

A scenic view of a rocky cliffside with a single tree growing on a ledge, overlooking a vast canyon. The rock formations are layered and weathered, with a mix of tan and reddish-brown hues. The canyon below is deep and filled with more rock formations, extending into the distance under a clear blue sky.

# Foundations of Business

4e

**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 not only in today's competitive business world, but also in your personal life.

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's 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 new edition of *Foundations 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's something in every chapter to help you understand the world of business and become a better employee, a more informed consumer, and, if it's your dream—a successful business owner. In every chapter, you find special coverage about how social media, efforts to sustain the planet, the current state of the economy, and the challenges that face the nation impact businesses, employees, and consumers. All new boxed features help reinforce the success theme, including Career Success, Ethical Success or Failure, Entrepreneurial Success, and Striving for Success. You can also use the concept checks, chapter summary, discussion questions, and case problems to reinforce important concepts. And the activities in the Building Skills for Career Success at the end of each chapter will help to improve the skills you need for success.

We're especially proud of the CourseMate website for *Foundations of Business*. A number of learning activities—all designed to help you to experience success—are available at [cengagebrain.com](http://cengagebrain.com). There you will find:

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

It's time! Take the next step and read Chapter 1 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

Bill Pride  
[w-pride@tamu.edu](mailto:w-pride@tamu.edu)

Bob Hughes  
[bhughes@dcccd.edu](mailto:bhughes@dcccd.edu)

Jack Kapoor  
[kapoorj@cod.edu](mailto:kapoorj@cod.edu)

# Foundations of Business

---

4e



**William M. Pride**

Texas A&M University

**Robert J. Hughes**

Dallas County Community Colleges

**Jack R. Kapoor**

College of DuPage



---

Australia • Brazil • Mexico • Singapore • United Kingdom • United States

This is an electronic version of the print textbook. Due to electronic rights restrictions, some third party content may be suppressed. Editorial review has deemed that any suppressed content does not materially affect the overall learning experience. The publisher reserves the right to remove content from this title at any time if subsequent rights restrictions require it. For valuable information on pricing, previous editions, changes to current editions, and alternate formats, please visit [www.cengage.com/highered](http://www.cengage.com/highered) to search by ISBN#, author, title, or keyword for materials in your areas of interest.

**Foundations of Business, Fourth edition****William M. Pride, Robert J. Hughes,  
Jack R. Kapoor**Senior Vice President, Global Product Manager,  
Higher Education: Jack W. CalhounVice President, General Manager, Social Science  
& Qualitative Business: Erin Joyner

Product Director: Mike Schenk

Product Manager: Jason Fremder

Sr. Content Developer: Joanne Dauksewicz

Product Assistant: Megan Fischer

Marketing Manager: Robin LeFevre

Content Project Manager: Darrell E. Frye

Media Developer: Kristin Meere

Manufacturing Planner: Ron Montgomery

Marketing Coordinator: Christopher Walz

Production Service: PreMediaGlobal

Sr. Art Director: Stacy Jenkins Shirley

Internal Designer: Joe Devine, Red Hangar  
Design

Cover Designer: Kathy Heming

Cover Image: ©J. Biekling/Shutterstock

Rights Acquisitions Specialist: John Hill

© 2015, 2013 Cengage Learning

WCN: 02-200-203

ALL RIGHTS RESERVED. No part of this work covered by the copyright herein may be reproduced, transmitted, stored, or used in any form or by any means graphic, electronic, or mechanical, including but not limited to photocopying, recording, scanning, digitizing, taping, web distribution, information networks, or information storage and retrieval systems, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the publisher.

For product information and technology assistance, contact us at  
**Cengage Learning Customer & Sales Support, 1-800-354-9706**

For permission to use material from this text or product,  
submit all requests online at [www.cengage.com/permissions](http://www.cengage.com/permissions)  
Further permissions questions can be emailed to  
[permissionrequest@cengage.com](mailto:permissionrequest@cengage.com)

Library of Congress Control Number: 2013951070

ISBN-978-1-285-19394-6

ISBN-10: 1-285-19394-6

**Cengage Learning**200 First Stamford Place, 4th Floor  
Stamford, CT 06902  
USA

Cengage Learning is a leading provider of customized learning solutions with office locations around the globe, including Singapore, the United Kingdom, Australia, Mexico, Brazil, and Japan. Locate your local office at:  
[www.cengage.com/global](http://www.cengage.com/global)

Cengage Learning products are represented in Canada by Nelson Education, Ltd.

To learn more about Cengage Learning Solutions, visit [www.cengage.com](http://www.cengage.com)Purchase any of our products at your local college store or at our preferred online store [www.cengagebrain.com](http://www.cengagebrain.com)

*To Nancy, Allen, Michael, Ashley, Charlie, and James Robinson 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

## **PART 1** The Environment of Business 1

Chapter 1 Exploring the World of Business and Economics 1

Chapter 2 Being Ethical and Socially Responsible 32

Chapter 3 Exploring Global Business 65

## **PART 2** Business Ownership and Entrepreneurship 100

Chapter 4 Choosing a Form of Business Ownership 100

Chapter 5 Small Business, Entrepreneurship, and Franchises 127

## **PART 3** Management and Organization 159

Chapter 6 Understanding the Management Process 159

Chapter 7 Creating a Flexible Organization 183

Chapter 8 Producing Quality Goods and Services 206

## **PART 4** Human Resources 238

Chapter 9 Attracting and Retaining the Best Employees 238

Chapter 10 Motivating and Satisfying Employees and Teams 266

## **PART 5** Marketing 297

Chapter 11 Building Customer Relationships Through Effective Marketing 297

Chapter 12 Creating and Pricing Products That Satisfy Customers 322

Chapter 13 Distributing and Promoting Products 356

## **PART 6** Information, Accounting, and Finance 394

Chapter 14 Exploring Social Media and e-Business 394

Chapter 15 Using Management and Accounting Information 426

Chapter 16 Mastering Financial Management 460

Answer Key TY-1

Glossary G-1

Name Index NI-1

Subject Index SI-1

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

Appendix A: Understanding Personal Finances and Investments A-1

Appendix B: Careers in Business B-1

Appendix C: Enhancing Union–Management Relations C-1

Appendix D: Risk Management and Insurance D-1

Appendix E: Business Law, Regulation, and Taxation E-1



© ANDY DEAN PHOTOGRAPHY/SHUTTERSTOCK.COM

# Contents



## PART 1 The Environment of Business 1

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

- **Inside Business:** How Starbucks Brews Up Global Profits 2
- Your Future in the Changing World of Business 3
- Career Success:** Improve Your Productivity! 4
  - Why Study Business? 4
- Personal Apps:** Sometimes you have to reach for success! 5
  - Special Note to Business Students, 7
- Business: A Definition 8
  - The Organized Effort of Individuals, 8 • Satisfying Needs, 9 • Business Profit, 9
- Types of Economic Systems 10
- Entrepreneurial Success:** Building a Million-Dollar App Business 12
  - Capitalism, 12 • Capitalism in the United States, 13 • Command Economies, 14
- Measuring Economic Performance 15
  - The Importance of Productivity in the Global Marketplace, 15 • The Nation's Gross Domestic Product, 16 • Important Economic Indicators That Measure a Nation's Economy, 16
- The Business Cycle 17
- Types of Competition 19
  - Perfect Competition, 19
- Personal Apps:** Why do consumers choose one product instead of another? 21
  - Monopolistic Competition, 21 • Oligopoly, 21 • Monopoly, 22
- American Business Today 22
  - Early Business Development, 22 • Business Development in the 1900s, 23 • A New Century: 2000 and Beyond, 24 • The Current Business Environment, 24 • The Challenges Ahead, 25
- Summary 26
- Key Terms 28
- Discussion Questions 28
- Test Yourself 28
- Video Case:** KlipTech Turns Recycled Paper into Products and Profits 30
  - Building Skills for Career Success 31
- Endnotes 31

### Chapter 2: Being Ethical and Socially Responsible 32

- **Inside Business:** Chipotle Mexican Grill's "Food with Integrity" 33
- Business Ethics Defined 34
- Ethical Issues 34
  - Fairness and Honesty, 35 • Organizational Relationships, 35
- Personal Apps:** In some buying situations, the "right" thing to do isn't always clear, is it? 35
  - Conflict of Interest, 36 • Communications, 36
- Factors Affecting Ethical Behavior 36
  - Individual Factors Affecting Ethics, 37 • Social Factors Affecting Ethics, 37 • "Opportunity" as a Factor Affecting Ethics, 38
- Encouraging Ethical Behavior 38
  - Government's Role in Encouraging Ethics, 38 • Trade Associations' Role in Encouraging Ethics, 39 • Individual Companies' Role in Encouraging Ethics, 39
- Social Responsibility 42
- The Evolution of Social Responsibility in Business 44
  - Historical Evolution of Business Social Responsibility, 45
- Two Views of Social Responsibility 46
  - The Economic Model, 46 • The Socioeconomic Model, 47 • The Pros and Cons of Social Responsibility, 47
- Consumerism 48
  - The Six Basic Rights of Consumers, 48
- Personal Apps:** Do you always know what you're buying? 50
  - Major Consumerism Forces, 50
- Employment Practices 50
  - Affirmative Action Programs, 52 • Training Programs for the Hard-Core Unemployed, 53
- Concern for the Environment 54
  - Effects of Environmental Legislation, 54
- Sustain the Planet:** Social Responsibility at Xerox 55
- Entrepreneurial Success:** Social Entrepreneurs of Tomorrow 57
  - Who Should Pay for a Clean Environment? 57
- Implementing a Program of Social Responsibility 58
  - Developing a Program of Social Responsibility, 58 • Funding the Program, 59
- Summary 59
- Key Terms 60



Discussion Questions 60  
Test Yourself 61  
**Video Case:** PortionPac Chemical Is People-Friendly,  
Planet-Friendly 62  
**Building Skills for Career Success 63**  
Endnotes 64

## Chapter 3: Exploring Global Business 65

→ **Inside Business:** Coca-Cola 66  
The Basis for International Business 67  
*Absolute and Comparative Advantage, 67 • Exporting  
and Importing, 68*  
Restrictions to International Business 70  
*Types of Trade Restrictions, 70 • Reasons for Trade  
Restrictions, 72*  
**Personal Apps:** What's your reaction when you see  
"Made in America" or "Made in the USA" on a  
product? 72  
*Reasons Against Trade Restrictions, 73*  
**Career Success:** The Global Economy Creates Jobs at  
Home, Too 73  
The Extent of International Business 73  
*The World Economic Outlook for Trade, 74*

International Trade Agreements 77  
*The General Agreement on Tariffs and Trade and the  
World Trade Organization, 77 • World Trade and the  
Global Economic Crisis, 78 • International Economic  
Organizations Working to Foster Trade, 78*  
Methods of Entering International Business 81  
*Licensing, 81 • Exporting, 82 • Joint Ventures, 83 •  
Totally Owned Facilities, 83*  
**Striving for Success:** Services Team Up to Enter India 84  
*Strategic Alliances, 84 • Trading Companies, 84 •  
Countertrade, 85 • Multinational Firms, 85*  
Sources of Export Assistance 86  
Financing International Business 87  
*The Export-Import Bank of the United States, 87*  
**Personal Apps:** Do you know what a euro is worth? 88  
*Multilateral Development Banks, 88 • The International  
Monetary Fund, 88 • The Challenges Ahead, 89*  
Summary 90  
Key Terms 91  
Discussion Questions 91  
Test Yourself 91  
**Video Case:** Keeping Brazil's Economy Hot 93  
**Building Skills for Career Success 94**  
Running a Business: Part 1: Let's Go Get a Graeter's! 95  
Building a Business Plan: Part 1 97  
Endnotes 99

# PART 2 Business Ownership and Entrepreneurship 100



© ANDY DEAN PHOTOGRAPHY/SHUTTERSTOCK.COM

## Chapter 4: Choosing a Form of Business Ownership 100

→ **Inside Business:** Berkshire Hathaway Buys and Holds  
for Long-Term Growth 101  
Sole Proprietorships 102  
*Advantages of Sole Proprietorships, 102 •  
Disadvantages of Sole Proprietorships, 104*  
**Personal Apps:** Do you dream of being your own boss? 104  
*Beyond the Sole Proprietorship, 105*  
Partnerships 105  
*Types of Partners, 105 • The Partnership  
Agreement, 106*  
Advantages and Disadvantages of Partnerships 106  
*Advantages of Partnerships, 106 • Disadvantages of  
Partnerships, 108 • Beyond the Partnership, 109*  
Corporations 109  
*Corporate Ownership, 110 • Forming a  
Corporation, 110*  
**Personal Apps:** Are you a stockholder? 111  
*Corporate Structure, 112*  
**Ethical Success or Failure?** Do We Need More Women in  
the Board Room? 113

Advantages and Disadvantages of Corporations 113  
*Advantages of Corporations, 114 • Disadvantages of  
Corporations, 114*  
**Social Media:** Going Social with SCORE 115  
Special Types of Business Ownership 116  
*S-Corporations, 116 • Limited-Liability  
Companies, 116 • Not-for-Profit Corporations, 117*  
Joint Ventures and Syndicates 118  
*Joint Ventures, 118 • Syndicates, 118*  
Corporate Growth 119  
*Growth from Within, 119 • Growth Through Mergers  
and Acquisitions, 119 • Merger and Acquisition Trends  
for the Future, 121*  
Summary 121  
Key Terms 123  
Discussion Questions 123  
Test Yourself 123  
**Video Case:** AT&T and T-Mobile: What Went Wrong with  
Their Merger? 125  
**Building Skills for Career Success 125**  
Endnotes 126

## Chapter 5: Small Business, Entrepreneurship, and Franchises 127

→ **Inside Business:** Dunkin' Brands Helps Franchisees Brew up Sales 128

Small Business: A Profile 128  
*The Small-Business Sector, 129 • Industries That Attract Small Businesses, 130*

**Personal Apps:** Have you worked for a small business? 130

The People in Small Businesses: The Entrepreneurs 131  
*Characteristics of Entrepreneurs, 131 • Other Personal Factors, 131 • Motivation, 132 • Women as Small-Business Owners, 132 • Teenagers as Small-Business Owners, 133 • Why Some Entrepreneurs and Small Businesses Fail, 133*

**Career Success:** Is Entrepreneurship in Your Future? 133

The Importance of Small Businesses in Our Economy 134  
*Providing Technical Innovation, 135 • Providing Employment, 136 • Providing Competition, 136 • Filling Needs of Society and Other Businesses, 136*

The Pros and Cons of Smallness 136  
*Advantages of Small Business, 136 • Disadvantages of Small Business, 137*

**Entrepreneurial Success:** Students by Day, Entrepreneurs by Night 138

*The Importance of a Business Plan, 138 • Components of a Business Plan, 138*

**Personal Apps:** A business plan is a great idea! 140

The Small Business Administration 141  
*SBA Management Assistance, 141 • Help for Minority-Owned Small Businesses, 142 • SBA Financial Assistance, 143*

Franchising 144  
*What Is Franchising? 144 • Types of Franchising, 144*

The Growth of Franchising 146  
*Are Franchises Successful? 147 • Advantages of Franchising, 147 • Disadvantages of Franchising, 148*

Global Perspectives in Small Business 149

Summary 150

Key Terms 151

Discussion Questions 151

Test Yourself 151

**Video Case:** From Two Men and a Truck to 220 Franchises and 1,400 Trucks 153

**Building Skills for Career Success 154**

Running a Business: Part 2: Graeter's: A Fourth-Generation Family Business 155

Building a Business Plan: Part 2 157

Endnotes 158

## PART 3 Management and Organization 159



© ANDY DEAN PHOTOGRAPHY/SHUTTERSTOCK.COM

### Chapter 6: Understanding the Management Process 159

→ **Inside Business:** Amazon's Customer First Philosophy 160

What Is Management? 160

**Personal Apps:** Are you already a manager? 161

Basic Management Functions 162  
*Planning, 162*

**Career Success:** Your Personal SWOT Analysis 164  
*Organizing the Enterprise, 165 • Leading and Motivating, 165 • Controlling Ongoing Activities, 166*

Kinds of Managers 167  
*Levels of Management, 167 • Areas of Management Specialization, 168*

Key Skills of Successful Managers 170  
*Conceptual Skills, 170 • Analytic Skills, 170 • Interpersonal Skills, 171 • Technical Skills, 171 • Communication Skills, 171*

**Social Media:** CEO Dilemma: To Blog or Not to Blog? 171

Leadership 172  
*Formal and Informal Leadership, 172*

**Personal Apps:** Who do you admire? 172  
*Styles of Leadership, 172 • Which Leadership Style Is the Best? 173*

Managerial Decision Making 173  
*Identifying the Problem or Opportunity, 173 • Generating Alternatives, 174 • Selecting an Alternative, 174 • Implementing and Evaluating the Solution, 175*

Managing Total Quality 175

Summary 176

Key Terms 177

Discussion Questions 177

Test Yourself 178

**Video Case:** L.L.Bean Relies on Its Core Values and Effective Leadership 179

**Building Skills for Career Success 180**

Endnotes 181

### Chapter 7: Creating a Flexible Organization 183

→ **Inside Business:** Autonomy Fosters Innovation and Success at W.L. Gore 184

What Is an Organization? 185  
*Developing Organization Charts, 185 • Major Considerations for Organizing a Business, 185*

Job Design 186  
*Job Specialization, 186 • The Rationale for Specialization, 187 • Alternatives to Job Specialization, 188*

Departmentalization 188  
*By Function, 188 • By Product, 188 • By Location, 189 • By Customer, 189 • Combinations of Bases, 189*

Delegation, Decentralization, and Centralization 190  
*Delegation of Authority, 190*

**Entrepreneurial Success:** Successful Leaders Are Successful Delegators 191  
*Decentralization of Authority, 191*

The Span of Management 192  
*Wide and Narrow Spans of Management, 192 • Organizational Height, 193*

Forms of Organizational Structure 193  
*The Line Structure, 193*

**Personal Apps:** Do you have a mentor? 194  
*The Line-and-Staff Structure, 194 • The Matrix Structure, 195 • The Network Structure, 196*

Corporate Culture 197  
**Striving for Success:** Dell Restructures to Jump-Start Innovation 198

Committees and Task Forces 199

The Informal Organization and the Grapevine 199  
**Personal Apps:** Will you fit in? 200

Summary 200

Key Terms 201

Discussion Questions 202

Test Yourself 202  
**Video Case:** Zappos Wants to Make Customers (and Employees) Happy 203  
*Building Skills for Career Success 204*

Endnotes 205

## Chapter 8: Producing Quality Goods and Services 206

→ **Inside Business:** Intel Invests in State-of-the-Art Production 207

What Is Production? 208  
*How American Manufacturers Compete in the Global Marketplace, 208*

**Entrepreneurial Success:** Profit from Demand for “Made in America” 209  
*Careers in Operations Management, 210*

The Conversion Process 210  
*Manufacturing Using a Conversion Process, 211*

The Increasing Importance of Services 212  
*Planning Quality Services, 212 • Evaluating the Quality of a Firm’s Services, 213*

Where Do New Products and Services Come From? 213  
*Research and Development, 213*

**Personal Apps:** Got a good idea? 214  
*Product Extension and Refinement, 214*

How Do Managers Plan Production? 215  
*Design Planning, 215 • Site Selection and Facilities Planning, 216*

**Sustain the Planet:** Saving Energy—And the Environment 217  
*Operational Planning, 219*

Operations Control 220  
*Purchasing, 220 • Inventory Control, 221 • Scheduling, 221 • Quality Control, 222*

**Personal Apps:** Nobody likes complaints! 224  
*Production Planning: A Summary, 224*

Improving Productivity with Technology 225  
*Productivity Trends, 225 • Improving Productivity Growth, 225 • The Impact of Automation, Robotics, and Computers on Productivity, 226 • Sustainability and Technological Displacement, 228*

Summary 229

Key Terms 230

Discussion Questions 230

Test Yourself 231  
**Video Case:** Chobani Gives the World a Taste for Greek Yogurt 232  
*Building Skills for Career Success 233*

Running a Business: Part 3: Graeter’s Grows Through Good Management, Organization, and Quality 234

Building a Business Plan: Part 3 236

Endnotes 237

# PART 4 Human Resources 238

## Chapter 9: Attracting and Retaining the Best Employees 238

→ **Inside Business:** Google Grows Through People Power 239

Human Resources Management: An Overview 239  
**Personal Apps:** How many skills do you have? 240  
*HRM Activities, 240 • Responsibility for HRM, 240*

Human Resources Planning 241  
*Forecasting Human Resources Demand, 241 • Forecasting Human Resources Supply, 241 • Matching Supply with Demand, 242*

Cultural Diversity in Human Resources 243  
**Striving for Success:** What Does a Chief Diversity Officer Do? 243

Job Analysis 245

Recruiting, Selection, and Orientation 246  
*Recruiting, 246 • Selection, 247 • Orientation, 249*



© ANDY DEAN PHOTOGRAPHY/SHUTTERSTOCK.COM

Compensation and Benefits 249  
*Compensation Decisions, 249 • Comparable Worth, 250*

**Personal Apps:** Focus on what you can offer! 251  
*Types of Compensation, 251 • Employee Benefits, 251*

Training and Development 252

**Social Media:** Nuts About Southwest 253  
*Analysis of Training Needs, 253 • Training and Development Methods, 253 • Evaluation of Training and Development, 254*

Performance Appraisal 254  
*Common Evaluation Techniques, 254 • Performance Feedback, 256*

The Legal Environment of HRM 257  
*National Labor Relations Act and Labor–Management Relations Act, 257 • Fair Labor Standards Act, 257 • Equal Pay Act, 257 • Civil Rights Acts, 257 • Age Discrimination in Employment Act, 258 • Occupational Safety and Health Act, 258 • Employee Retirement Income Security Act, 259 • Affirmative Action, 259 • Americans with Disabilities Act, 259*

Summary 260

Key Terms 261

Discussion Questions 261

Test Yourself 262

**Video Case:** The Container Store Hires Great Employees to Sell Empty Boxes 263  
*Building Skills for Career Success 264*

Endnotes 265

## Chapter 10: Motivating and Satisfying Employees and Teams 266

→ **Inside Business:** Satisfied Employees Help Create Satisfied Customers at American Express 267

What Is Motivation? 267

Historical Perspectives on Motivation 268  
*Scientific Management, 268 • The Hawthorne Studies, 269 • Maslow’s Hierarchy of Needs, 270 • Herzberg’s Motivation–Hygiene Theory, 271 • Theory X and Theory Y, 273 • Theory Z, 274 • Reinforcement Theory, 274*

**Personal Apps:** What motivates you? 275

Contemporary Views on Motivation 275  
*Equity Theory, 275 • Expectancy Theory, 276*

**Striving for Success:** The Gamification of Motivation 276  
*Goal-Setting Theory, 277*

Key Motivation Techniques 278  
*Management by Objectives, 278 • Job Enrichment, 279 • Behavior Modification, 280 • Flextime, 280 • Part-Time Work and Job Sharing, 281 • Telecommuting, 282 • Employee Empowerment, 282*

**Sustain the Planet:** Cash for Conservation? 282  
*Employee Ownership, 283*

Teams and Teamwork 284  
*What Is a Team? 284 • Types of Teams, 284 • Developing and Using Effective Teams, 286 • Roles Within a Team, 286*

**Personal Apps:** Is your team virtual? 287  
*Team Cohesiveness, 287 • Team Conflict and How to Resolve It, 287 • Benefits and Limitations of Teams, 287*

Summary 288

Key Terms 289

Discussion Questions 289

Test Yourself 290

**Video Case:** Putting the Focus on People at the Fruit Guys 291

*Building Skills for Career Success 292*

Running a Business: Part 4: At Graeter’s, Tenure Is “a Proud Number” 293

Building a Business Plan: Part 4 295

Endnotes 296

# PART 5 Marketing 297

## Chapter 11: Building Customer Relationships Through Effective Marketing 297

→ **Inside Business:** Volkswagen: Eternally Trying to be the “People’s Car” 298

Managing Customer Relationships 298

**Ethical Success or Failure?** The Customer Is Always Right—or Not 300

Utility: The Value Added by Marketing 300

The Marketing Concept 302  
*Evolution of the Marketing Concept, 302 • Implementing the Marketing Concept, 303*

**Personal Apps:** Think about the purchases you’ve made this year 303

Markets and Their Classification 303

Contents

Developing Marketing Strategies 304  
*Target Market Selection and Evaluation, 304 • Creating a Marketing Mix, 307*

Marketing Strategy and the Marketing Environment 309

Developing a Marketing Plan 309

Market Measurement and Sales Forecasting 310

Marketing Information 311  
*Marketing Information Systems, 311 • Marketing Research, 311*

**Personal Apps:** Tell us your thoughts 312  
*Using Technology to Gather and Analyze Marketing Information, 312*

**Striving for Success:** Using Neuroscience for Marketing Research 313

Types of Buying Behavior 314  
*Consumer Buying Behavior, 314 • Business Buying Behavior, 316*



© ANDY DEAN PHOTOGRAPHY/SHUTTERSTOCK.COM

Summary 316  
Key Terms 318  
Discussion Questions 318  
Test Yourself 318  
**Video Case:** Raleigh Wheels Out Steel Bicycle Marketing 320  
*Building Skills for Career Success 320*  
Endnotes 321

## Chapter 12: Creating and Pricing Products That Satisfy Customers 322

→ **Inside Business:** Thinking Outside the Box at Oreo 323  
Classification of Products 324  
*Consumer Product Classifications, 324 • Business Product Classifications, 325*  
The Product Life-Cycle 325  
*Stages of the Product Life-Cycle, 325*  
**Personal Apps:** Do you have one of these? 327  
*Using the Product Life-Cycle, 328*  
Product Line and Product Mix 328  
Managing the Product Mix 329  
*Managing Existing Products, 329 • Deleting Products, 330 • Developing New Products, 330*  
**Entrepreneurial Success:** Go Ahead, Write on the Walls! 332  
*Why Do Products Fail? 332*  
Branding, Packaging, and Labeling 333  
*What Is a Brand? 333 • Types of Brands, 333*  
**Personal Apps:** What's your favorite brand? 334  
*Benefits of Branding, 334 • Choosing and Protecting a Brand, 335*  
**Social Media:** Social Networking for Success: Small Businesses Turn to Social Media for Effective Marketing 336  
*Branding Strategies, 336 • Brand Extensions, 337 • Packaging, 337 • Labeling, 338*  
Pricing Products 339  
*The Meaning and Use of Price, 339 • Price and Non-Price Competition, 339 • Buyers' Perceptions of Price, 340*  
Pricing Objectives 340  
*Survival, 340 • Profit Maximization, 341 • Target Return on Investment, 341 • Market-Share Goals, 341 • Status-Quo Pricing, 341*  
Pricing Methods 341  
*Cost-Based Pricing, 341 • Demand-Based Pricing, 342 • Competition-Based Pricing, 343*  
Pricing Strategies 344  
*New-Product Pricing, 344 • Differential Pricing, 344 • Psychological Pricing, 345 • Product-Line Pricing, 346 • Promotional Pricing, 347*  
Pricing Business Products 347  
*Geographic Pricing, 348 • Transfer Pricing, 348 • Discounting, 348*  
Summary 349  
Key Terms 350  
Discussion Questions 351  
Test Yourself 351

**Video Case:** From Artistic Roots, Blu Dot Styles Marketing Strategy 353  
*Building Skills for Career Success 353*  
Endnotes 354

## Chapter 13: Distributing and Promoting Products 356

→ **Inside Business:** How Dick's Sporting Goods Captures the Category 357  
Distribution Channels and Market Coverage 357  
*Commonly Used Distribution Channels, 358*  
**Personal Apps:** Got water to drink? 360  
*Level of Market Coverage, 360*  
Partnering Through Supply-Chain Management 360  
Marketing Intermediaries: Wholesalers 361  
*Wholesalers Provide Services to Retailers and Manufacturers, 361 • Types of Wholesalers, 361*  
Marketing Intermediaries: Retailers 362  
*Types of Retail Stores, 363 • Types of Nonstore Selling, 365*  
**Personal Apps:** Where do you shop? 367  
*Types of Shopping Centers, 367*  
Physical Distribution 368  
*Inventory Management, 368 • Order Processing, 368 • Warehousing, 369 • Materials Handling, 369 • Transportation, 369*  
**Sustain the Planet:** Green Logistics 370  
What Is Integrated Marketing Communications? 371  
The Promotion Mix: An Overview 372  
Advertising 373  
*Types of Advertising by Purpose, 373 • Major Steps in Developing an Advertising Campaign, 374*  
**Entrepreneurial Success:** Via Ad Agency 376  
*Advertising Agencies, 376 • Social and Legal Considerations in Advertising, 377*  
Personal Selling 377  
*Kinds of Salespersons, 377 • The Personal-Selling Process, 378 • Major Sales Management Tasks, 379*  
Sales Promotion 379  
*Sales Promotion Objectives, 379 • Sales Promotion Methods, 380 • Selection of Sales Promotion Methods, 380*  
Public Relations 382  
*Types of Public-Relations Tools, 382 • Uses of Public Relations, 383*  
Summary 383  
Key Terms 385  
Discussion Questions 385  
Test Yourself 386  
**Video Case:** L.L.Bean Employs a Variety of Promotion Methods to Communicate with Customers 387  
*Building Skills for Career Success 388*  
Running a Business: Part 5: Graeter's Is "Synonymous with Ice Cream" 390  
Building a Business Plan: Part 5 392  
Endnotes 393



## Chapter 14: Exploring Social Media and e-Business 394

→ **Inside Business:** Domino's Puts e-Business and Social Media on the Menu 395

Why Is Social Media Important? 395

*What Is Social Media and How Popular Is It?* 396 • *Why Businesses Use Social Media*, 397

**Personal Apps:** Why Businesses "Like" Social Media 398

Social Media Tools For Business Use 398

*Business Use of Blogs*, 398 • *Photos, Videos, and Podcasts*, 399 • *Social Media Ratings*, 399 • *Social Games*, 400

Achieving Business Objectives Through Social Media 400

*Social Media Communities*, 400 • *Crisis and Reputation Management*, 401 • *Listening to Stakeholders*, 402 • *Targeting Customers*, 402 • *Social Media Marketing*, 403 • *Generating New Product Ideas*, 404 • *Recruiting Employees*, 405

**Career Success:** Make a Good Impression Using Social Media 405

Developing a Social Media Plan 406

*Steps to Build a Social Media Plan*, 406 • *Measuring and Adapting a Social Media Plan*, 408 • *The Cost of Maintaining a Social Media Plan*, 410

Defining e-Business 410

*Organizing e-Business Resources*, 410 • *Satisfying Needs Online*, 411 • *Creating e-Business Profit*, 412

**Entrepreneurial Success:** Starting an Online Farmers' Market 412

**Personal Apps:** What Do e-Businesses Sell? 413

Fundamental Models of e-Business 413

*Business-to-Business (B2B) Model*, 413 • *Business-to-Consumer (B2C) Model*, 415

The Future of the Internet, Social Media, and e-Business 416

*Internet Growth Potential*, 416 • *Ethical and Legal Concerns*, 416 • *Future Challenges for Computer Technology, Social Media, and e-Business*, 417

Summary 419

Key Terms 421

Discussion Questions 421

Test Yourself 421

**Video Case:** Luke's Lobster: Entrepreneurs Use Social Networking to Claw Their Way Up the Food Chain 423

**Building Skills for Career Success** 424

Endnotes 424

## Chapter 15: Using Management and Accounting Information 426

→ **Inside Business:** Intuit Takes Technology into the Future 427

How Can Information Reduce Risk When Making a Decision? 428

*Information and Risk*, 428

Contents

**Personal Apps:** More Knowledge = Better Decisions 429

*Information Rules*, 429 • *The Difference Between Data and Information*, 429 • *Knowledge Management*, 430

What Is a Management Information System? 430

*A Firm's Information Requirements*, 430 • *Costs and Limits of the System*, 431

How Do Employees Use a Management Information System? 432

*Step 1: Collecting Data*, 432 • *Step 2: Storing Data*, 433 • *Step 3: Updating Data*, 433

**Ethical Success or Failure?** How Much Should Businesses Know About Internet Users? 434

*Step 4: Processing Data*, 434 • *Step 5: Presenting Information*, 434 • *Making Smart Decisions*, 435 • *Business Application Software*, 437

Why Accounting Information Is Important 437

*Why Audited Financial Statements Are Important?* 438 • *Accounting Fraud, Ethical Behavior, and Reform*, 439 • *Different Types of Accounting*, 440 • *Careers in Accounting*, 440

The Accounting Equation and the Balance Sheet 441

*The Accounting Equation*, 441 • *The Balance Sheet*, 442 • *Assets*, 442

**Personal Apps:** Smart Career Moves 445

*Liabilities and Owners' Equity* 445

The Income Statement 446

*Revenues*, 447

**Entrepreneurial Success:** Accounting for First-Time Entrepreneurs 448

*Cost of Goods Sold*, 448 • *Operating Expenses*, 448 • *Net Income*, 449

The Statement of Cash Flows 449

Evaluating Financial Statements 450

*Comparing Financial Data*, 451 • *Financial Ratios*, 452

Summary 453

Key Terms 455

Discussion Questions 455

Test Yourself 455

**Video Case:** Making the Numbers or Faking the Numbers? 457

**Building Skills for Career Success** 458

Endnotes 459

## Chapter 16: Mastering Financial Management 460

→ **Inside Business:** How Cisco Finances Future Growth 461

Why Financial Management? 461

*The Need for Financial Management*, 462 • *Financial Reform After the Economic Crisis*, 463 • *Careers in Finance*, 463

The Need for Financing 464

*Short-Term Financing*, 464

**Personal Apps:** Do You Have a Financial Plan? 466

*Long-Term Financing*, 466 • *The Risk-Return Ratio*, 466

Planning—The Basis of Sound Financial Management, 467	Discussion Questions 487
<i>Developing the Financial Plan, 467 • Monitoring and Evaluating Financial Performance, 469</i>	Test Yourself 487
Financial Services Provided by Banks and Other Financial Institutions 470	<b>Video Case:</b> Financial Planning Equals Profits for Nederlander Concerts 489
<i>Traditional Banking Services for Business Clients, 470 • Why Has the Use of Credit Transactions Increased? 471 • Electronic Banking Services, 472 • International Banking Services, 473</i>	<b>Building Skills for Career Success 490</b>
Sources of Short-Term Debt Financing 473	Running a Business: Part 6: Graeter's Recipe for Growth: New Systems, Social Media, and Financing 491
<i>Sources of Unsecured Short-Term Financing, 473 • Sources of Secured Short-Term Financing, 476 • Factoring Accounts Receivable, 476 • Cost Comparisons, 476</i>	Building a Business Plan: Part 6 493
Sources of Equity Financing 477	Endnotes 494
<i>Selling Stock, 477</i>	
<b>Striving for Success:</b> Investor Relations in the Social Media Era 479	Answer Key TY-1
<b>Social Media:</b> Talk to Chuck 480	Glossary G-1
<i>Retained Earnings, 480 • Venture Capital and Private Placements, 480</i>	Name Index NI-1
Sources of Long-Term Debt Financing 481	Subject Index SI-1
<i>Long-Term Loans, 481 • Corporate Bonds, 482</i>	
<b>Personal Apps:</b> You Are a CFO! 483	The following appendixes appear on the companion site <a href="http://www.cengage.brain.com">www.cengage.brain.com</a>
<i>Cost Comparisons, 484</i>	Appendix A: Understanding Personal Finances and Investments A-1
Summary 485	Appendix B: Careers in Business B-1
Key Terms 487	Appendix C: Enhancing Union–Management Relations C-1
	Appendix D: Risk Management and Insurance D-1
	Appendix E: Business Law, Regulation, and Taxation E-1

# About the Authors

## **William M. Pride** Texas A&M University

William M. Pride is professor of marketing, Mays Business School at Texas A&M University. He received his PhD from Louisiana State University. He is the author of Cengage Learning's *Marketing*, 15th edition, and a market leader. Dr. Pride's research interests are in advertising, promotion, and distribution channels. His research articles have appeared in major journals in the fields of advertising and marketing, such as *Journal of Marketing*, *Journal of Marketing Research*, *Journal of the Academy of Marketing Science*, and the *Journal of Advertising*. Dr. Pride is a member of the American Marketing Association, Academy of Marketing Science, Association of Collegiate Marketing Educators, Society for Marketing Advances, and the Marketing Management Association. He has taught principles of marketing and other marketing courses for more than 30 years at both the undergraduate and graduate levels.

## **Robert J. Hughes** Richland College, Dallas County Community Colleges

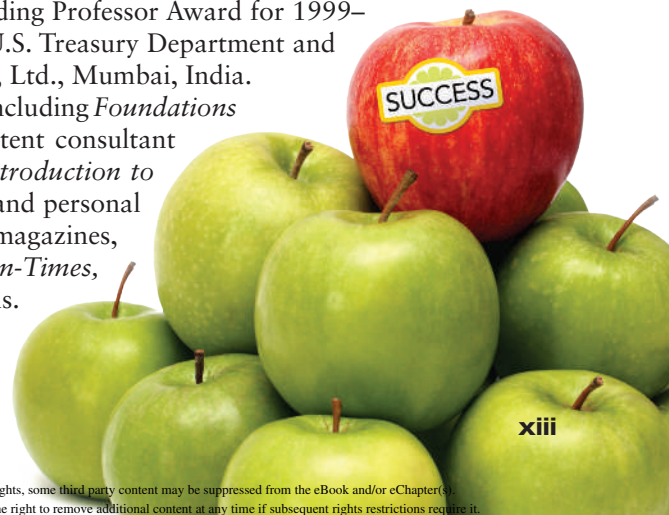
Robert J. Hughes (PhD, University of North Texas) specializes in business administration and college instruction. He has taught Introduction to Business for more than 35 years both on campus and online for Richland College—one of the seven campuses that are part of the Dallas County Community College District. In addition to *Business* and *Foundations of Business*, published by Cengage Learning, he has authored college textbooks in personal finance and business mathematics; served as a content consultant for two popular national television series, *It's Strictly Business* and *Dollars & Sense: Personal Finance for the 21st Century*; and is the lead author for a business math project utilizing computer-assisted instruction funded by the ALEKS Corporation. He is also active in many academic and professional organizations and has served as a consultant and investment advisor to individuals, businesses, and charitable organizations. Dr. Hughes is the recipient of three different Teaching in Excellence Awards at Richland College. According to Dr. Hughes, after 35 years of teaching Introduction to Business, the course is still exciting: "There's nothing quite like the thrill of seeing students succeed, especially in a course like Introduction to Business, which provides the foundation for not only academic courses, but also life in the real world."

## **Jack R. Kapoor** College of DuPage

Jack R. Kapoor (EdD, Northern Illinois University) is professor of business and economics in the Business and Technology Division at the College of DuPage, where he has taught Introduction to Business, Marketing, Management, Economics, and Personal Finance since 1969. He previously taught at Illinois Institute of Technology's Stuart School of Management, San Francisco State University's School of World Business, and other colleges. Professor Kapoor was awarded the Business and Services Division's Outstanding Professor Award for 1999–2000. He served as an Assistant National Bank Examiner for the U.S. Treasury Department and as an international trade consultant to Bolting Manufacturing Co., Ltd., Mumbai, India.

He is known internationally as a coauthor of several textbooks, including *Foundations of Business*, 3rd edition (Cengage Learning), has served as a content consultant for the popular national television series *The Business File: An Introduction to Business*, and developed two full-length audio courses in business and personal finance. He has been quoted in many national newspapers and magazines, including *USA Today*, *U.S. News & World Report*, the *Chicago Sun-Times*, *Crain's Small Business*, the *Chicago Tribune*, and other publications.

Dr. Kapoor has traveled around the world and has studied business practices in capitalist, socialist, and communist countries.





# Acknowledgments

The quality of this book and its supplements program has been helped immensely by the insightful and rich comments of a special set of instructors. Their thoughtful and helpful comments had real impact in shaping the final product. In particular, we wish to thank:

John Adams,  
*San Diego Mesa College*

Ken Anglin,  
*Minnesota State University,  
Mankato*

Ellen A. Benowitz,  
*Mercer County Community  
College*

Michael Bento,  
*Owens Community College*

Patricia Bernson,  
*County College of Morris*

Laura Bulas,  
*Central Community College, NE*

Brennan Carr,  
*Long Beach City College*

Paul Coakley,  
*The Community College of  
Baltimore County*

Jean Condon,  
*Mid-Plains Community College*

Mary Cooke,  
*Surry Community College*

Dean Danielson,  
*San Joaquin Delta College*

John Donnellan,  
*Holyoke Community College*

Gary Donnelly,  
*Casper College*

Karen Edwards,  
*Chemeketa Community College*

Donna K. Fisher,  
*Georgia Southern University*

Charles R. Foley,  
*Columbus State Community  
College*

Mark Fox,  
*Indiana University South Bend*

Connie Golden,  
*Lakeland Community College*

Karen Gore,  
*Ivy Tech Community College—  
Evansville*

Carol Gottuso,  
*Metropolitan Community College*

John Guess,  
*Delgado Community College*

Frank Harber,  
*Indian River State College*

Linda Hefferin,  
*Elgin Community College*

Tom Hendricks,  
*Oakland Community College*

Chip Izard,  
*Richland College*

Eileen Kearney,  
*Montgomery Community College*

Anita Kelley,  
*Harold Washington College*

Mary Beth Klinger,  
*College of Southern Maryland*

Natasha Lindsey,  
*University of North Alabama*

Robert Lupton,  
*Central Washington University*

John Mago,  
*Anoka Ramsey Community  
College*

Rebecca J. Mahr,  
*Western Illinois University*

Pamela G. McElligott,  
*St. Louis Community College  
Meramec*

Myke McMullen,  
*Long Beach City College*

Carol Miller,  
*Community College of Denver*

Jadeip Motwani,  
*Grand Valley State*

Mark Nagel,  
*Normandale Community College*

Dyan Pease,  
*Sacramento City College*

Jeffrey D. Penley,  
*Catawba Valley Community  
College*

Angela J. Rabatin,  
*Prince George's Community College*

Anthony Racka,  
*Oakland Community College—  
Auburn Hills Campus*

Dwight Riley,  
*Richland College*

Kim Rocha,  
*Barton College*

Carol Rowey,  
*Community College of Rhode  
Island*

Christy Shell,  
*Houston Community College*

Cindy Simerly,  
*Lakeland Community College*

Yolanda I. Smith,  
*Northern Virginia Community  
College*

Gail South,  
*Montgomery College*

Rieann Spence-Gale,  
*Northern Virginia Comm.  
College—Alexandria Campus*

Kurt Stanberry,  
*University of Houston, Downtown*

John Striebich,  
*Monroe Community College*

Keith Taylor,  
*Lansing Community College*

Tricia Troyer,  
*Waubensee Community College*

Leo Trudel,  
*University of Maine—Fort Kent*

Randy Waterman,  
*Richland College*

Leslie Wiletzky,  
*Pierce College—Ft. Steilacoom*

Anne Williams,  
*Gateway Community College*

We also wish to acknowledge Colette Wolfson and Linda Hoffman of Ivy Tech Community College for their contributions to the *Instructor's Resource Manual*, as well as Julie Boyles of Portland State University for her help in developing the Test Bank. We thank Instructional Designer, Tiana Tagami, and ANSR Source for their excellent work on the PowerPoint program. For our CengageNOW and CourseMate content, we would again like to thank Julie Boyles as well as LuAnn Bean of the Florida Institute of Technology, Amit Shah of Frostburg State University, and ANSR Source. We thank the Dallas Center for Distance Learning Solutions for their Telecourse partnership and for providing the related student and instructor materials. Finally, we thank the following people for their professional and technical assistance: Stacy Landreth Grau, Marian Wood, Amy Ray, Elisa Adams, Jennifer Jackson, Jamie Jahns, Eva Tweety, Carolyn Phillips, Laurie Marshall, Clarissa Means, Theresa Kapoor, David Pierce, Kathryn Thumme, Margaret Hill, Nathan Heller, Karen Tucker, and Dave Kapoor.

Many talented professionals at Cengage Learning have contributed to the development of *Foundations of Business, 4e*. We are especially grateful to Erin Joyner, Mike Schenk, Jason Fremder, Kristen Hurd, Joanne Daukiewicz, Darrell Frye, Stacy Shirley, Kristen Meere, and Megan Fischer. Their inspiration, patience, support, and friendship are invaluable.

W. M. P.

R. J. H

J. R. K

## Advisory Board

Pride/Hughes/Kapoor, FOUNDATIONS OF BUSINESS, 3e

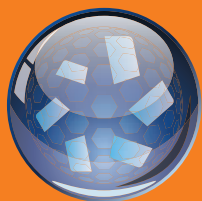
(Conducted in-depth reviews, attended focus groups, responded to quick mini-surveys)

Michael Bento <i>Owens Community College</i>	Anita Kelley <i>Harold Washington College</i>	Cindy Simerly <i>Lakeland Community College</i>
Patricia Bernson <i>County College of Morris</i>	Mary Beth Klinger <i>College of Southern Maryland</i>	Yolanda I. Smith <i>Northern Virginia Community College</i>
Brennan Carr <i>Long Beach City College</i>	Pamela G. McElligott <i>St Louis Community College</i>	Gail South <i>Montgomery College</i>
Paul Coakley <i>The Community College of Baltimore County</i>	Mark Nagel <i>Normandale Community College</i>	Rieann Spence-Gale <i>Northern Virginia Community College—Alexandria Campus</i>
Donna K. Fisher <i>Georgia Southern University</i>	Angela J. Rabatin <i>Prince George's Community College</i>	Kurt Stanberry <i>University of Houston, Downtown</i>
Charles R. Foley <i>Columbus State Community College</i>	Anthony Racka <i>Oakland Community College—Auburn Hills Campus</i>	John Striebich <i>Monroe Community College</i>
Connie Golden <i>Lakeland Community College</i>	Carol Rowey <i>Community College of Rhode Island</i>	Keith Taylor <i>Lansing Community College</i>
John Guess <i>Delgado Community College</i>	Christy Shell <i>Houston Community College</i>	Tricia Troyer <i>Waubensee Community College</i>
Frank Harber <i>Indian River State College</i>		



It's time to give **YOU** something fresh.

W E L C O M E T O ..



# MindTap™

Designed to support the way **YOU** learn and *where* you learn, MindTap is well beyond an eBook, assignments or digital supplement, a resource center website, a course delivery platform, or a Learning Management System.

**MindTap is the first in a new category—  
The Personal Learning Experience.**



See for yourself.  
View a MindTap demo at  
[www.cengage.com/mindtap](http://www.cengage.com/mindtap).



**“This thing is awesome. It’s very, very easy to use. Your book is right there and has easy tabs to go through. There is lots of extra functions on the side such as highlighting ... note taking ... it even reads to you!”**

**Chris Baggett**  
Student, Arkansas Tech University



**7 OUT OF 8**

MindTap students would recommend MindTap to their friends.

# 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.

## Why Should You Care?

Studying business will help you to choose a career, become a successful employee or manager, start your own business, and become a more informed consumer and better investor.



## How Starbucks Brews Up Global Profits

Starbucks was a small, decade-old business in 1981 when Howard Schultz happened to be in its store in Seattle's Pike Place Market and sipped the founder's freshly brewed coffee. Intrigued by the product and the possibilities, he soon joined the firm. Then he traveled to Italy and got a first hand taste of the robust espressos and the welcoming ambiance in local coffeehouses. Back home, Schultz decided to start his own company, opening European-style cafés serving premium coffees brewed to order. A few years later, he and a group of investors bought Starbucks and began opening cafés all across America. To raise millions of dollars for funding new cafés and creating new products, Starbucks sold stock and became a publicly traded corporation in 1992.

Now, after 25 years of aggressive growth, Starbucks has spread its unique brand of coffee culture around the country and around the world. The company's familiar green-and-white mermaid logo appears on its nearly 18,000 cafés in 60 countries, with future openings planned throughout Asia, Northern Europe, and beyond. The ever-expanding menu includes hot and iced coffees and teas, fruit juices and chilled drinks, and an assortment of pastries, wraps,

and yogurts. Thanks to acquisitions and partnerships, the Starbucks empire also includes packaged coffee beans, coffee ice cream, coffee drinks, and fruit juices sold in supermarkets, as well as high-tech coffeemakers for home and office.

Starbucks is a company with a conscience. It provides health-care coverage to both full-time and part-time employees, a benefit that many companies offer to full-timers only. It also emphasizes environment-friendly practices such as composting coffee grounds, conserving water, and recycling paper, glass, and plastic. In addition, Starbucks is piloting the development of smaller, certified energy-efficient stores constructed from locally available materials. Looking ahead, how will Starbucks handle such critical challenges as intense competition and economic uncertainty?<sup>1</sup>

### Did You Know?

**Starbucks rings up more than \$13 billion in annual revenue through nearly 18,000 cafés in 60 nations.**

Wow! What a challenging world we live in. Just for a moment, think about how you would answer the question below.

*In the future, which of the following is the most serious problem facing Americans?*

- a. The national debt.
- b. The high unemployment rate.
- c. A volatile stock market.
- d. Consumer pessimism.
- e. An unstable economy and business environment.

Unfortunately there is no one best answer because all of the above options are serious problems facing you, American businesses, and the nation. Ask almost anyone, and they will tell you that they are worried about at least one or more of the above problems. At the time of the publication of your text, there are signs of economic improvement when compared to the last five years, but people still worry about their future and the future of the nation. 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 Starbucks—the 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, Starbucks—and its employees—is a success because it was able to introduce new products, open new stores, meet the needs of its customers, 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 consumer—the right to choose.

**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

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.

## YOUR FUTURE IN THE CHANGING WORLD OF BUSINESS

### Learning Objective

1 Discuss what you must do to be successful in the 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 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. 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

# Career Success

## Improve Your Productivity!



No matter what career you choose, you'll be much more effective on the job if you use these five keys to higher productivity.

1. *Focus on one task at a time.* If you divide your attention, you can't apply as much mental muscle to complex projects or difficult challenges.
2. *Make your workload more manageable.* Divide large tasks into small steps so you won't feel as intimidated by all you have to accomplish. Just as important, you can determine which steps should be completed now and which can wait for another day.
3. *Organize your work space and your work day.* It's easier to focus and put your hands on the materials you need when you're not surrounded by clutter. Keep yourself on track by making notes (electronically or on paper) about what you plan to do and when. If you don't complete your daily or weekly "to do" list, check again to see what should take priority and what you can cut out or postpone.
4. *Structure your time.* Plan to avoid distractions and interruptions during some parts of every work day. Turn off your e-mail, close the web browser, and settle down to concentrate for a set period.
5. *Give your brain a break.* Treat yourself to a brief break every few hours. Stand up, stretch, walk around if you can, and think about something else for a couple of minutes. When you return to the task at hand, you'll feel more refreshed—and you may even have some fresh ideas.

Sources: Based on information in Daniel Bortz, "10 Ways to Be More Productive at Work," *U.S. News & World Report*, May 4, 2012, <http://money.usnews.com>; Sabah Karimi, "7 Ways to Jump-Start Your Productivity at Work," *U.S. News & World Report*, February 27, 2012, <http://money.usnews.com>; Eilene Zimmerman, "Distracted? It's Time to Hit the Reset Button," *New York Times*, November 19, 2011, [www.nytimes.com](http://www.nytimes.com); Daniel McGinn, "Being More Productive," *Harvard Business Review*, May 2011, <http://hbr.org>.

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?

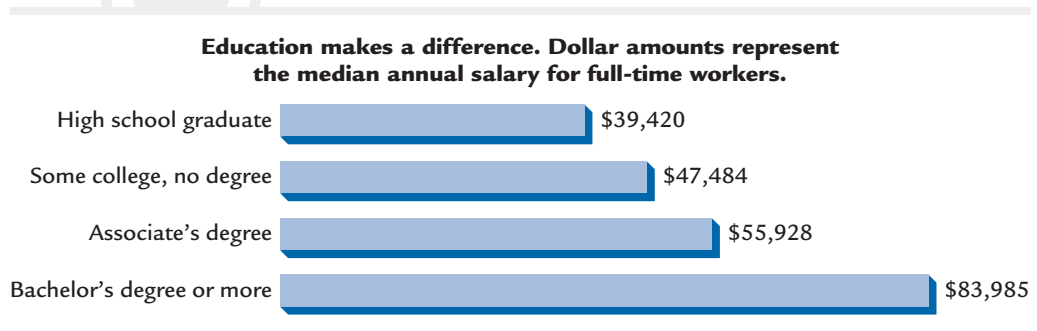
## Why Study Business?

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? 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 B: Careers in Business, which appears on the text website. 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 companion resources can be found.

**FIGURE 1-1** Who Makes the Most Money?



Source: "Educational Attainment of Householder—Households with Householder 25 Years Old and Over by Median and Mean Income," The U.S. Census Bureau at [www.census.gov](http://www.census.gov) (accessed January 2, 2013).

In addition to career information in Appendix B, a number of additional websites 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. Websites 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 employers. 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 interests. 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 gender. These skills 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.



## 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.



© SPECTRAL-DESIGN/SHUTTERSTOCK.COM

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



© ALMAGAM/SHUTTERSTOCK.COM

**A life changing decision!** Often the most important factor to consider when choosing a career is what you think is important. For some people, more responsibility, promotions, and money may be important. For others, more free time and the opportunity to help others may be more important. Ultimately, it's your choice—an important choice that can affect the rest of your life.



**TO IMPROVE YOUR MANAGEMENT SKILLS** Many employees want to become managers because managers often receive higher salaries and can earn promotions within an organization. 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 and promotions. 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 an unstable economy, 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.

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 App Store. 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.

## Concept Check

- ✓ What reasons would you give if you were advising someone to study business?
- ✓ What factors affect a person's choice of careers?
- ✓ Once you have a job, what steps can you take to be successful?

**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 into 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.
- *Boxed features* in each chapter highlight how both employees and entrepreneurs can be ethical and 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.
- *Concept Checks* at the end of each major section within a chapter help you test your understanding of the major issues just discussed.
- *End-of-chapter materials* provide a chapter summary, a list of key terms, discussion questions, a Test Yourself Quiz, and a video case about a successful, real-world company.
- The last section of every chapter is entitled *Building Skills for Career Success* and includes exercises devoted to enhancing your social media 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 and other retailers 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 website 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 website where 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 for this course 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 discussion questions and 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 concept check questions at the end of each major section in the chapter and the summary at the end of the chapter. Then use the resources on the text website.

© CENGAGE LEARNING 2015

Because a text should always be evaluated by the students and instructors who use it, we would welcome and sincerely appreciate your comments and suggestions. Please feel free to contact us by using one of the following e-mail addresses:

Bill Pride: w-pride@tamu.edu

Bob Hughes: bhughes@dcccd.edu

Jack Kapoor: kapoorj@cod.edu

**Learning Objective**  
**2** Define *business* and identify potential risks and rewards.

**business** the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs

## BUSINESS: A DEFINITION

**Business** is the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs. The general term *business* refers to all such efforts within a society (as in "American business"). However, a *business* is a particular organization, such as Kraft Foods, Inc., or Cracker Barrel Old Country Stores. To be successful, a business must perform three activities. It must be organized, it must satisfy needs, and it must earn a profit.

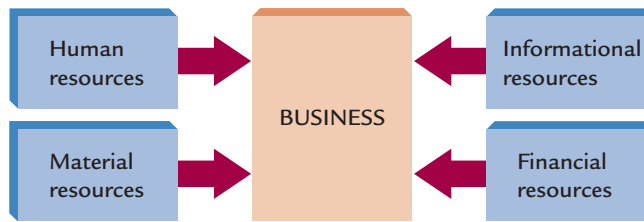
### The Organized Effort of Individuals

For a business to be organized, it must combine four kinds of resources: material, human, financial, and informational. *Material* resources include the raw materials used in manufacturing processes as well as buildings and machinery. For example, Mrs. Fields Cookies needs flour, sugar, butter, eggs, and other raw materials to produce the food products it sells worldwide. In addition, this Colorado-based company needs human, financial, and informational resources. *Human* resources are the people who furnish their labor to the business in return for wages. The *financial* resource is the money required to pay employees, purchase materials, and generally keep the business operating. *Information* is the resource that tells the managers of the business how effectively the other three resources are being combined and used (see Figure 1-2).

Today, businesses are usually organized as one of three specific types. *Service businesses* produce services, such as haircuts, legal advice, or tax preparation. H&R Block provides tax preparation, retail banking, and software and digital products to both businesses and consumers in the United States, Canada, and Australia.

**FIGURE 1-2** Combining Resources

**A business must combine all four resources effectively to be successful.**



© CENGAGE LEARNING 2015

*Manufacturing businesses* process various materials into tangible goods, such as delivery trucks, towels, or computers. Intel, for example, produces computer chips that, in turn, are sold to companies that manufacture computers. Finally, some firms called *marketing intermediaries* buy products from manufacturers and then resell them. Sony Corporation is a manufacturer that produces stereo equipment, televisions, and other electronic products. These products may be sold to a marketing intermediary such as Best Buy or Walmart, which then resells the manufactured goods to consumers in their retail stores.

## Satisfying Needs

The ultimate objective of every firm must be to satisfy the needs of its customers. People generally do not buy goods and services simply to own them; they buy goods and services to satisfy particular needs. Some of us may feel that the need for transportation is best satisfied by an air-conditioned BMW with navigation system, stereo system, heated and cooled seats, automatic transmission, power windows, and remote-control side mirrors. Others may believe that a Chevrolet Sonic with a stick shift will do just fine. Both products are available to those who want them, along with a wide variety of other products that satisfy the need for transportation.

When firms lose sight of their customers' needs, they are likely to find the going rough. However, when businesses understand their customers' needs and work to satisfy those needs, they are usually successful. Back in 1962, Sam Walton opened his first discount store in Rogers, Arkansas. Although the original store was quite different from the Walmart Superstores you see today, the basic ideas of providing customer service and offering goods that satisfied needs at low prices are part of the reason why this firm has grown to become the largest retailer in the world.

## Business Profit

A business receives money (sales revenue) from its customers in exchange for goods or services. It must also pay out money to cover the expenses involved in doing business. If the firm's sales revenues are greater than its expenses, it has earned a profit. More specifically, as shown in Figure 1-3, **profit** is what remains after all business expenses have been deducted from sales revenue.

A negative profit, which results when a firm's expenses are greater than its sales revenue, is called a *loss*. A business cannot continue to operate at a loss for an indefinite period of time. Management and employees must find some way to increase sales revenues and reduce expenses to return to profitability. If some specific actions are not taken to eliminate losses, a firm may be forced to close



BLOOMBERG/GETTY IMAGES

### Do you recognize these two entrepreneurs?

Although you may not recognize the two people in this photo, there's a good chance that you will recognize the businesses that they started. On the left is Jack Dorsey—one of the co-founders of Twitter and Square, Inc. On the right is Howard Schultz—the founder and CEO of Starbucks. Both are known for the ideas that helped make their companies a success.

**profit** what remains after all business expenses have been deducted from sales revenue