobs 118

- Creating New Industries 118
 Innovation 121
- 3 Why Small Businesses Fail 121**
 Management Shortcomings 121
 Inadequate Financing 122
 Government Regulation 122
- 4 The Business Plan: A Foundation for Success 123**
- 5 Assistance for Small Businesses 124**
 Small Business Administration 124
 Local Assistance for Small Businesses 126
 Private Investors 126
 Small-Business Opportunities for Women and Minorities 127
- 6 Franchising 128**
 The Franchising Sector 128
 Franchising Agreements 129
 Benefits and Challenges of Franchising 129
- 7 Forms of Private Business Ownership 131**
 Sole Proprietorships 131
 Partnerships 132
 Corporations 133
 Employee-Owned Corporations 134
 Family-Owned Businesses 134
 Not-for-Profit Corporations 135
- 8 Public and Collective Ownership of Business 136**
 Public (Government) Ownership 136
 Collective (Cooperative) Ownership 137
- 9 Organizing a Corporation 137**
 Types of Corporations 137
 Where and How Businesses Incorporate 137
 Corporate Management 138
- 10 When Businesses Join Forces 139**
 Mergers and Acquisitions (M&A) 140
 Joint Ventures: Specialized Partnerships 140
- What's Ahead 142**
Chapter in Review 142
 Summary of Learning Objectives 142
 Business Terms You Need to Know 144
 Review Questions 144
 Projects and Teamwork Applications 144
 Web Assignments 145
- Case 5.1 Drones Do More than Just Deliver 145
 Case 5.2 Why Family Businesses Leave the Family 145
 Case 5.3 The Mei Mei Group: A Family Affair in Boston 146

6 Starting Your Own Business: The Entrepreneurship Alternative 148

- 1 What Is an Entrepreneur? 149**
2 Categories of Entrepreneurs 150

3 Reasons to Choose Entrepreneurship as a Career Path	151	Assessing Your Competitive Position	181
Being Your Own Boss	152	Setting Objectives for the Organization	182
Financial Success	152	Creating Strategies for Competitive Differentiation	182
Job Security	153	Implementing the Strategy	182
Quality of Life	153	Monitoring and Adapting Strategic Plans	183
4 The Environment for Entrepreneurs	153	5 Managers as Decision Makers	183
Globalization	154	Programmed and Nonprogrammed Decisions	183
Education	154	How Managers Make Decisions	184
Information Technology	155	6 Managers as Leaders	185
Demographic and Economic Trends	156	Leadership Styles	185
5 Characteristics of Entrepreneurs	157	Which Leadership Style Is Best?	186
Vision	157	7 Corporate Culture	187
High Energy Level	157	8 Organizational Structures	188
Need to Achieve	157	Departmentalization	188
Self-Confidence and Optimism	158	Delegating Work Assignments	190
Tolerance for Failure	158	Types of Organization Structures	191
Creativity	159	What's Ahead	194
Tolerance for Ambiguity	159	Chapter in Review	194
Internal Locus of Control	159	Summary of Learning Objectives	194
6 Starting a New Venture	161	Business Terms You Need to Know	196
Selecting a Business Idea	161	Review Questions	196
Creating a Business Plan	162	Projects and Teamwork Applications	196
Finding Financing	163	Web Assignments	197
Government Support for New Ventures	165	Case 7.1 Zappos Tries On Holacracy for Size	197
7 Intrapreneurship	165	Case 7.2 BambooHR Says No to More Than a 40-Hour Workweek	197
What's Ahead	166	Case 7.3 Management, Leadership, and the Internal Organization: TripAdvisor	198
Chapter in Review	167	8 Human Resource Management: From Recruitment to Labor Relations	199
Summary of Learning Objectives	167	<hr/>	
Business Terms You Need to Know	168	1 Human Resources: The People Behind the People	200
Review Questions	168	2 Recruitment and Selection	201
Projects and Teamwork Applications	168	Finding Qualified Candidates	201
Web Assignments	169	Selecting and Hiring Employees	202
Case 6.1 Shinola Watches: Built in Detroit	169	3 Orientation, Training, and Evaluation	204
Case 6.2 Glassybaby's Light Shines	169	Training Programs	204
Case 6.3 Seed + Mill: Open Sesame for Entrepreneurial Success	170	Performance Appraisals	206
 		4 Compensation	206
7 Management, Leadership, and the Internal Organization	171	Employee Benefits	208
<hr/>		Flexible Benefits	209
1 What Is Management?	172	Flexible Work	210
The Management Hierarchy	172	5 Employee Separation	211
Skills Needed for Managerial Success	173	Voluntary and Involuntary Turnover	211
Managerial Functions	174	Downsizing	211
2 Setting a Vision and Ethical Standards for the Company	175	Outsourcing	212
3 The Importance of Planning	177	6 Motivating Employees	212
Types of Planning	177	Maslow's Hierarchy of Needs Theory	213
Planning at Different Organizational Levels	179	Herzberg's Two-Factor Model of Motivation	214
4 The Strategic Planning Process	179		
Defining the Organization's Mission	179		

Expectancy Theory and Equity Theory	215
Goal-Setting Theory and Management by Objectives	216
Job Design and Motivation	216
Managers' Attitudes and Motivation	217
7 Labor-Management Relations	218
Development of Labor Unions	218
Labor Legislation	218
The Collective Bargaining Process	219
Settling Labor-Management Disputes	219
Competitive Tactics of Unions and Management	220
The Future of Labor Unions	221
What's Ahead	221
Chapter in Review	221
Summary of Learning Objectives	221
Business Terms You Need to Know	223
Review Questions	223
Projects and Teamwork Applications	223
Web Assignments	224
Case 8.1 "Upskilling" Helps Walmart Workers Advance	224
Case 8.2 PwC Helps Employees with Student Loans	225
Case 8.3 Timberland's Culture Rooted in Community Building	225

9 Top Performance through Empowerment, Teamwork, and Communication 227

1 Empowering Employees	227
Sharing Information and Decision-Making Authority	228
Linking Rewards to Company Performance	229
2 Teams	231
3 Team Characteristics	233
Team Size	233
Team Level and Team Diversity	234
Stages of Team Development	234
4 Team Cohesiveness and Norms	236
5 Team Conflict	236
6 The Importance of Effective Communication	237
The Process of Communication	238
7 Basic Forms of Communication	239
Oral Communication	239
Written Communication	241
Formal Communication	242
Informal Communication	242
Nonverbal Communication	243
8 External Communication and Crisis Management	244
What's Ahead	246
Chapter in Review	246
Summary of Learning Objectives	246
Business Terms You Need to Know	248

Review Questions	248
Projects and Teamwork Applications	249
Web Assignments	249
Case 9.1 Teamwork Key to Ritz-Carlton's Success	249
Case 9.2 Yelp's Open Office Encourages Collaboration	250
Case 9.3 Necco Empowers and Engages Employees	250

10 Production and Operations Management 252

1 The Strategic Importance of Production	254
Mass Production	254
Flexible Production	255
Customer-Driven Production	255
2 Production Processes	256
3 Technology and the Production Process	256
Green Manufacturing Processes	256
Robots	257
Computer-Aided Design and Manufacturing	258
Flexible Manufacturing Systems	259
Computer-Integrated Manufacturing	259
4 The Location Decision	259
5 The Job of Production Managers	262
Planning the Production Process	262
Determining the Facility Layout	263
Implementing the Production Plan	265
6 Controlling the Production Process	268
Production Planning	268
Routing	269
Scheduling	269
Dispatching	270
Follow-Up	270
7 Importance of Quality	271
Quality Control	272
ISO Standards	273
What's Ahead	274
Chapter in Review	274
Summary of Learning Objectives	274
Business Terms You Need to Know	275
Review Questions	276
Projects and Teamwork Applications	276
Web Assignments	276
Case 10.1 Home Depot Gives Customers Retail Options	277
Case 10.2 Customization Gives Companies an Edge	277
Case 10.3 Necco Produces Classic Valentine's Day Treats	278

11 Customer-Driven Marketing 279

1 What Is Marketing?	280
How Marketing Creates Utility	281
2 Evolution of the Marketing Concept	282
Emergence of the Marketing Concept	283

- 3 Not-for-Profit and Nontraditional Marketing 283**
 - Not-for-Profit Marketing **283**
 - Nontraditional Marketing **284**
- 4 Developing a Marketing Strategy 286**
 - Selecting a Target Market **288**
 - Developing a Marketing Mix for International Markets **289**
- 5 Marketing Research 289**
 - Obtaining Marketing Research Data **290**
 - Applying Marketing Research Data **291**
 - Data Mining **291**
- 6 Market Segmentation 292**
 - How Market Segmentation Works **293**
 - Segmenting Consumer Markets **293**
 - Segmenting Business Markets **298**
- 7 Consumer Behavior 299**
 - Determinants of Consumer Behavior **299**
 - Determinants of Business
 - Buying Behavior **300**
 - Steps in the Consumer
 - Behavior Process **300**
- 8 Relationship Marketing 300**
 - Benefits of Relationship Marketing **301**
 - Tools for Nurturing Customer Relationships **302**
 - What's Ahead 303**
 - Chapter in Review 304**
 - Summary of Learning Objectives **304**
 - Business Terms You Need to Know **305**
 - Review Questions **305**
 - Projects and Teamwork Applications **306**
 - Web Assignments **306**
 - Case 11.1 Orthotics Ease Pain in Consumer Segments **307**
 - Case 11.2 Mobile Game Maker Adapts to U.S. Market **307**
 - Case 11.3 Mei Mei Group Communicates and Delivers Value **308**

12 Product and Distribution Strategies 309

- 1 Product Strategy 310**
 - Classifying Goods and Services **310**
 - Marketing Strategy Implications **312**
 - Product Lines and Product Mix **313**
- 2 Product Life Cycle 313**
 - Stages of the Product Life Cycle **314**
 - Marketing Strategy Implications of the Product Life Cycle **315**
 - Stages in New-Product Development **316**
- 3 Product Identification 318**
 - Selecting an Effective Brand Name **318**
 - Brand Categories **319**
 - Brand Loyalty and Brand Equity **319**
 - Packages and Labels **321**

- 4 Distribution Strategy 322**
 - Distribution Channels **322**
- 5 Wholesaling 325**
 - Manufacturer-Owned Wholesaling Intermediaries **325**
 - Independent Wholesaling Intermediaries **325**
 - Retailer-Owned Cooperatives and Buying Offices **326**
- 6 Retailing 326**
 - Nonstore Retailers **327**
 - Store Retailers **328**
 - How Retailers Compete **329**
- 7 Distribution Channel Decisions and Logistics 331**
 - Selecting Distribution Channels **331**
 - Selecting Distribution Intensity **333**
 - Logistics and Physical Distribution **333**
 - What's Ahead 336**
 - Chapter in Review 336**
 - Summary of Learning Objectives **336**
 - Business Terms You Need to Know **338**
 - Review Questions **338**
 - Projects and Teamwork Applications **338**
 - Web Assignments **339**
 - Case 12.1 "Chucks" Remodeled After Nearly a Century **339**
 - Case 12.2 Warby Parker Adds Retail Stores **339**
 - Case 12.3 Secret Acres: Getting the Word Out **340**

13 Promotion and Pricing Strategies 341

- 1 Integrated Marketing Communications 342**
 - The Promotional Mix **343**
 - Objectives of Promotional Strategy **345**
 - Promotional Planning **346**
- 2 Advertising 347**
 - Types of Advertising **347**
 - Advertising and the Product Life Cycle **348**
 - Advertising Media **348**
- 3 Sales Promotion 354**
 - Consumer-Oriented Promotions **354**
 - Trade-Oriented Promotions **356**
 - Personal Selling **356**
 - Public Relations **359**
- 4 Pushing and Pulling Strategies 361**
- 5 Pricing Objectives in the Marketing Mix 361**
 - Profitability Objectives **362**
 - Volume Objectives **362**
 - Pricing to Meet Competition **362**
 - Prestige Objectives **362**
- 6 Pricing Strategies 363**
 - Price Determination in Practice **364**
 - Breakeven Analysis **364**
 - Alternative Pricing Strategies **365**

- 7 Consumer Perceptions of Prices 366**
 - Price–Quality Relationships 366
 - Odd Pricing 367
 - What’s Ahead 367**
 - Chapter in Review 367**
- Summary of Learning Objectives 367
- Business Terms You Need to Know 369
- Review Questions 369
- Projects and Teamwork Applications 369
- Web Assignments 370
- Case 13.1 Target Promotes a Dozen New Private-Label Brands 370
- Case 13.2 Marriott Partners with TripAdvisor 370
- Case 13.3 Zipcar Informs, Persuades, and Reminds 371

14 Using Technology to Manage Information 373

- 1 Technology Has Forever Changed Business 373**
- 2 Data, Information Systems, and Big Data 375**
- 3 Components and Types of Information Systems 377**
 - Databases 378
 - Types of Information Systems 379
- 4 Computer Hardware and Software 380**
 - Types of Computer Hardware 380
 - Types of Computer Software 382
- 5 Networks, the Internet, and Cloud Computing 383**
 - Local Area Networks and Wide Area Networks 383
 - Wireless Local Networks 383
 - The Internet 384
 - Virtual Networks 384
 - Enterprise Computing 385
 - Cloud Computing 385
 - Application Service Providers 386
 - The Future of the Internet 386
- 6 Security and Ethical Issues Affecting Information Systems 387**
 - Cybercrime 387
 - Phishing Attacks 388
 - Cyberterrorism 388
 - Computer Viruses 388
 - Information Systems and Ethics 389
- 7 Disaster Recovery and Backup 391**
- 8 Information Technology Trends 392**
 - What’s Ahead 394**
 - Chapter in Review 395**
- Summary of Learning Objectives 395
- Business Terms You Need to Know 397

- Review Questions 397
- Projects and Teamwork Applications 397
- Web Assignments 398
- Case 14.1 Khan Academy: Distributing Knowledge 398
- Case 14.2 Digital Reality: Multisensory Product Delivery 399
- Case 14.3 Technology Drives Zipcar’s Success 399

15 Understanding Accounting and Financial Statements 401

- 1 Users of Accounting Information 402**
 - Business Activities Involving Accounting 403
- 2 Accounting Professionals 403**
 - Public Accountants 403
 - Management Accountants 405
 - Government and Not-for-Profit Accountants 406
- 3 The Foundation of the Accounting System 406**
- 4 The Accounting Cycle 408**
 - The Accounting Equation 409
 - The Impact of Computers and Technology on the Accounting Process 410
- 5 Financial Statements 412**
 - The Balance Sheet 412
 - The Income Statement 414
 - Statement of Owners’ Equity 415
 - Statement of Cash Flows 415
- 6 Financial Ratio Analysis 417**
 - Liquidity Ratios 417
 - Activity Ratios 418
 - Profitability Ratios 419
 - Leverage Ratios 419
- 7 Budgeting 420**
- 8 International Accounting 422**
 - Exchange Rates 423
 - International Accounting Standards 424
- What’s Ahead 425**
- Chapter in Review 425**
- Summary of Learning Objectives 425
- Business Terms You Need to Know 427
- Review Questions 427
- Projects and Teamwork Applications 427
- Web Assignments 428
- Case 15.1 Forensic Accountants Search for Fraud 428
- Case 15.2 Taxing Issues for the Internet of Things 429
- Case 15.3 Mei Mei’s Secret Recipe: Attention to Accounting Details 429

16 The Financial System 431

- 1 Understanding the Financial System 432**
- 2 Types of Securities 434**
 - Money Market Instruments 434

Bonds	434
Stock	437
3 Financial Markets	439
4 Understanding Stock Markets	440
The New York Stock Exchange	440
The NASDAQ Stock Market	441
Other U.S. Stock Markets	442
Foreign Stock Markets	442
ECNs and the Future of Stock Markets	443
Investor Participation in the Stock Markets	443
5 Financial Institutions	444
Commercial Banks	444
Savings Banks and Credit Unions	447
Nondepository Financial Institutions	447
Mutual Funds and Exchange Traded Funds	448
6 The Role of the Federal Reserve System	450
Organization of the Federal Reserve System	450
Check Clearing and the Fed	450
Monetary Policy	450
7 Regulation of the Financial System	452
How the Financial Crisis Unfolded	452
Bank Regulation	453
Government Regulation of the Financial Markets	454
Industry Self-Regulation	455
8 The Financial System: A Global Perspective	456
What's Ahead	457
Chapter in Review	457
Summary of Learning Objectives	457
Business Terms You Need to Know	459
Review Questions	459
Projects and Teamwork Applications	460
Web Assignments	460
Case 16.1 Shareholder Meetings Go Virtual	460
Case 16.2 SoFi Takes a Radical Approach to Financing	461
Case 16.3 New Harvest Coffee Goes Beyond Fair Trade	461

17 Financial Management 463

1 The Role of the Financial Manager	464
2 Financial Planning	467
3 Managing Assets	469
Short-Term Assets	469
Capital Investment Analysis	471
Managing International Assets	472
4 Sources of Funds and Capital Structure	473
Leverage and Capital Structure Decisions	473
Mixing Short-Term and Long-Term Funds	474
Dividend Policy	474
5 Short-Term Funding Options	476
Trade Credit	476
Short-Term Loans	476
Commercial Paper	477

6 Sources of Long-Term Financing	478
Public Sale of Stocks and Bonds	478
Private Placements	478
Venture Capitalists	478
Private Equity Funds	479
Hedge Funds	480
7 Mergers, Acquisitions, Buyouts, and Divestitures	480
What's Ahead	482
Chapter in Review	482
Summary of Learning Objectives	482
Business Terms You Need to Know	484
Review Questions	484
Projects and Teamwork Applications	485
Web Assignments	485
Case 17.1 How Ketchup Merged with Mac and Cheese	485
Case 17.2 Supply-Chain Financing Helps Cash Flow	486
Case 17.3 Seed + Mill Investors Keen on Sesame Seed-Based Artisanal Food Products	486

18 Trends in E-Commerce 488

1 The Capabilities of E-Commerce	489
Business Websites	490
2 B2B E-Commerce	491
Electronic Data Interchanges, Extranets, and Private Exchanges	492
Electronic Exchanges and E-Procurement	493
3 B2C E-Commerce	493
Electronic Storefronts	494
Mobile Commerce	495
Who Are the Online Buyers and Sellers?	495
Benefits of B2C E-Commerce	495
4 E-Commerce Challenges	496
Developing Safe Online Payment Systems	496
Other Security and Privacy Issues	497
Internet Fraud	499
Channel Conflicts	499
5 Using the Web to Communicate	500
Online Communities	500
Blogs and Publishing Platforms	501
Web-Based Promotions	501
Social Media	503
6 The Global Environment for E-Commerce	503
7 Building and Managing a Website	506
Developing a Website	506
Measuring Website Effectiveness	507
8 Continuing Trends in E-Commerce	508
What's Ahead	509
Chapter in Review	509
Summary of Learning Objectives	509
Business Terms You Need to Know	511

Review Questions	511
Projects and Teamwork Applications	511
Web Assignments	511
Case 18.1 Fashion Retailers Haul in Sales via YouTube	512
Case 18.2 ModCloth Offers Vintage Clothing Online and Offline	512
APPENDIX A Business Law	513
APPENDIX B Insurance and Risk Management	529

APPENDIX C Personal Financial Planning	539
APPENDIX D Developing a Business Plan	550
APPENDIX E Careers in Business Today	558
APPENDIX F Launching Your Career	575

GLOSSARY / NOTES / COMPANY INDEX / NAME INDEX /
SUBJECT INDEX

Contemporary Business

The Changing Face of Business

LEARNING OBJECTIVES

1. Define *business*.
2. Identify and describe the factors of production.
3. Describe the private enterprise system.
4. Identify the seven eras in the history of business.
5. Explain current workforce trends in business.
6. Identify the skills and attributes needed for today's manager.
7. Outline the characteristics that make a company admired.

Changemaker



Sundar Pichai, Chief Executive Officer

Company: Google

Industry: Technology/Internet Information Providers

Website(s): www.google.com and <https://abc.xyz>

Who is Sundar Pichai, and how did he rise through the Google ranks so quickly? Before arriving at Google in 2004, Pichai, who has a formal education in engineering and business, worked in semiconductor manufacturing and management consulting. At Google, he was charged with creating and managing software products, including Gmail, Google Chrome, the Chrome operating system, and cloud file-storage service Google Drive. Pichai oversees tens of thousands of employees and billions in revenue. Over the course of a decade and before being

appointed CEO, as Senior Vice President of Products, Pichai oversaw Google's increasingly competitive business offerings and software products such as search, advertising, Android, and YouTube.

Sundar Pichai was named Chief Executive Officer of Google when co-founders Larry Page and Sergey Brin made the decision to dedicate more time to what is referred to inside Google as "moonshot projects," which range from robots that can work alongside humans, smarter homes, self-driving cars, healthcare and disease prevention research, cyber-attack prevention, and solutions to address global issues. Alphabet, Inc., Google's parent company, is led by Larry Page, former Google co-founder and CEO. Alphabet is a collection of companies that separates Google's core businesses of search, maps, and advertising from its other projects. However, Google still generates the majority of Alphabet's revenues and profits.

Pichai, who grew up in Chennai, India, is described as humble, smart, and very low key. With his unassuming management style, he is known for his ability to build strong relationships, which has earned him tremendous respect as a leader. Pichai, in his late 40s, is uniquely positioned to take the lead in furthering product development. Amid strong competition, he has a challenging role to keep up the company's rate of growth. With a vote of confidence from Google's co-founders, Pichai continues to master multi-tasking skills by proving himself well beyond qualified to manage a technology giant that not only dominates search, but also has been forced to manage regulators, tech critics, political issues, and debates over gender inequality.¹

Overview

Google's CEO, Sundar Pichai leads a company that has gone from clever startup to global technology powerhouse. Innovative companies like Google, and now Alphabet, contribute greatly to the nation's economy. A growing economy, one with increased production of goods and services over time, yields income for its business owners, their employees, and stockholders. A country depends on the wealth its businesses generate, from large enterprises such as the Walt Disney Company to tiny online start-ups, and from respected companies such as jeans maker Levi Strauss & Company to powerhouses such as Google. What all these companies and many others share is a creative approach to meeting society's needs and wants.

Large and small businesses solve our transportation problems by creating innovative ride-sharing options, automobiles, tires, gasoline, and airline tickets. They bring food to our tables by growing, harvesting, processing, packaging, and shipping everything from spring water to cake mix and frozen shrimp. Restaurants buy, prepare, and serve food, and some even provide delivery through mobile ordering or an online app. Construction companies build our schools, homes, and hospitals, while real estate companies bring property buyers and sellers together. Clothing manufacturers design, create, import, and deliver our jeans, sports shoes, work uniforms, and party wear. Entertainment for our leisure hours comes from hundreds of companies that create, produce, and distribute films, television shows, video games, books, and music downloads.

To succeed, companies must first determine what their customers want so that they can supply it quickly and efficiently. That means they often adapt to changes in consumer tastes, such as the growing preference for organic and locally grown produce. But firms can also *lead* in advancing technology and other changes. They have the resources, the know-how, and the financial incentive to bring about new innovations as well as the competition that inevitably follows, as in the case of digital personal assistants by companies such as Amazon and Google.

You'll see throughout this book that businesses require physical inputs such as auto parts, chemicals, sugar, thread, and electricity, as well as the accumulated knowledge and experience of their managers and employees. Yet they also rely heavily on their own ability to adapt to global changes in today's business environment. Flexibility and innovation are key to long-term success—and to growth.

In short, business is at the forefront of our economy—and *Contemporary Business* is right there with it. This book explores the strategies that allow companies to grow and compete in today's interactive and hyper-competitive marketplace, along with the skills that you will need to turn ideas into action for your own success in business. This chapter sets the stage for the entire text by defining business and its role in society. The chapter's discussion illustrates the skills required for success in today's business environment and how the private enterprise system encourages competition and innovation.

1 What Is Business?

Many think of the word *business* as making money or the activity of buying and selling goods and services. Do you think of big corporations like ExxonMobil or The Coca-Cola Company? Or does the local deli or dry cleaner pop into your mind? Maybe you recall your first summer job. *Business* is a broad, all-inclusive term that can be applied to many kinds of enterprises. Businesses provide employment opportunities, as well as the products and services that people enjoy.

Business consists of all profit-seeking activities and enterprises that provide goods and services necessary to an economic system. Some businesses produce tangible goods, such as automobiles, breakfast cereals, and smart phones; others provide services such as insurance, hair styling, and entertainment ranging from Disney theme parks and NFL games to concerts.

Business drives the economic pulse of a nation. It provides the means through which its citizens' standard of living improves. At the heart of every business endeavor is an exchange between a buyer and a seller. An example of this exchange is shown in the accompanying photo. A

business all profit-seeking activities and enterprises that provide goods and services necessary to an economic system.

buyer recognizes a need for a good or service and trades money with a seller to obtain that product. The seller participates in the process in hopes of gaining profits. To make a profit, every business requires not only enough customers to whom its products and services can be sold on a consistent basis, but also some form of investment. Businesses can be privately owned, not-for-profit, or state-owned.

Profits represent rewards earned by businesspeople who take the risks involved in blending people, technology, and information to create and market want-satisfying goods and services. In contrast, accountants think of profits as a positive gain remaining for a business after all costs and expenses have been deducted from total sales. More generally, however, profits serve as incentives for people to start companies, grow them, and provide consistently high-quality competitive goods and services.

The quest for profits is a central focus of business because without profits, a company could not survive. But businesspeople also recognize their social and ethical responsibilities. To succeed in the long run, companies must deal responsibly with employees, customers, suppliers, investors, creditors, competitors, government, and the general public.

Not-for-Profit Organizations

What do Purdue University's athletic department, the U.S. Postal Service, the American Heart Association, and your local library have in common? They all are classified as **not-for-profit organizations**, businesslike establishments that have primary objectives other than returning profits to their owners. A tax law provision granted to not-for-profits by the Internal Revenue Service is called section 501(c)(3). These organizations play important roles in society by placing humanitarian and environmental needs, for example, above profits, although it is important to understand that these organizations need to raise money so that they can operate and achieve their social goals. Not-for-profit organizations, also called nonprofits, operate in both the private and public sectors. Private-sector not-for-profits include museums, libraries, trade associations, and charitable and religious organizations. Government agencies, political parties, and labor unions, all of which are part of the public sector, are also classified as not-for-profit organizations.

Not-for-profit organizations are a substantial part of the U.S. economy, contributing more than \$900 billion in a recent year. Currently, more than 1.5 million nonprofit organizations are registered with the Internal Revenue Service in the United States, in categories ranging from arts and culture to science and technology.² These organizations use labor and capital in much the same way that for-profit companies do, and employ over 14 million people—more people than the federal government and all 50 state governments combined.³ In addition, millions of volunteers work for them in unpaid positions. Not-for-profits secure funding from private sources, including individual (tax deductible) donations, and from government sources. They are commonly exempt from federal, state, and local taxes.

Although they focus on goals other than generating profits, managers of not-for-profit organizations face many of the same challenges as executives of profit-seeking businesses. Without funding, they cannot conduct research, hire top talent, market, and promote their cause, or provide services. St. Jude Children's Research Hospital's pediatric treatment and research facility in Memphis treats nearly 7,500 children a year for catastrophic diseases, mainly cancer, immune system problems, and infectious and genetic disorders. Patients come from all 50 states



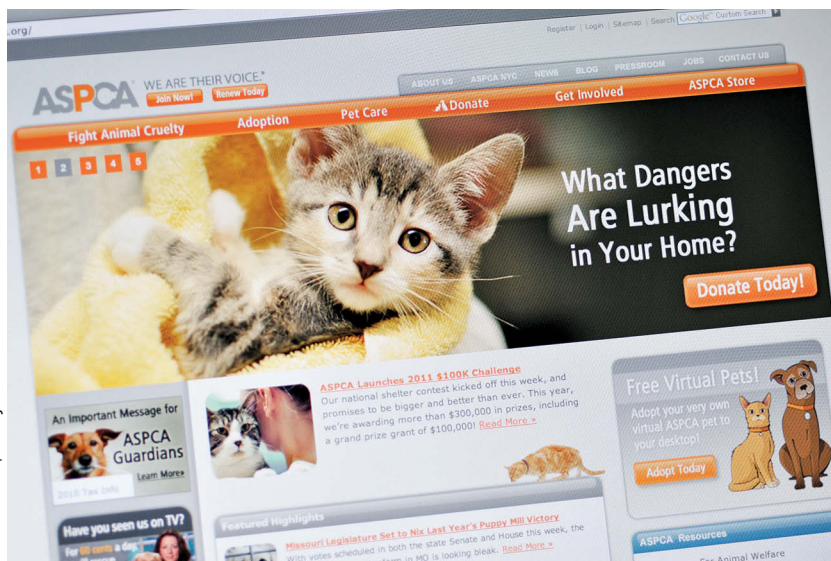
A business survives through the exchange between a buyer and a seller.

Courtesy of Samuel Berston

profits rewards earned by businesspeople who take the risks involved in blending people, technology, and information to create and market want-satisfying goods and services.

not-for-profit organizations businesslike establishments that have primary objectives other than returning profits to their owners.

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The ASPCA, headquartered in New York City, was the first humane society in North America and 150 years later it is one of the largest privately funded 501(c)(3) not-for-profit corporations in the world.

and all over the world and are accepted without regard to the family's ability to pay. To provide top-quality care and to support its research in gene therapy, chemotherapy, bone marrow transplantation, and the psychological effects of illness, among many other critical areas, St. Jude relies on contributions, with some assistance from federal grants.⁴

The American Society for the Prevention of Cruelty to Animals (ASPCA) was the first humane society in North America. It is a nonprofit national animal welfare organization with the belief that animals are entitled to kind and respectful treatment at the hands of humans and must be protected under the law (see photo).⁵

To subsidize donations and grants, many not-for-profits, such as art museums and national parks, sell merchandise. For example, the Metropolitan Museum of Art in New York sells jewelry, books, calendars, note cards, and posters

through both an online store and an on-site bricks-and-mortar gift shop. Founded in 1912, The Girl Scouts of the USA are known for their mouth-watering cookies. The organization has created a cookie empire valued at close to \$800 million through sales by local scout troops.⁶ Handling merchandising programs like these, as well as launching other fund-raising campaigns, requires managers of not-for-profit organizations to possess effective business skills and experience. Consequently, many of the concepts discussed in this book (such as management, marketing, and finance) apply to not-for-profit organizations as well as to profit-oriented firms.

Assessment Check

1. What activity lies at the center of every business endeavor?
2. What is the primary objective of a not-for-profit organization?

2 Factors of Production

factors of production four basic inputs: land, labor, capital, and entrepreneurship.

An economic system requires certain inputs used in the production of goods and services to make a profit. Economists use the term **factors of production** to refer to the four basic inputs: land, labor, capital, and entrepreneurship. **Table 1.1** identifies each of these inputs and the type of payment or income received by companies and individuals who supply the factor of production.

TABLE 1.1 Factors of Production and Their Factor Payments

Factor of Production	Corresponding Factor Payment
Land	Rent
Labor	Wages
Capital	Interest
Entrepreneurship	Profit

Land, used in the production of a good, includes all production inputs or natural resources that are useful in their natural states such as oil, gas, minerals, and timber. The demand for timber has increased as a result of an improved economy and increased home-building, along with hurricane, tornado, fire, flood, and other recent damages in the United States.⁷

Labor represents another critical input in every economic system. Labor includes anyone who works, from the chief executive officer (CEO) of a huge corporation to a self-employed writer or editor. This category encompasses both the physical labor and the intellectual inputs contributed by workers. Companies rely on their employees as a valued source of ideas and innovation, as well as physical effort. Some companies solicit employee ideas through online employee feedback or in staff meetings. Others encourage creative thinking during company-sponsored off-site meetings like hiking or rafting trips—or during social gatherings. Effective, well-trained labor provides a significant competitive edge, and companies must look at planning for their workforce in much the same way they do financial or information technology investments.

Hiring and keeping the right people matters, as we will see later in the case at the end of this chapter. Employees at food and candy maker Mars, Inc. feel they have a great place to work, partly because of the opportunities for advancement and generous pay the company provides.⁸

Capital, another key resource, includes technology, tools, information, and physical facilities. *Technology* is a broad term that refers to such machinery and equipment as computers and software, telecommunications, and inventions designed to improve production. Information, frequently improved by technological innovations, is another critical factor because both managers and operating employees require accurate, timely information for effective performance of their assigned tasks. Technology plays an important role in the success of many businesses. Bill Gates is quoted as saying, “Information technology and business are becoming inextricably interwoven. I don’t think anyone can talk meaningfully about one without talking about the other.” Technology has led to a transformation when it comes to cars and driving. Waymo, Google’s fully self-driving car project, which represents a new way forward in mobility, has recently started driving on public roads without anyone in the driver’s seat.⁹

Technology often helps a company improve its own products. Netflix, once famous for its subscription-based DVD-by-mail service, offers on-demand Internet streaming media and original content streaming. Netflix has exclusive rights to streaming movies and original TV series, like “Stranger Things.”¹⁰

Retail giant Walmart was recently granted a patent for a system in which drones would shuttle products between different departments inside its stores. The idea is to free customers not only from waiting for a Walmart associate to return with an item from a far-away storeroom, but also from having to walk across its super-sized stores to find what they want.¹¹

To remain competitive, a company needs to continually acquire, maintain, and upgrade its capital, which requires funding. A company’s funds may come from owner-investments, profits reinvested back into the business, or loans extended by others. Money then goes to work building factories; purchasing raw materials and component parts; and hiring, training, and compensating employees. People and companies that supply capital receive factor payments in the form of interest.

Entrepreneurship is the willingness to take risks to create and operate a business. An entrepreneur is someone with an idea who sees a potentially profitable opportunity and then devises a plan to achieve success in the marketplace. Whitney Wolfe hopes to empower women by changing the antiquated rules of online dating. Her location-based social and dating app, Bumble, referred to by some as “The Feminist Tinder,” requires that women make the first move to initiate a conversation.¹²

U.S. businesses operate within an economic system called the *private enterprise system*. The next section looks at the private enterprise system, including competition, private property, and the entrepreneurship alternative.

land is used in the production of a good, and includes all production inputs or natural resources that are useful in their natural states such as oil, gas, minerals, and timber.

labor includes anyone who works, including both the physical labor and the intellectual inputs contributed by workers.

capital includes technology, tools, information, and physical facilities.

entrepreneurship willingness to take risks to create and operate a business.

Assessment Check

1. Identify the four basic inputs to an economic system.
2. List four types of capital.

3 The Private Enterprise System

No business operates in a vacuum. All operate within a larger economic system whereby production, resource allocation, and distribution of goods and services are determined. Economic systems must determine what to produce, how to produce and in what quantities, and who receives the output of production. Some economic systems, such as communism, feature strict controls on business ownership, profits, and resources to accomplish government goals.

In the United States, businesses function within the **private enterprise system**, a for-profit system established, owned, and operated by private citizens or individuals. Decisions can be made freely and independent of the government or its agencies, and companies are rewarded for their ability to identify and serve the demands and needs of consumers. Businesses that are adept at satisfying customers gain access to necessary factors of production and earn profits.

Another name for the private enterprise system is **capitalism**. Adam Smith, often identified as the father of capitalism, first described the concept in his book, *The Wealth of Nations*, published in 1776. Smith believed that an economy is best regulated by the “invisible hand” of **competition**, a natural force that guides free market capitalism. Smith thought that competition among companies would lead to consumers’ receiving the best possible products and prices because less efficient producers would gradually be driven from the marketplace.

A basic premise of the private enterprise system, the invisible hand concept, also refers to the fact that individuals’ efforts to pursue their own interest may benefit society as well. In the United States, competition regulates much of economic life. To compete successfully, each company must find a basis for **competitive differentiation**, the unique combination of organizational abilities, products, and approaches that sets a company apart from competitors in the minds of customers. Under Armour, with the tagline of “I Will,” has resonated with football players who have experienced sweat soaked t-shirts that were heavy and uncomfortable. The company has differentiated itself with its signature moisture-wicking t-shirt that stays perpetually dry and fresh. Its tagline speaks to its origin, as the company began in the back of the founder’s truck.¹³ Companies that fail to adjust to shifts in consumer preferences or ignore the actions of competitors leave themselves open to failure. See the “Business & Technology Intersection” feature to learn more about how Nordstrom sets itself apart from the competition.

Throughout this book, our discussion focuses on the tools and methods that today’s businesses apply to compete and differentiate their goods and services. We also discuss many of the ways in which market changes will affect business and the private enterprise system in the future.

Basic Rights in the Private Enterprise System

For capitalism to operate effectively, people living in a private enterprise system must have certain rights. As shown in **Figure 1.1**, these include the rights to private property, profits, freedom of choice, and competition.

The right to **private property** is the most basic freedom under the private enterprise system. Every participant has the right to own, use, buy, sell, and bequeath most forms of property, including land, buildings, machinery, equipment, patents on inventions, individual possessions, and intangible properties.

private enterprise system

economic system that rewards companies for their ability to identify and serve the needs and demands of customers.

capitalism

economic system that rewards companies for their ability to perceive and serve the needs and demands of consumers; also called the private enterprise system.

competition

a natural force that guides free market capitalism.

competitive differentiation

unique combination of organizational abilities, products, and approaches that sets a company apart from competitors in the minds of customers.

private property

most basic freedom under the private enterprise system; the right to own, use, buy, sell, and bequeath land, buildings, machinery, equipment, patents, individual possessions, and various intangible kinds of property.

Business & Technology

Nordstrom Invests in Technology to Create “Unified Commerce”

Seattle, WA–based Nordstrom, the family-owned high-end fashion retailer, continues to be on a roll as recent annual sales reached a record \$14.5 billion. That figure includes sales of \$3 billion—growing more than 30% a year over the last decade—for the company’s e-commerce site, Nordstrom.com.

Nordstrom has implemented digital selling tools designed to support new ways of serving customers across all brands and channels, which include its physical Nordstrom store, Nordstrom Online, Nordstrom Rack, NordstromRack.com, Hautelook, and Trunk Club (the company’s men’s-oriented personal shopper brand).

With e-commerce representing 25% of Nordstrom’s business, technology spending has accelerated with plans to continue innovating its tech platform, designed to deliver both digital and mobile enhancements. For example, Nordstrom has implemented “unified commerce,” whereby, in addition to curbside delivery in all U.S. full-line stores, a customer can buy online, pick up in store (BOPIS). In an effort to bridge its physical and digital businesses, a mobile feature now allows a customer to reserve items online to try on in

stores. Perhaps Nordstrom’s best-known competitive advantage is its commitment to outstanding customer service, which the company believes must be managed largely in part with technology.

Questions for Critical Thinking

1. Would you want to receive a text message from a sales associate while shopping at your favorite retailer? Why or why not? Research more about how Nordstrom differentiates itself from other clothing retailers by its use of technology.
2. Realizing the changing nature and expectations of customers who prefer to shop in a variety of ways, what are some additional ways Nordstrom can use technology to cultivate customer relationships and compete against online giant, Amazon?

Sources: Company website, “About Us,” <http://shop.nordstrom.com>, accessed February 6, 2018; Micah Solomon, “Modernize Your Customer Experience the New Nordstrom Way,” *Forbes*, <https://www.forbes.com>, accessed February 6, 2018; Lora Kolodny, “Two Ways Nordstrom is Adapting to the Amazon Era,” *CNBC*, <https://www.cnbc.com>, accessed February 6, 2018; Jamie Grill-Goodman, “Nordstrom’s Tech Investment Plans for 2017,” *RIS (Retail Info Systems)*, <https://risnews.com>, accessed February 6, 2018.

The private enterprise system also guarantees business owners the right to all profits—after taxes—they earn through their activities. Although a business is not assured of earning a profit, its owner is legally and ethically entitled to any income it generates in excess of costs.

Freedom of choice means that a private enterprise system relies on the potential for citizens to choose their own employment, purchases, and investments. They can change jobs, negotiate wages, join labor unions, and choose among many different brands of goods and services. A private enterprise system maximizes individual prosperity by providing alternatives. Other economic systems sometimes limit freedom of choice to accomplish government goals, such as increasing industrial production of certain products.

The private enterprise system also permits fair competition by allowing the public to set rules for competitive activity. For this reason, the U.S. government has passed fair competition laws to maintain market competition and fairness for consumers by prohibiting anti-competitive practices, which include attempted monopolization, competitor bashing, predatory pricing or price gauging, and deceptive advertising, packaging, and labeling.¹⁴

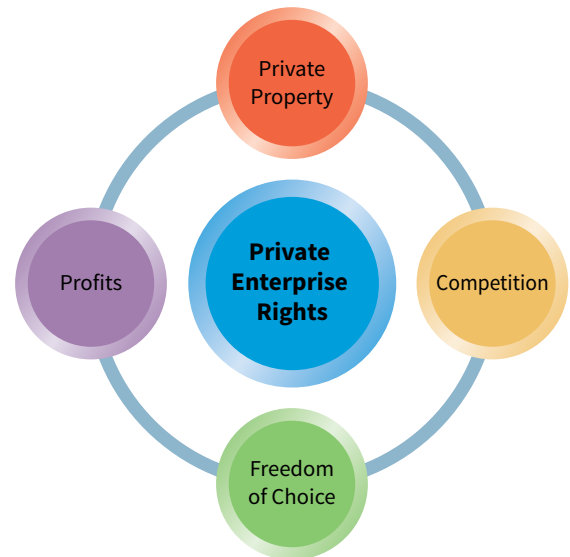


FIGURE 1.1 Basic Rights within a Private Enterprise System

The Entrepreneurship Alternative

The entrepreneurial spirit is a mind-set embodied by individuals who are passionate and fascinated with how things can be improved. An **entrepreneur** is a risk taker in the private enterprise system. You hear about entrepreneurs all the time—two college students creating a mobile app or a new parent who has an innovative idea for a better baby product. Once in a while, the risk leads to rewards that are significant and profitable. However, oftentimes, it takes an entrepreneur repeated attempts, failures, and numerous ideas before achieving success. Individuals who recognize marketplace opportunities are free to use their capital, time, and talents to pursue those opportunities for profit. The willingness of individuals to start new ventures drives

entrepreneur person who seeks a profitable opportunity and takes the necessary risks to set up and operate a business.

economic growth and keeps competitive pressure on existing companies to continue to satisfy customers.

By almost any measure, the entrepreneurial spirit fuels growth in the U.S. economy. Of all the businesses operating in the United States, about one in seven companies started operations during the past year. These newly formed businesses are also the source of many of the nation's new jobs. These companies are a significant source of employment or self-employment. Of the 28 million U.S. small businesses currently in operation, more than 22 million consist of self-employed people without any employees. Almost 8.5 million U.S. employees currently work for a business with fewer than 20 employees.¹⁵ Does starting a business require higher education? Not necessarily, although it certainly helps. Some students choose to launch a business before they finish college. **Table 1.2** lists some of the well-known startups that had their humble beginnings in a college dorm room. Today, the venture capital fund DormRoomFund.com provides funding for student entrepreneurs and is run by college students. Entrepreneurs and business startups are discussed in detail in Chapter 6.

Besides creating jobs and selling products, entrepreneurship provides the benefits of innovation. In contrast to more established firms, start-up companies tend to innovate most in fields of technology, making new products available to businesses and consumers. Because small companies are more flexible, they can make changes to products and processes more quickly than larger corporations. Entrepreneurs often find new ways to use natural resources, technology, and other factors of production. Often, they do this because they have to—they may not have enough money to build an expensive prototype or launch a wide-scale promotional campaign.

TABLE 1.2 Dorm Room Entrepreneurs

Company	Founders	Idea	Website
Dropbox	Arash Ferdowski and Drew Houston	Frustrated by the inability to receive and send large files over e-mail, Ferdowski and Houston created an online file storage solution, now the leader in file sharing with millions of users worldwide.	http://www.dropbox.com
Facebook	Mark Zuckerberg, Dustin Moscovitz, Eduardo Saverin, Andrew McCollum, and Chris Hughes	Facebook was created by a group of Harvard students in search of a way to interact with other students. Zuckerberg dropped out of school and continues to run the company today.	http://www.facebook.com
Google	Sergey Brin and Larry Page	Brin and Page began brainstorming while in school about creating the world's largest search engine. They suspended their PhD studies, and both run Alphabet today (see the chapter opening story).	http://www.google.com
Insomnia Cookies	Seth Berkowitz	Insomnia Cookies, now in 70 locations, specializes in feeding the insatiable hunger of college students, companies, and anyone else with warm, delicious cookies delivered right to your door.	http://www.insomniacookies.com
ModCloth	Susan Gregg Koger and Eric Koger	ModCloth offers styles from hundreds of independent designers in a full range of sizes. They also design and sell an exclusive line of their own apparel.	http://www.modcloth.com
SnapChat	Evan Spiegel and Robert Murphy	Approached by a friend who wasn't sure about whether to send a certain photo, Spiegel and Murphy figured out a way to magically send pictures that soon disappear after being viewed by the recipient.	http://www.snapchat.com
Inogen	Alison Perry Bauerlin	While in college, Bauerlin founded Inogen, a lightweight and travel-approved portable oxygen device designed to free patients in need of oxygen from heavy tanks.	http://www.inogen.com

Sources: Rachel Knuttel, "The 12 Coolest Dorm Room Startups," <http://thelala.com>, accessed February 10, 2018; Ken Yeung, "Mark Zuckerberg on the Real Beginnings of Facebook," *The Next Web*, <http://thenextweb.com>, accessed February 10, 2018; company website, "About Us," <https://insomniacookies.com>, accessed February 10, 2018; company website, "About Us," <http://modcloth.com>, accessed February 10, 2018; company website, www.snapchat.com, accessed February 10, 2018; company website, "Create Your Website for Free," <https://wordpress.com>, accessed February 10, 2018; Company website, "About Us," accessed February 10, 2018, <http://inogen.com>.

Sometimes an entrepreneur may innovate by simply tweaking an existing idea. For backcountry campers, hikers, and other outdoor enthusiasts, freeze-dried “just-add-water-and-serve” meals-in-a-pouch are traditionally lightweight with an extensive shelf life. Avid backpacker, chef, and former restaurateur, Jennifer Scism, began experimenting by cooking and dehydrating her own meals prior to heading out on long expeditions. The result is Good To-Go, a Maine-based company that sells gourmet freeze-dried foods free of preservatives and additives. Now in 600 stores nationwide, the gourmet meals in a pouch include herbed mushroom risotto, pad Thai, smoked three-bean chili, and Indian vegetable korma, to name a few.¹⁶

Entrepreneurship is also important to existing companies in a private enterprise system. More and more, large companies are recognizing the value of entrepreneurial thinking among their employees, hoping to benefit from enhanced flexibility, improved innovation, and new market opportunities. For example, Nike’s mobile app called SNKRS uses augmented reality to give “sneakerheads” (people who collect and trade sneakers as a hobby) a one-stop shop for everything Nike, in addition to a heads-up about the release of new models and the ability to purchase new and limited-edition sneakers through the app.¹⁷

As discussed in the next section, entrepreneurs have played a vital role in the history of U.S. business. As forward-thinking innovators, they have created global companies in new industries, developed successful business methods and processes, and brought about economic wealth, jobs, and opportunities.

Assessment Check

1. What is an alternative term for *private enterprise system*?
2. What is the most basic freedom under the private enterprise system?
3. What is an entrepreneur?

4 Seven Eras in the History of Business

In the more than 500 years since the first European settlements appeared on the North American continent, amazing changes have occurred in the size, focus, and goals of U.S. businesses. As **Figure 1.2** indicates, U.S. business history is divided into seven distinct time periods: (1) the Colonial period, (2) the Industrial Revolution, (3) the age of industrial entrepreneurs, (4) the production era, (5) the marketing era, (6) the relationship era, and (7) the social era. The next sections describe how events in each of these time periods have influenced U.S. business practices.

The Colonial Period

Colonial society emphasized rural and agricultural production. Colonial towns were small compared to European cities, and they functioned as marketplaces for farmers and craftspeople. The economic focus of the nation centered on rural areas, because prosperity depended on the output of farms, orchards, and the like. The success or failure of crops influenced every aspect of the economy.

Colonists depended on England for manufactured items as well as financial backing for their infant industries. Even after the Revolutionary War (1776–1783), the United States maintained close economic ties with England. British investors continued to provide much of the financing for developing the U.S. business system, and this financial influence continued well into the 19th century.