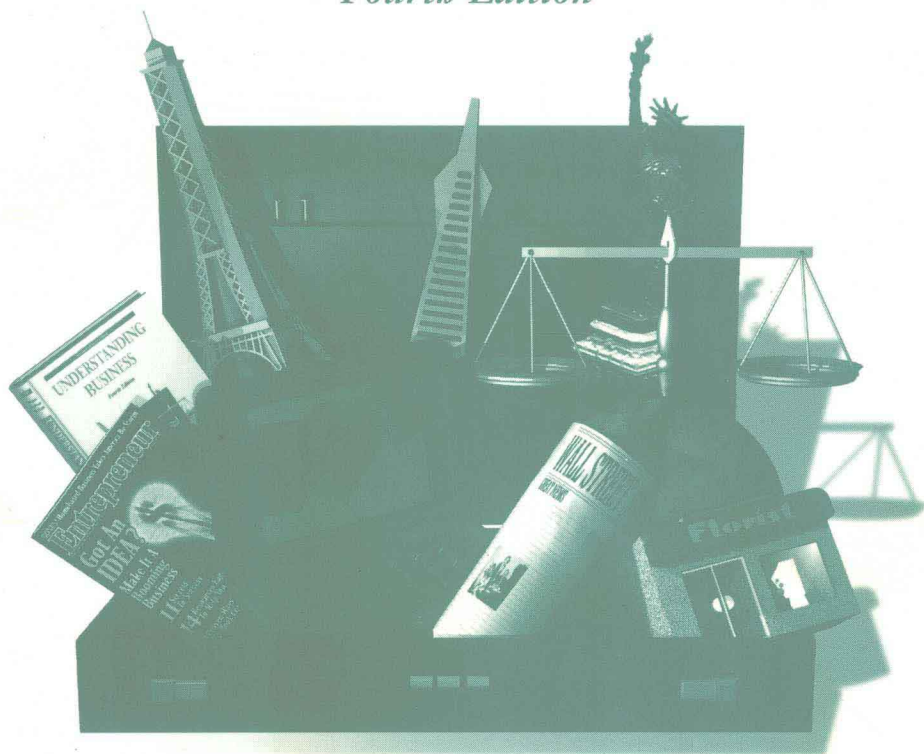


Study Guide

for use with

UNDERSTANDING BUSINESS

Fourth Edition



Nickels • McHugh • McHugh

Prepared by
Barbara Barrett

STUDY GUIDE

for use with

UNDERSTANDING BUSINESS

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CHAPTER 1 BUSINESS FUNDAMENTALS AND ENVIRONMENTAL INFLUENCES

■ LEARNING GOALS

After you have read and studied this chapter, you should be able to:

1. Define profit and show the relationship of profit with risk assumption.
2. Describe how businesses add to the standard of living and quality of life.
3. Explain how the economic environment and taxes affect businesses.
4. Give examples to show how the technological environment has affected business.
5. Describe various ways that businesses can meet and beat competition.
6. Show how the social environment has changed and what the reaction of business has been.
7. Tell businesses what they must do to meet the global challenge.
8. Explain the new quality standards and what businesses are doing to meet those standards.
9. Show how trends from the past are being repeated in the present and what that will mean for the service sector.

■ KEY TERMS AND DEFINITIONS

Listed below are important terms found in the chapter. Choose the correct term for each definition and write it in the space provided.

Business
Databank
Demography
Entrepreneur
Downsizing
Factors of production
Goods
ISO 9000
Loss
Nonprofit organization

Productivity
Profit
Quality
Quality of life
Risk
Services
Stakeholders
Standard of living

1. _____ Refers to the resources businesses use to create wealth.
2. _____ The volume of goods and services that one worker can produce.
3. _____ Refers to quality management and assurance standards published by the International Organization for Standardization.
4. _____ Refers to the general well-being of a society because of freedom, a clean environment, good schools, superior health care, safety, free time, and everything else that leads to satisfaction and joy.
5. _____ A person who takes the risk of starting and managing a business.
6. _____ Intangible products (products that cannot be held in your hand) such as education, health care, and transportation.
7. _____ Any activity that seeks profit by providing goods and services to others.
8. _____ Occurs when a business's costs and expenses are more than its revenues.

9. _____ The chance you take of losing time and money on a business that may not prove profitable.
10. _____ The amount of goods and services people can buy with the money they have.
11. _____ An organization whose goals do not include making a personal profit for its owners.
12. _____ An electronic storage file where information is kept.
13. _____ The statistical study of the human population to learn its size, density, and characteristics.
14. _____ In today's firms this is defined as providing customers with high quality goods and services that go beyond the expected.
15. _____ Tangible products such as houses, food, clothing and t.v. sets.
16. _____ Laying off workers.
17. _____ The money a business earns above and beyond what it spends for salaries, expenses, and other costs.
18. _____ People who are affected by the policies and activities of an organization.

■ RETENTION CHECK

BUSINESS ENTREPRENEURS

"Taking a risk"

1. What three groups of individuals constitute a growing number of new entrepreneurs?

- a. _____
- b. _____
- c. _____

2. How have entrepreneurs benefitted from downsizing?

BUSINESSES, PROFIT AND WEALTH

1. Revelle Industries is a small company located in an area of the country where unemployment has been very high for the last 5 years. In 1990, Revelle was struggling. There were only 20 employees, and profits were low. With new management things began to turn around, and now Revelle employees almost 75 people. This year they sold 120,000 units of their only product line, a component part used in the manufacture of automobiles. The price of their product is \$20/unit. Costs of salaries, expenses and other items was \$2,050,000. Sales forecasts look good for the next several years, as Revelle has customers world wide and will be expanding their product line in the next 18 months.

- a. What are Revelle's revenues? _____
- b. What are Revelle's profits? _____

c. How has the company generated wealth and created a higher standard of living? _____

2. Monika lives in Germany, works for the Mercedes plant in her hometown and makes the equivalent of \$55 American. Her cousin Joe lives in the United States and works for the Chrysler plant in his hometown. When Monika visits Joe she is amazed at how big his house is compared to where she lives, his stereo equipment and how well he seems to live. "Boy" says Monika, "I sure can't live like this at home. Why not?"

■ CRITICAL THINKING

"If you were to analyze rich countries versus poor countries to see what caused the differences, you would have to look at the factors of production..."

Eastern Europe has experienced dramatic changes in this decade. The newly formed countries are struggling with how to develop their economies. What will be the key to developing the economies of these newly formed countries?

What are the issues facing these developing countries which are hindering the process of entrepreneurial growth?

INFORMATION TECHNOLOGY

Sam Esser is a salesman for Infosys, a company that manufactures high-tech equipment for retailers. Sam has been trying to get Ariel Stallings' account for 10 months. Ariel, while she knows she has to do some things to modernize her store, just can't get used to this "new-fangled" equipment. How can Sam sell Ariel on the benefits of installing bar codes and the necessary equipment in her store?

THE COMPETITIVE ENVIRONMENT

1. What are the three elements U.S. companies have found they have needed to stay competitive in today's world markets?

- a.

- b.

- c.

2. Consider your college or university:

Who are its competitors?

How does the school "delight" its customers" (HEY! It's *not* a silly question!)

Who are the school's stakeholders? Does it meet the needs of the stakeholders? Why or why not?

How does it meet the needs of its employees?

How do the answers to these questions affect the school's competitive situation?

Do you see a concern for the environment?

THE SOCIAL ENVIRONMENT

1. *Multiculturalism*

In what ways can a multiculturally diverse population benefit U.S. businesses?

2. *Increase in the number of older Americans*

Today in the United States there are fewer younger workers coming into the workforce and the average age of the workforce is increasing. What are the results on the workplace? in the marketplace? In other words, what kind of opportunities can you see to take advantage of from this trend?

Workplace

Marketplace

3. *Two Career Families*

The desire for a more comfortable lifestyle combined with an interest in careers outside the home have created a surge in the number of two income families. These families have different needs than workers of the past. How have companies responded to the needs of two career families?

■ **CRITICAL THINKING**

How do the changes and programs companies have implemented, to meet the needs of two career families, help these companies to be more competitive?

THE GLOBAL ENVIRONMENT

1. How has increased global competition forced U.S. firms to “re-think” quality?

2. How do companies benefit from free trade?

THE QUALITY IMPERATIVE

“One consequence of global competition is that no country dares fall behind other countries in providing high quality products.”

1. What is the difference between ISO 9000 and the Baldrige Awards?

2. Why is ISO 9000 certification important?

BUSINESS PAST AND PRESENT

1. How do the changes in the agricultural industry in the early 1900's parallel the changes we have seen in the industrial sector recently?

2. What is predicted to happen to growth in the service sector? What will be the economic result? Where will your job opportunities be?

■ CHAPTER CHECK

1. How many businesses are started every year?

2. What are 2 reasons people start new businesses?
 - a. _____
 - b. _____
3. What is the difference between revenue and profit?

4. What is the relationship between risk and profit?

5. What kinds of companies have created most new jobs ?

6. Why are small businesses the fastest growing business sector in the U.S.?

7. What are the 5 factors of production?
 - a. _____
 - b. _____
 - c. _____
 - d. _____
 - e. _____
8. What are the 5 key environmental factors critical to the success of business?
 - a. _____
 - b. _____
 - c. _____
 - d. _____
 - e. _____
9. What are the results of a healthy business environment for business?

10. Identify 4 actions needed to foster entrepreneurial growth.
 - a. _____
 - b. _____
 - c. _____
 - d. _____
11. What is a CIO and what is the role of the CIO in business?

12. Companies compete by:

- a. _____
- b. _____
- c. _____
- d. _____

13. What are 4 changes in the social environment of the U.S. which are affecting U.S. firms?

- a. _____
- b. _____
- c. _____
- d. _____

14. What does NAFTA stand for?

15. Name the three countries which are part of NAFTA.

- a. _____
- b. _____
- c. _____

16. What are 3 ways changes in global markets will affect you?

- a. _____
- b. _____
- c. _____

17. What are 3 measures used to qualify for the Baldrige Awards?

- a. _____
- b. _____
- c. _____

18. What three things are companies required to do by the Baldrige Awards?

- a. _____
- b. _____
- c. _____

19. Name 2 major criteria for the award.

- a. _____
- b. _____

20. Briefly describe the importance of the service sector in today's workplace.

■ KEY TERMS AND DEFINITIONS - ANSWERS

1. Factors of production
2. Productivity
3. ISO 9000
4. Quality of life
5. Entrepreneur
6. Service
7. Business
8. Loss
9. Risk
10. Standard of living
11. Non profit
12. Databank
13. Demography
14. Quality
15. Goods
16. Downsizing
17. Profit
18. Stakeholders

■ RETENTION CHECK - ANSWERS

BUSINESS ENTREPRENEURS

1.
 - a. People with disabilities
 - b. Women
 - c. Immigrants
2. Downsizing has created opportunities for entrepreneurs who provide business services like advertising, building maintenance, computer related services and security services. Smaller businesses are providing many business opportunities.

BUSINESSES, PROFIT AND WEALTH

1.
 - a. \$2,400,000 in revenue
 - b. Profit is \$350,000 after taking expenses of \$2,050,000.
 - c. Companies like Revelle generate wealth and create a higher standard of living in many ways. Workers pay taxes that federal and local governments use to build hospitals, schools, roads and playgrounds. Tax money is also used to keep the environment clean. Businesses also pay taxes to the federal government and the local community.

Standards of living go up because people can buy goods and services with the money they earn from being employed. When businesses start, grow and prosper, and generate wealth, our quality of life improves as the taxes the workers and the businesses pay provide for good schools, good health care, a clean environment and so on.

2. Monika is surprised at the standard of living Joe seems to have attained compared to hers, while working at a similar job. While Monika makes more per hour (equivalent U.S. dollars) than Joe, the cost of food, housing and other services is probably much higher for her. Therefore she can't buy as much with her money as Joe can - it simply costs too much. A similar situation exists in the United States when you compare one region to another. Compare average housing prices for example in San Francisco, California to those in St. Louis, Missouri. When you compare per capita income for those areas, you will also find a difference.

■ CRITICAL THINKING

In the analysis of the factors of production, according to Peter Drucker, the most important factor is not capital, natural resources or labor. Countries in Eastern Europe have land and labor, but are still poor. Capital is available, thus countries have money for machinery and tools. The key to developing an economy appears to be entrepreneurship and the effective use of information. In many of these countries businesses have been owned by the government, and there is little incentive to work hard or create profit. A government which is interested in developing its economy must encourage business and entrepreneurship and provide the information necessary to help people to move ahead.

Many of these countries do not have laws which enable companies to write enforceable contracts, necessary to do business. This makes the risk of starting a business much higher. Further, these countries are still attempting to stabilize the value of their currency. The governments are corrupt in many cases, making it impossible to get permits without expensive bribes, and lastly taxes in many developing countries are high, minimizing a businesses' return on investment.

INFORMATION TECHNOLOGY

The new retailing technology allows a retailer to determine what size and color product a customer purchases, as well as at what price. That information, plus information such as the name, address and family information about a customer will go into a databank. With that information Ariel can send direct mail pieces to her customers offering exactly what they want. It will allow her to carry merchandise the customer base in her area is buying, and will enable her to replace the items quickly through contact with the suppliers, who also have the bar code information. If Ariel is interested in developing a catalog she will know exactly what to feature, and will have mailing lists readily at hand.

THE COMPETITIVE ENVIRONMENT

1. a. Quality products
b. Outstanding service
c. Competitive prices
2. Competitors for some schools will be the other colleges and universities in the local community. For others it may be other schools in the region or the nation.

A college or university may "delight" its customer (students) by offering classes at convenient times (many schools offer weekend college programs for example), in convenient locations (off site locations), encouraging faculty to be accessible to student through designated office hours or mentoring programs, offering a variety of programs, and of course having winning sports teams!

The stakeholders are students, parents of students, employees, taxpayers, the community in which the school is located and alumni for example. How schools meet the needs of the stakeholders will vary. Some issues could be: registration policies, variety of course offerings, tuition and rate of tuition increases, level of community involvement by the school's administrators, responsiveness to student organizations, cooperation with alumni groups, and so on.

Students may have difficulty answering how the school meets the needs of employees. You may find out if there is a structure for faculty and staff to communicate openly with their manager, for example, or how employees view the administration and the school's policies.

By being responsive to students, parents, employees and the community, and working together, any organization can create a better "product". A college or university is more than just the courses it offers. For example, the quality of student life on campus can directly affect enrollment.

There may be courses on your campus in Environmental Management, Recycling Management and so on. There may be paper or can recycling programs, or student sponsored clubs or activities relating to the environment.

THE SOCIAL ENVIRONMENT

1. *Multiculturalism* - A multicultural population gives U.S. citizens the opportunity to live and work with people from many different cultures and backgrounds. In a global marketplace, that should give us an advantage when it comes to working with people in global markets. Further, a diverse population provides businesses with ideas and concepts that will enhance and enrich the business community and culture.

2. *Increase in older Americans* - Many older Americans will work longer.

Some because they want to, others because there will be fewer younger workers to support the system. Because there will be fewer younger workers to take their place, many Americans will need to stay longer on the job, and will work into their 70's.

In terms of the marketplace, the increase in older Americans will mean a variety of business opportunities. Americans aged 45-54 are the richest group in U.S. society, and spend money on restaurants, entertainment and transportation. Products serving the needs of older Americans include medicines, adult day care, recreation, and travel. These areas could see tremendous growth in the near future.

3. *Two career families*

A number of programs have been implemented to help two income families. Pregnancy benefits, parental leave programs, flexible work schedules and eldercare programs are some examples. Many companies either offer day care on site or offer some type of child care benefits. Others offer cafeteria style benefits packages, enabling families to choose from a "menu" of benefits. Many companies have increased the number of part-time workers they employ, while others allow workers to stay home and work, by telecommuting.

■ CRITICAL THINKING

By developing programs such as those mentioned, companies better meet employee needs. This can make a company more competitive by fostering a positive environment with satisfied workers who may then be more productive. Further, these programs can be used to attract the kinds of workers companies will need in the future to remain competitive.

THE GLOBAL ENVIRONMENT

1. If U.S. firms want to be competitive in today's global environment, they must focus on quality issues in the same way that countries like Japan, China, India, South Korea and Mexico have done. These countries are often able to produce high quality goods at low prices. U.S. manufacturers have lost much of the market for televisions, videocassette recorders and other products because they were not competitive with Japanese manufacturers.
2. Some companies will gain markets as foreign economies such as Mexico continue to develop. Free trade forces companies to become innovative and competitive. It keeps them from becoming stagnant and thus less globally competitive. Companies are learning to cooperate with firms in other nations to meet the needs of growing world markets.

THE QUALITY IMPERATIVE

1. The Baldrige Award is one based in the United States for U.S. firms. To qualify, firms have to show quality as measured by customer satisfaction, product and service quality and by the quality of internal operations. A major focus is customer satisfaction. ISO 9000 is not an award, but rather a global standard for quality which must be met in order to do business with the European Union. Companies that qualify for the Baldrige Award will have little trouble being ISO certified.
2. ISO 9000 is important because the EU is demanding that firms be ISO certified to do business in Europe. That business is crucial to the success of almost any business in today's global economy.

BUSINESS PAST AND PRESENT

1. As the agricultural industry through advances in technology, became more productive, fewer people were needed to produce the same or greater volume. So, agricultural workers had to find jobs elsewhere, in other industries, and learn new skills. Many of these people went to work in manufacturing, helping to make the United States a world manufacturing power in the first half of this century.

The same trend has occurred today in the industrial, or manufacturing sector. As factories have been able to improve productivity through technology, fewer workers are needed to produce the same or greater volume of high quality products. Factory workers today have been laid off and have had to re-train to find new employment. These workers are often finding jobs in the service sector, which has generated almost all of the employment growth increases since the mid-1980s.

2. Growth in the service sector has slowed recently. The result has been some unemployment, which is expected to worsen as growth in the service sector slows even further. Job opportunities for the future will be in growth industries such as telecommunications and health care. Students will have to be flexible, find out where the jobs are being created and be prepared to work in a global setting.

■ CHAPTER CHECK - ANSWERS

1. Over 700,000 new businesses are being started every year in the U.S.
2. a. People see an opportunity to be independent.
b. People see the opportunity to make more money than they might working for someone else.
3. Revenue is the money a business makes from selling its goods and services. Profit is revenue less what the business spends for salaries, expenses and other costs.
4. In many cases, the companies that take the most risk make the most profit. As an investor, you would want to invest your money in a business that has good profit potential but is not *too* risky.
5. Small and medium-sized companies created all the 5.8 million new jobs from 1987 to 1992.
6. Small businesses are growing in part because they are faster than large businesses at responding to customer needs, and because they produce more innovations than large companies.
7. a. Land and other natural resources
b. Labor (workers)
c. Capital, machines, tools and buildings
d. Entrepreneurship
e. Information
8. a. Economic environment
b. Technological environment
c. Competitive environment
d. Social environment
e. Global business environment
9. Business grows and prospers in a healthy environment. The result is job growth and the wealth that makes it possible to have both a high standard of living and high quality of life.
10. a. Pass laws allowing for enforceable contracts.
b. Establish a currency that is tradable in world markets.
c. Focus on eliminating corruption in business and government.
d. Keep taxes and regulations to a minimum.
11. A CIO is a Chief Information Officer who is responsible for getting workers and managers the information they need. The CIO's most important role is to establish information flows between business and customers.
12. Companies compete by
 - a. Delighting the customer
 - b. Meeting the needs of the community
 - c. Meeting the needs of their employees
 - d. Showing concern for the environment
13. a. Multiculturalism
 - b. Increase in older Americans
 - c. Two-income families
 - d. Single parent households