

Contemporary Business

1994 Edition



Les affaires contemporaines

"Bagong Trabaho"-Tagalog

আধুনিক ব্যবসা

Çağdaş iş

Современный бизнес

Suvremeno Poslovanje

تجارت معاصر

Los negocios contemporáneos

"Modern Handelskunskap"

עסקים מודרניים

Gli affari contemporanei

das zeitgenössische Geschäft

現代企業

現代の企業

Сучасний бізнес

Louis E. Boone
David L. Kurtz

Editor-in-Chief Liz Widdicombe
Acquisitions Editor Lyn Hastert
Developmental Editor Daryl Fox
Project Editor Joan Harlan
Production Manager Diane Southworth
Manager of Art and Design Guy Jacobs

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This text is based on *Contemporary Business*, Seventh Edition, by Louis E. Boone and David L. Kurtz, published in 1993 by The Dryden Press.

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Address for Editorial Correspondence
The Dryden Press, 301 Commerce Street, Suite 3700, Fort Worth, TX 76102

Address for Orders
The Dryden Press, 6277 Sea Harbor Drive, Orlando, FL 32887
1-800-782-4479, or 1-800-433-0001 (in Florida)

Credits and acknowledgments appear on pages XXIX–XXXIII, which constitutes a continuation of the copyright page.

Cover illustration: Dale Gustafson

ISBN: 0-03-098472-6

Library of Congress Catalog Card Number: 93-073165

Printed in the United States of America

4 5 6 7 8 9 0 1 2 048 9 8 7 6 5 4 3 2

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Harcourt Brace College Publishers

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Mr. and Mrs. Louis W. Boone
Mr. and Mrs. C. Reed Kurtz

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Preface

Since its first edition in 1976, *Contemporary Business* has revolutionized the basic business course. It was immediately embraced by professors and students alike, moving to number one within months of publication—and it has been there ever since. The book has been revised and improved six times since then, yet it has never strayed from its position as the most widely adopted business textbook in history. More than 2.2 million students have begun their business studies using *Contemporary Business*.

What accounts for the book's success? One key has been our determination to avoid resting on past performance and continuing to follow the advice of American television executive Grant Tinker, "First we will be best, and then we will be first."

Each new edition has introduced a number of "firsts" to bring business alive for students. The following innovations have established a standard that we believe will have a lasting effect on how introductory business courses are taught:

- *Contemporary Business* was the first business textbook to be based on marketing research; it is written the way instructors teach the course.
- *Contemporary Business* was the first to be written to the student rather than to the professor. Many students tell us that *Contemporary Business* is the best textbook they have ever used. Why? It is filled with examples and is written in a clear, concise style at a level students can comprehend and enjoy.
- *Contemporary Business* was the first to use learning aids such as opening vignettes and boxed items that highlight actual individuals or firms applying concepts that are discussed in the text; the first to include an annotated summary of learning objectives at the end of each chapter and to link all test materials to the learning objectives; and the first to include a marginal glossary to assist students in studying each chapter. Two editions ago, *Contemporary Business* became the first business textbook to introduce simple-to-use computer applications following each chapter.
- *Contemporary Business* was the first to respond fully to instructors' requests for video materials that are integrated with business concepts in the text. Every chapter in *Contemporary Business* includes a Video Case supported by a video designed specifically for that case.

If imitation is truly the sincerest form of flattery, *Contemporary Business* has received a host of accolades. The text model established in previous editions has been closely followed by a growing number of business texts with virtually an identical listing of chapters and a text design that includes the successful innovations of our previous editions. Because of this "innovate, then watch others imitate" pattern, teachers of basic business courses anticipate each new

edition of *Contemporary Business* as a model for future editions of other texts. The new Seventh Edition will not disappoint them.

CAREER PREPARATION

A major thrust of *Contemporary Business*, Seventh Edition, resulted from listening to our own students and to students on dozens of college and university campuses that we have visited in the past three years. Students throughout the United States and Canada are worried about whether they will be able to find jobs when they graduate. These concerns are so important that we have made a major commitment to addressing them—the most far-reaching change in the new Seventh Edition.

The students of the 1990s are pragmatic. They know how important it is to start early in career preparation, to match their individual abilities and interests to specific career alternatives, and to create an academic plan that will result in their securing that first job in their career path. But they need help in accomplishing this.

The first business course is a perfect setting in which to begin career preparation. As students are exposed to many different aspects of the world of business throughout the course, they can also begin to consider which areas represent career potential for them. Career Design Exercises, which appear at the end of each of the seven parts of *Contemporary Business*, will show students how to apply what they learn from the course to their careers.

The Career Design Exercises are based on the work of John C. Crystal, the man whom Richard N. Bolles credits as the major contributor to *What Color Is Your Parachute?*—the best-selling career book of all time. The exercises and the accompanying software program have been praised by career and computer experts, including Joyce Lain Kennedy, careers columnist for the *Los Angeles Times Syndicate*, *The Wall Street Journal's National Business Employment Weekly*, and *PC Magazine*.

The Career Design Exercises will help students to

- Decide on a major.
- Identify their best skills.
- Discover what career direction to pursue.
- Find out if starting a business may be the appropriate career path.
- Determine key preferences for co-workers and working conditions.
- Make personal contacts leading to job interviews.
- Create custom resumes that will stand out from others.
- Handle themselves in a professional manner during an interview.
- Locate employers who are eager to hire people with their skills but who do not recruit on campus and do not advertise their job opportunities.
- Develop communication skills by organizing their thoughts in writing.

For the new Seventh Edition, we have invested enormous effort in career technology designed to match student interests and abilities with specific

career paths and to guide them in their academic preparation. The career materials are fully integrated with the text, require no special preparation for the instructor, need no special equipment, and—best of all—are absolutely free with the purchase of a new copy of *Contemporary Business*, Seventh Edition.

INTEGRATION OF GLOBAL BUSINESS: A FIRST FOR BUSINESS TEXTBOOKS

Countless research studies have suggested that international concepts should be integrated into text discussions. Any focus on competitiveness must include **global** competitiveness. Many books have attempted to do this by placing a chapter on international issues at the end of the text, where it becomes a logical candidate for omission when time runs short. Other texts have gone a step further by adding boxed examples on international topics to most chapters. Unfortunately, this is not what is meant when instructors plead for an internationally *integrated* text.

In response to this plea, the new edition of *Contemporary Business* has taken a truly global perspective. Hundreds of international examples are interspersed throughout the book's 22 chapters. The major international examples are identified by a globe in the page margin, similar to the one that appears on this page. The international examples are not merely stories of U.S. firms that have created and sold something successfully overseas. The examples also focus on foreign businesses that produce and market their goods and services here as well as in other foreign markets. Our video cases focus on markets as diverse as Jamaica, Japan, and Bolivia.

As part of our strategy for making *Contemporary Business* the first global text for the basic business course, we have also moved the traditional "international" chapter up to Chapter 3. It is now treated as part of the general environment for business. Today's business executives must think globally—beyond the "us versus them" orientation that is so prevalent in current business education.



INTEGRATING PRINT AND VIDEO TECHNOLOGIES

Technological advances are having a profound effect on college and university teaching. In recent years, publishers have been barraged with requests from professors for integrated video materials that are closely tied to business concepts discussed in the text. Although many competitors have responded by distributing generic corporate videos of varying and quality, *Contemporary Business* was the first to truly respond to these requests by providing integrated video cases and an extensive video package. The Seventh Edition package includes 22 new videos that present basic concepts by utilizing real-world examples, on-location footage, special effects, and state-of-the-art graphics. Each chapter features a Video Case that focuses on themes discussed in the text and illustrated in the related video. The result is an integrated approach that blends high-quality videos with text concepts.

The end-of-chapter Video Cases and the accompanying videos feature a variety of small- and medium-size organizations. They also focus heavily on international business, on service firms, on organizations founded and

managed by minority entrepreneurs, and on such important concepts as quality, ethics and social responsibility, and valuing diversity. In response to instructor requests for shorter-length videos, all videos are now between 10 and 15 minutes in length. The following video cases are included:

Chapter 1	Chapter 12
“Plimoth Plantation”	“Striking Out at Caterpillar”
Chapter 2	Chapter 13
“Bolivia’s Debt”	“Global Marketing”
Chapter 3	Chapter 14
“Jamaica—Paradise Lost?”	“Paint by Numbers”
Chapter 4	Chapter 15
“Is There Cash in Our Trash?”	“The Japanese Distribution System”
Chapter 5	Chapter 16
“Hempstead Watermelon Cooperative”	“Product Promotion through Movies”
Chapter 6	Chapter 17
“Samuel Adams Lager”	“Sea World”
Chapter 7	Chapter 18
“Ampex”	“Springfield Remanufacturing Corp.”
Chapter 8	Chapter 19
“Middle Management: Twenty-first Century Dinosaur?”	“Duracell International”
Chapter 9	Chapter 20
“Stewart-Warner”	“Bank on This”
Chapter 10	Chapter 21
“American Worker—Japanese Boss”	“Tokyo Tumble”
Chapter 11	Chapter 22
“Strength in Diversity: Xerox”	“Insurance Risks”

A *Video Case Instructor’s Manual* is also available. It provides the following materials for each video case: teaching objectives, a listing of chapter concepts illustrated in the video, video warm-up questions and exercises, a detailed outline of the video, answers to Video Case questions in the text, video recap, experiential activities with student handouts, and a multiple-choice quiz. With these videos, we believe we have succeeded in integrating print and video technologies.

FEWER CHAPTERS AND MORE IN-TEXT EXAMPLES

Another important accomplishment of the Seventh Edition has been to reduce the size of the text by two chapters. As instructors in the classroom, we know how difficult it is to cover the text materials in a one-semester or one-quarter course. Based on professor and student feedback, we have also returned to the use of illustrative boxes and in-text examples.

FOCUSING ON QUALITY AND DIVERSITY

Two important watchwords in the workplace and marketplace of the 1990s are the quest for quality in all aspects of business and the need to take advantage

of the diversity present in today's business environment. Both of these business challenges are included as themes for boxed items that appear throughout the text. A number of Video Cases also focus specifically on these issues. Examples of related topics addressed in the text include

- The "glass ceiling"
- Two-career households
- Valuing older workers
- Japan's *keiretsu* system
- Small business goes global
- Preparing managers for overseas jobs
- Flexible production
- Managing a culturally diverse work force
- Team approaches to production
- Americans with Disabilities Act of 1990

FOCUSING ON BUSINESS ETHICS AND SOCIAL CONCERNS

The importance of ethical, societal, and environmental concerns is reflected by the inclusion of a section entitled "Social Responsibility and Business Ethics" in Part 1. These issues affect every aspect of modern business; consequently, they are also examined throughout the text. Two Video Cases, one focusing on the ethics and economics of recycling and the other examining the problem of securing insurance for newly developed drugs, also address these concerns. Special boxed features on firms and individuals examine these contemporary issues still further. The following is a list of some of the societal and ethical issues discussed throughout the text:

- Children's Television Act of 1990
- Americans with Disabilities Act of 1990
- Civil Rights Act of 1991
- Exporting jobs overseas
- The greenhouse effect and the disappearance of rain forests
- "Green" marketing
- Drug testing
- Family-leave issues
- Smoking in the workplace
- AIDS in the workplace
- Electronic monitoring
- Proposal for a global Environmental Protection Agency

AN OVERSIZED FORMAT AND STRIKING NEW USE OF COLOR

The Seventh Edition of *Contemporary Business* has a strikingly different appearance from that of its predecessors. The new, larger format and extensive use of color as a pedagogical device represent the commitment of The Dryden Press to continuous renewal and improvement in each successive edition. The Seventh Edition has been designed to facilitate increased student learning and comprehension.

EMPHASIZING SMALL BUSINESS

Too often, students are introduced to businesses of only one size: large corporations. *Contemporary Business* recognizes students' growing interest in

small business and the many career opportunities found in organizations other than corporate giants. A balanced presentation of applications and examples from hundreds of both small and big businesses is maintained throughout the text. Discussions of business careers, provided at the end of each Part and in Appendix B, "Your Career in Business," focus on career opportunities in small businesses as well as in larger organizations. In addition, Chapter 6 is devoted entirely to entrepreneurship, small business, and franchising.

HIGHLIGHTING ENTRY-LEVEL MANAGEMENT

Numerous business professors have pointed out to us that most business students will land their first jobs at the supervisory management level. However, the majority of textbooks have a tendency to focus on top-management decisions, activities, and problems, and to neglect discussion of first-line supervisory management. *Contemporary Business* provides detailed coverage of first-line management in Chapter 7 and includes many examples of supervisory management activities and concerns.

COVERAGE OF CURRENT CONCEPTS

Adopters of *Contemporary Business* expect it to be, above all, current. Among the new topics covered in the Seventh Edition are

- Downsizing and flattening of organizations.
- Empowering employees.
- The fall of the U.S.S.R. and the painful conversion to democracy in Russia and former Soviet-bloc nations.
- Reducing the federal budget deficit.
- The switch from gross national product (GNP) to gross domestic product (GDP).
- The impact of the Los Angeles riots on insurance.
- Free trade proposals between the United States and Mexico.
- Electronic mail (E-mail).
- Computer viruses.
- Notepad computers.
- The Tokyo stock market crash.
- Bank failures and banking reform.
- Global environmental concerns leading to the 1992 UN Conference on the Environment and Development in Rio de Janeiro, the "Earth Summit."
- Executive information systems (EIS).
- Hong Kong's 1997 status change.
- The importance of a stable money supply to the Commonwealth of Independent States.

INSTRUCTIONAL RESOURCE PACKAGE

Contemporary Business is more than a textbook. It is supported by the most comprehensive and accessible instructional resource package in the field of business education.

Instructor's Resource Manual

The two bound volumes that comprise the *Instructional Resource Package* contain the following sections for each chapter:

- Changes from the previous edition
- Annotated learning goals.
- Key terms
- Opening quotations
- Lecture outline
- Lecture illustration file
- Answers to review questions
- Answers to Video Case questions
- Supplemental case
- Teaching notes for supplemental case
- Controversial issues
- Experiential exercises
- Guest speaker suggestions
- Term paper suggestions

Complete Instructions for the Career Design Software have been developed to assist instructors in maximizing the effectiveness of the Career Design Exercises included in *Contemporary Business*. Each exercise is accompanied by a list of specific student benefits, a summary, sample introductions to the exercise, lists of discussion ideas, and suggestions for grading student exercises.

Test Bank

The completely revised 3,400-question *Test Bank* is available in both a printed and a computerized format. Questions are keyed to chapter learning goals, test page number, and type of questions—knowledge or application. The *Test Bank* was prepared by Professor Sonya K. Brett of Macomb Community College and James McGowen and Dennis Shannon of Belleville Area College.

Numerous adopter requests have led to the inclusion of a variety of types of questions in the *Test Bank*. In addition to 2,200 multiple-choice questions, the *Test Bank* also enhances test flexibility by including approximately 1,000 true/false questions and approximately 200 short essay questions. A separate essay question is included for every learning goal in the text. The latter questions may be used for daily quizzes or as part of regularly scheduled examinations. Mini-cases with accompanying multiple-choice questions offer additional application-oriented questions.

Learning Guide

The *Learning Guide* is a completely revised learning supplement designed to further student understanding and to provide additional practice in applying concepts presented in the book. Each chapter includes Key Concepts, Business Vocabulary and Applications, Analysis of Learning Goals, Self-Review, Application Exercises, and a crossword puzzle or word search that uses business terms from the text. The *Learning Guide* was prepared by Professor Joan Mizis of St. Louis Community College at Florissant Valley.

Chopsticks Simulation Game

The Chopsticks Simulation Game, created by Professors Eugene J. Calvasina, James Leon Barton, Jr., Ava Honan, Richard Calvasina, and Gerald Calvasina

of Auburn University at Montgomery, challenges students to develop and experience the business concepts presented in the book. It gives students an opportunity to utilize decision-making tools frequently used in business. The game is accompanied by an *Instructor's Manual* that provides game instructions and student worksheets. The simulation game is available on disk for use with the IBM PC.

Computer Cases Supplement and the Boone and Kurtz Business Disk

These innovative components of the *Instructional Resource Package* are designed to assist business professors who want to include analytical problems as homework assignments or to use such tools as the microcomputer in the basic business course. Both are available free to adopters of *Contemporary Business*. The *Computer Cases Supplement* includes at least three to five business problems with solutions that focus on concepts discussed in each chapter. Solutions to each case are included with the *Boone and Kurtz Business Disk*. The *Business Disk* contains complete programs for computer cases and is available to adopters for use with the IBM PC.

Videos and Video Instructor's Manual

The 22 videos that accompany *Contemporary Business* are available at no cost to professors using the text in their classes. The videos are available in ½-inch VHS format. A *Video Instructor's Manual* is provided with the videos.

Portfolio of Business Papers

A portfolio of *Business Papers* has been assembled to help students understand the variety of papers and official forms required in a modern business organization. Authentic business papers are available with complete teaching notes for professors who use *Contemporary Business* in their classes.

Full-Color Overhead Transparencies

A set of approximately 150 full-color overhead transparency acetates are available as an innovative component of *Contemporary Business*. Each transparency acetate is a striking graphic representation or advertisement that illustrates key concepts discussed in the book. Also available are transparency masters of the actual figures in the book. Teaching notes are included for both the transparency acetates and the transparency masters.

ACKNOWLEDGMENTS

Over the years many individuals have made significant contributions to *Contemporary Business*. Their insights, critiques, questions, and advice have served both to strengthen and to broaden the scope of the material covered in this book. The Seventh Edition has been no exception. We are extremely grateful to the following friends and colleagues for their invaluable assistance with this project:

Hal Babson	<i>Columbus State Community College</i>
Robert M. Bracken	<i>University of South Alabama</i>
Faith Breen	<i>St. George's Community College</i>
Don Cappa	<i>Chabot College</i>
Robert Cox	<i>Salt Lake Community College</i>
George Foegen	<i>Metropolitan State College of Denver</i>
Thomas Haynes	<i>Illinois State University</i>
Douglas Heeter	<i>Ferris State University</i>
Joe Hrebenak	<i>Community College of Allegheny County</i>
Thomas Lloyd	<i>Westmoreland County Community College</i>
Pete Mavrokordatos	<i>Tarrant County Junior College—Northeast Campus</i>
Ed Menge	<i>Franklin University</i>
Bob Nash	<i>Henry Ford Community College</i>
Diane Osbourne	<i>Broward Community College</i>
Nikki Paahana	<i>DeVry Institute of Technology</i>
Gena Proulx	<i>Franklin University</i>
James Reineman	<i>College of Lake County</i>
Christopher Rogers	<i>Miami—Dade Community College—Kendall</i>
Barbara Rosenthal	<i>Miami—Dade Community College—Wolfson Campus</i>
Thomas Schillar	<i>The University of Puget Sound</i>
James Seeck	<i>Harper College</i>
Ray Shea	<i>Monroe Community College</i>
John Sinton	<i>Finger Lakes Community College</i>
Marvin Suits	<i>University of Houston—Downtown</i>
Robert Ulbrich	<i>Parkland College</i>
Mike Vijuk	<i>Harper College</i>
Judy Woo	<i>Bellevue Community College</i>

We are especially indebted to Joan Mizis for preparing the *Learning Guide*. Our special thanks go to Eric Sandburg of DeVry Institute of Technology for his work on the Career Design Exercises and accompanying software, to Spencer Mehl of Coastal Carolina Community College and Nikki Paahana of DeVry Institute of Technology for editing the *Business Papers*, to Sonya K. Brett of Macomb Community College and Jim McGowen and Dennis Shannon of Belleville Area College for their preparation of the *Test Bank*. A special debt is owed to Blane Frankkowiak of Tarrant County Junior College for his many contributions to the *Instructor's Resource Manual* and the Video Cases. We would also like to thank Gayle Marco of Robert Morris College and Anthony Lucas of Community College of Allegheny County for the excellent materials in the *Video Instructor's Manual*. We have been fortunate to have worked with Alice Fugate, our research associate, who dedicated many hours to this edition of *Contemporary Business*. Mary Goljenbloom and Doris Milligan served admirably as our photo researchers. We would also like to thank our capable secretaries and research associates, Ginger Honomichl, Melissa King, and Jeanne Lowe, for their invaluable assistance.

Last, but not least, we want to thank our good friends at The Dryden Press. Our editor-in-chief, Robert A. Pawlik, our acquisitions editor, Robert Gemin, our developmental editor, Daryl Fox, our project editor, Joan Harlan and her assistants on this project, Michele Phifer and Cathy Spitzenberger, our designer, Guy Jacobs, and our production manager, Diane Southworth have been most supportive and helpful. Other key Dryden professionals who made this edition possible include Traci Keller, Kathryn Stewart, Rachel Stowe, and our marketing manager, Lisé Webb.

Louis E. Boone
David L. Kurtz

A Preview of Text Features

3

Global Dimensions of Business

Learning Goals

Each chapter begins with a list of Learning Goals that preview main concepts. These memory enhancers are repeated at the end of each chapter.

1. Explain the importance of international business.
 2. Discuss the concepts involved in international business, and analyze why nations tend to specialize in certain goods.
 3. Name the different levels of involvement in international business.
 4. Explain countertrade.
 5. Discuss the role of the global and multinational firms.
 6. Identify the main obstacles confronting global business.
 7. Explain multinational economic integration.
 8. Describe the United States as a foreign market.
-

NAFTA IS HAVING A MAJOR IMPACT IN THE WAY BEER IS MARKETED

Only months before leaving office, President Bush signed the North American Free Trade Agreement (NAFTA) with the governments of Mexico and Canada. The objective of NAFTA is to eliminate the trade barriers between the United States, Canada and Mexico. Although the pact was signed in 1992, it will not take effect unless the pact is approved by the legislatures of the three countries.

The two top breweries in the United States have both made strategic alliances in early 1993 in anticipation of the pact's approval. Miller Brewing Company, the second largest brewer in the United States, has agreed to buy 20 percent of Molson Breweries, Canada's leading brewer. Molson is the number one beer in Canada with over 50 percent of the market and the second leading import brand in the United States. The \$273-million agreement gives Miller the rights to import and distribute Molson and several other Canadian labels including Foster's and Carling in the United States.

The deal has enabled Miller to address two issues facing the company. The first was to increase Miller's share of the domestic market where Anheuser-Busch outsells Miller products by more than two to one. The deal also gives Miller an introduction into the import beer market, which is a small but growing niche in the industry. In 1992, Miller's parent company, Philip Morris, purchased a 10 percent stake in the companies that own Mexico's number two and three brewers. Miller plans similar joint ventures in other foreign markets.

Anheuser-Busch, the leading brewer in the United States with a 44 percent share of market, has agreed to buy 17.7 percent of Grupo Modelo, Mexico's largest brewer. AB will pay \$477 million for its share and it has the option to purchase up to 49 percent of Modelo over the next four years.

Modelo is an attractive acquisition for AB.

Like its American partner, Modelo produces the leading brand in its country—Corona Beer—with a 25 percent market share. Modelo brands represent more than 50 percent of Mexico's domestic beer market and about 70 percent of the country's beer exports.

Like the Miller-Molson deal, the acquisition will give Anheuser-Busch an introduction into the growing imported beer market in the U.S. But the deal also represents a major change in strategy for the number one beer maker. Until now, Anheuser-Busch has tried with little success to

make Budweiser an international brand. But forcing an established brand into a foreign market can be difficult without an "insider" who can provide valuable information about local marketing, politics, and clientele.

Anheuser-Busch's new strategy is to buy a stake in several foreign breweries who have established successful brands. Corona Beer, for example, is the number one imported beer in Australia and New

Zealand, the number two import in Japan and the number one non-U.S. import in Canada. The brand is currently sold in 56 countries around the world. It will be easier and more profitable for AB to lend its expertise to building upon Corona's success rather than start from scratch with its own brand in a foreign market.

Anheuser-Busch and Miller are hoping the NAFTA pact is approved soon, since it will open up a 366-million consumer market. The beer market is immense in North America. Sales in the United States and Canada have been flat in recent years. But sales in Mexico, the eighth-largest beer market in the world, have been growing at a rate of approximately 5 percent a year. Expanding into foreign markets is one way the major brewers can increase sales, distribution, and profits in an otherwise stagnant market.



A short vignette at the beginning of each chapter illustrates business problems and solutions and introduces key chapter concepts.

Reynolds Metals Company's new plant in northern Spain produces aluminum foil for the growing European market. Reynolds has more than 100 operations in 20 countries around the world.



International Production

Total global business involvement markets its products abroad. A firm starting a subsidiary or acquiring expanding. Sometimes, too, a local firm or government, sharing and profits with its local partner, market may depend on local factors.

Joint venture
Sharing of a foreign operation's costs, risks, and management with a foreign firm or

exporting
Selling domestic goods abroad.

importing
Buying foreign goods and raw materials.

We can divide international business into three major activities: **exporting** (selling goods and services abroad), **importing** (purchasing foreign goods, raw materials, and services), and **foreign production** (making goods and supplying services in a foreign country for sale there or in other countries). In this chapter, we will see how these activities form patterns of trade and world business.

Business Challenges: Ethics and Social Responsibility

NO LONGER MADE IN THE U.S.A.

Outsourcing can be controversial. When U.S. companies move their operations to other countries, they are taking jobs away from Americans. Many U.S. labor leaders are concerned about the number of factories that are moving their production facilities to Mexico, for example, to take advantage of lower wages there. Other businesses are moving north, to Canada. In a move that outraged some patriotic stamp collectors, the U.S. Postal Service hired a Canadian printer, the Canadian Bank Note Company, to produce two new stamps. (The company also prints many of Canada's stamps.) One of the new U.S. stamps depicts former New Mexico Senator Dennis Chavez, the other former Chief Justice Earl Warren.



The work moved north after the Postal Service farmed out the job to a Virginia firm, which in turn chose the Canadian printer over U.S. competitors. While some claim the choice is unpatriotic, others respond that it was only a business-based decision. After all, many industries engage in outsourcing in order to cut costs and streamline operations, so why not the government, too?

The vast majority of U.S. postage, of course, is still made in the United States, traditionally by the government's Bureau of Engraving and Printing. Actually, the two Canadian-made stamps illustrate the widening circle of international business: the Canadian Bank Note Company will print them on paper it purchased from U.S. firms, using presses that were made in the United States.

resort to countertrade. Still other nations, such as China, may restrict their imports. Under such circumstances countertrade can be a good way for companies to distribute their products to new markets in the hope of attracting new customers.

PepsiCo engages actively in countertrade. Soft drink bottlers in the Sudan pay for their Pepsi concentrate in sesame seeds, while those in Tanzania pay in sisal (used for making rope). Other innovative countertrade deals swap government debts for nature. Environmental groups buy Third World debts at a discount and give the debts back to an indebted country—providing it agrees to spend some of the money on conservation. This way the banks get to make at least some money on bad loans, while developing countries gain from retiring the debt at a discount. Conservation International, an American environmental group, bought a Bolivian debt from Citicorp and returned the debt to Bolivia. The Bolivian government agreed to create a 4-million-acre wildlife sanctuary in the Amazon River basin and pay for its upkeep.¹⁴



multinational corporation
Corporation that operates on an international level.

MULTINATIONAL CORPORATIONS

A **multinational corporation** is a firm with major operations outside its home country. Many of America's largest multinationals are oil, auto, or

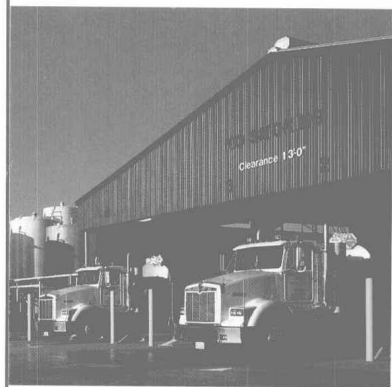
Business Challenges boxes throughout the text integrate issues of ethics and social responsibility, quality, and valuing diversity.

INVOLVED IN INTERNATIONAL BUSINESS

International business result from a combination of factors. To understand trade and world business, let us look at balance of trade, balance of payments, and

Trade is the difference between its exports and imports. If it exports more than it imports, it has a favorable balance of trade, or a **trade surplus**. If it imports more than it exports, it has an **unfavorable balance of trade**, or a **trade deficit**. By the early 1990s, the United States had a trade deficit of about \$75 billion.³

The United States' leading export, while automobiles are and the second-leading American export. Figure 3.1 shows U.S. exports and imports. It should be noted that the figure, which is discussed later in the chapter, overstates since work completed in Canadian plants is counted.



Current photo examples, tied directly to the text with detailed captions, illustrate chapter topics.



PACE FOODS

foreign nations to supply something that is critical to its economy. For instance, oil is important to the American economy because it helps to fuel our cars and machinery. Much of our oil comes from Middle Eastern countries, so wars and political unrest in that area of the world endanger our oil supply.

► Specialization can lead to some odd situations. Texas-based Pace Foods uses 26 million pounds of jalapeno peppers every year—much of it purchased from Mexican farmers—to make its zesty picante sauce. The sauce already sells well in the United States. Recently, when Pace carried 250 cases of the stuff to Mexico City to film a TV commercial, a store owner sold it all within weeks. Selling salsa to Mexico? Ron Sands, Pace's chief operating officer, is hot on the idea: "It may sound like selling oil to the Arabs, but the evidence shows us it will work."⁷ ◀

Absolute Advantage

absolute advantage
Situation in which a country has a monopolistic position in the marketing of a good or produces it at the lowest cost.

A country has an **absolute advantage** in the marketing of a product if it has a monopolistic position or it produces the good at the lowest cost. Examples of absolute advantage are rare because few countries are sole suppliers, and because rapidly changing economic conditions can wipe out advantages in production costs.

When it comes to gem-quality diamonds, for instance, South Africa has traditionally had an absolute advantage, since it had a rare domestic source of these gems. However, the discovery of diamond deposits in other areas of the world—such as Siberia—has removed South Africa's absolute advantage.

Comparative Advantage

comparative advantage
A country's ability to supply a particular item more efficiently and at a lower cost than it can supply other products.

A more practical approach to international trade is comparative advantage. A country has a comparative advantage in a product if it can supply that item more efficiently than other nations. For example, the United States can supply certain goods three times as efficiently as other nations. Japan can supply certain goods only twice as efficiently as the United States. The United States has a comparative advantage in the first good, and Japan has a comparative advantage in the second good. Worldwide, the great benefit of trade is that each country specializes in producing the good in which it has a comparative advantage, that is, country A produces the first good, and country B produces the second.

Countries tend to follow the principle of comparative advantage. Earlier, Honduras specializes in supplying the United States with inexpensive labor. It gives it a comparative advantage in the production of certain vegetables. Says President Rafael Ángel Fournier, "We want to produce in a positive way. We want to produce in a positive way."

U.S. exports, on the other hand, are highly industrialized. The United States has a comparative advantage in the fact that it is a highly industrialized country with abundant agricultural resources. The United States exports aircraft parts, electrical machinery, and some natural resources (coal).

Key terms are boldfaced and defined in a marginal glossary. These terms are repeated at the end of each chapter and included in a comprehensive, end-of-text Dictionary of Business Terms.

Clear and precise figures help to illustrate major points and reinforce concepts for students.

Every chapter contains a number of highlighted examples of business incidents. These are placed at strategic points in the chapter and are designed to demonstrate the application of business concepts to specific companies.

Extensive international examples, identified by globe icons in the margin, are integrated throughout the text. In addition, many figures and photos reflect international companies and concepts.



CHAPTER OVERVIEW

At one time, the international aspects of business mattered to only a few U.S. firms. For most, the domestic market was all they needed. Today, though, the various economies of the world are growing closer all the time, and the United States can no longer afford to ignore the rest of the world. Consider the following points:²

- One out of every six U.S. manufacturing jobs produces something for export.
- One out of every four U.S. farm acres is producing for export.
- One of every three cars, nine of every ten TV sets, and every video recorder sold in the U.S. is imported.
- One of every \$7 of U.S. sales is to a foreign buyer.

As these examples prove, the United States has become part of a global business community, and it is to our advantage to recognize this trend. Foreign markets represent a highly profitable target. Plus, if we produce goods for larger markets, we have more opportunities to achieve economies of scale in production and marketing (in other words, if you produce more of an item, it will cost you less per item). Producing goods and services for larger markets also means more jobs at home.

Figure 3.1 Leading U.S. Exports and Imports

