Contemporary Business

18th Edition

DAVID L. KURTZ

University of Arkansas

SUSAN BERSTON

City College of San Francisco

WILEY

Brief Contents

PREFACE **vi**

- 1 The Changing Face of Business 1
- 2 Business Ethics and Social Responsibility 27
- 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
- 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
- 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
- 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

- What Is Business? 2 Not-for-Profit Organizations 3
 Factors of Production 4
- 3 The Private Enterprise System 6
 Basic Rights in the Private Enterprise System 6
 The Entrepreneurship Alternative 7
- 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 Review22Summary of Learning Objectives22Business Terms You Need to Know23Review Questions23
- 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

х

Case 3.1 Big Mergers Get Blocked82Case 3.2 Pawnshops: Fast Access to Capital82Case 3.3 Secret Acres: Selling Comics Is Serious Business82

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 Reducing Barriers to International Trade 98 4 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 The Business Plan: A Foundation for Success 123 4 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

Reasons to Choose Entrepreneurship 3 as a Career Path 151 Being Your Own Boss 152 Financial Success 152 Job Security 153 Quality of Life 153 4 The Environment for Entrepreneurs 153 Globalization 154 Education 154 Information Technology 155 Demographic and Economic Trends 156 Characteristics of Entrepreneurs 157 5 Vision 157 High Energy Level 157 Need to Achieve 157 Self-Confidence and Optimism 158 Tolerance for Failure 158 Creativity 159 Tolerance for Ambiguity 159 Internal Locus of Control 159 6 Starting a New Venture 161 Selecting a Business Idea 161 Creating a Business Plan 162 Finding Financing 163 Government Support for New Ventures 165 7 Intrapreneurship 165 What's Ahead 166 Chapter in Review 167 Summary of Learning Objectives 167 Business Terms You Need to Know 168 Review Questions 168 Projects and Teamwork Applications 168 Web Assignments 169 Case 6.1 Shinola Watches: Built in Detroit 169 Case 6.2 Glassybaby's Light Shines 169 Case 6.3 Seed + Mill: Open Sesame for Entrepreneurial Success 170

7 Management, Leadership, and the Internal Organization 171

- What Is Management? 172
 The Management Hierarchy 172
 Skills Needed for Managerial Success 173
 Managerial Functions 174
- 2 Setting a Vision and Ethical Standards for the Company 175
- 3 The Importance of Planning 177 Types of Planning 177 Planning at Different Organizational Levels 179
- 4 The Strategic Planning Process 179 Defining the Organization's Mission 179

- Assessing Your Competitive Position 181 Setting Objectives for the Organization 182 **Creating Strategies for Competitive** Differentiation 182 Implementing the Strategy 182 Monitoring and Adapting Strategic Plans 183 5 Managers as Decision Makers 183 Programmed and Nonprogrammed Decisions 183 How Managers Make Decisions 184 6 Managers as Leaders 185 Leadership Styles 185 Which Leadership Style Is Best? 186 7 Corporate Culture 187 Organizational Structures 188 8 Departmentalization 188 Delegating Work Assignments 190 Types of Organization Structures 191 What's Ahead 194 Chapter in Review 194 Summary of Learning Objectives 194 Business Terms You Need to Know 196 Review Questions 196 Projects and Teamwork Applications 196 Web Assignments 197 Case 7.1 Zappos Tries On Holacracy for Size 197 Case 7.2 BambooHR Says No to More Than a 40-Hour Workweek 197 Case 7.3 Management, Leadership, and the Internal Organization: TripAdvisor 198
- 8 Human Resource Management: From Recruitment to Labor Relations 199
- 1 Human Resources: The People Behind the People 200
- 2 Recruitment and Selection 201 Finding Qualified Candidates 201 Selecting and Hiring Employees 202
- 3 Orientation, Training, and Evaluation 204 Training Programs 204 Performance Appraisals 206
- 4 Compensation 206 Employee Benefits 208 Flexible Benefits 209 Flexible Work 210
- 5 Employee Separation 211 Voluntary and Involuntary Turnover 211 Downsizing 211 Outsourcing 212
- 6 Motivating Employees 212 Maslow's Hierarchy of Needs Theory 213 Herzberg's Two-Factor Model of Motivation 214

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 Ouestions 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 The Importance of Effective Communication 237 6 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

What Is Marketing? 280

 How Marketing Creates Utility 281

 Evolution of the Marketing Concept 282

 Emergence of the Marketing Concept 283

Not-for-Profit and Nontraditional Marketing 283 3 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 Marketing Research 289 5 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 Relationship Marketing 300 8 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**

- 1Product Strategy 310Classifying Goods and Services 310Marketing Strategy Implications 312Product 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

 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 Information Technology Trends 392 8 What's Ahead 394 Chapter in Review 395 Summary of Learning Objectives 395 Business Terms You Need to Know 397

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

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 Financial Institutions 444 5 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

The Role of the Financial Manager 464 1 Financial Planning 467 2 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 Projects and Teamwork Applications Web Assignments Case 18.1 Fashion Retailers Haul in Sales via YouTube Case 18.2 ModCloth Offers Vintage Clothing Online and Offline 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

APPENDIX A Business Law 513

APPENDIX B Insurance and Risk Management 529