

# BUSINESS

*Reece/O'Grady*

EXAMINATION COPY

Not for Resale



# BUSINESS

*Barry L. Reece*

Virginia Polytechnic Institute and State University

*James P. O'Grady*

St. Louis Community College  
at Florissant Valley

Houghton Mifflin Company   Boston  
Dallas   Geneva, Illinois  
Lawrenceville, New Jersey   Palo Alto

*To Vera, Lynne, Mark, Monique,  
Michelle, and Colleen  
Barry L. Reece*

*To Pattie, Pat, Mike, Dan,  
and Tim — PTL  
James P. O'Grady*

#### PHOTOGRAPH CREDITS

Photo essays designed by Ann Schroeder

**Business Views: Foreign Competition** P. 1, © 1984 Jim Pickerell. P. 2: center, © Chip Peterson; top right, © Ellis Herwig/The Picture Cube. P. 3: top left, © 1981 Jim Pickerell; center, © James H. Simon/The Picture Cube. P. 4: top, © Paul Conklin; bottom, © Owen Franken/Stock Boston. P. 5: left, © Philip Jon Bailey/The Picture Cube; right, © Susan Van Etten. P. 6, © D. and J. Heaton/Uniphoto.

**Business Views: The Changing Workplace** P. 1, © James H. Simon/The Picture Cube. P. 2: center, © 1985 Martin Rogers/Stock Boston; top right, © Max Winter/Stock Boston. P. 3: center, © Paul Conklin; top right, © 1984 Richard Pasley/Stock Boston. P. 4: left, © 1984 Tom Tracy/The Image Bank; right, © Ann McQueen/Stock Boston. P. 5: top left, © 1983 Peter Menzel/Stock Boston; center, © 1985 Ron Blakeley/Uniphoto. P. 6. © Paul Conklin.

**Business Views: The Changing Population** P. 1, © David Woo/Stock Boston. P. 2: center, © Donald Dietz/Stock Boston; top right, © 1985 John Bowden/Uniphoto. P. 3: top left, © Bill Gallery/Stock Boston; center, © 1980 Jim Pickerell. P. 4: top, © Tony O'Brien/Stock Boston; bottom, © Paul Conklin. P. 5, © Raoul Hacke/Stock Boston. P. 6: left, © M. Messenger; right, © 1985 M. Tcherevkoff/The Image Bank.

**Business Views: High Technology** P. 1: top, © 1985 Balthazar Korab/Uniphoto; bottom, © Terry Qing/FPG International. P. 2, © 1985 Jim Pickerell. P. 3: center, © 1985 Jim Pickerell; top right, © Dick Luria/FPG International. P. 4: left, © 1985 Paul Katz/The Image Bank; right, © Michael Rizza/The Picture Cube. P. 5, © 1986 Susan Greenwood/Gamma-Liaison. P. 6: top, © 1985 Lou Jones/Uniphoto; bottom, © Stacy Pick/Uniphoto.

**Business Views: The Global Economy** P. 1, © 1985 Flip Chalfant/The Image Bank. P. 2: center, © Paul Conklin; bottom left, © Henryk T. Kaiser/Uniphoto; bottom right, © 1985 Robert Herko/The Image Bank. P. 3, © Susan Van Etten. P. 4: top, © 1986 Alvis Uptis/The Image Bank; bottom, © 1985 Gerhard Gscheidle/The Image Bank. P. 5, © Nicolas Sapieha/Stock Boston. P. 6: top, © 1985 Stacy Pick/Uniphoto; bottom, © 1986 Michael Melford/The Image Bank.

**Business Views: The Future** P. 1, © Don Carroll/The Image Bank. P. 2: center, © Lou Jones/Uniphoto; top right, © Charles Fell/Uniphoto. P. 3: top, © Susan Van Etten; bottom, © 1984 Lou Jones/Uniphoto. P. 4, © Carroll Seghers/Uniphoto. P. 5: top, © Susan Van Etten; bottom, © John Zoiner/Uniphoto. P. 6: center, © Susan Van Etten; top right, © 1980 Don Carroll/The Image Bank.

**Chapter Openers** P. 4, © Lou Jones; p. 32, © Dan Cornish/ESTO; p. 58, © 1985 Lou Jones; p. 86, © Al Fisher Photography; p. 122, © 1986 Jeff Smith; p. 150, © 1986 Jeff Smith; p. 176, © 1983 Jeff Smith; p. 210, © François Robert; p. 242, © 1983 Shelly Katz/Black Star; p. 272, © François Robert; p. 304, © 1985 Richard Howard; p. 328, courtesy of Burger King, a subsidiary of The Pillsbury Company; p. 354, courtesy of Staley Continental, Inc., Chicago; p. 382, © 1981 Tom Sobolik/Black Star; p. 416, © 1985 Richard Howard; p. 450, © Mark Joseph; p. 492, © David Burnett/Gamma-Liaison; p. 518, © 1981 Jeff Smith; p. 544, © 1986 Joel Gordon; p. 568, © 1985 Lou Jones; p. 604, © 1980 Dennis Brack/Black Star; p. 630, courtesy of NASA; and p. 656, © Robin Moyer/Gamma-Liaison.

**Chapter 1** P. 7, © 1983 Nik Wheeler/Black Star; p. 11, courtesy of Carolina Power & Light Company; p. 15, The Granger Collection; p. 16, The Granger Collection; p. 21, The Granger Collection;

*(continued after Glossary)*

Cover photograph by Michel Tcherevkoff.

Copyright © 1987 by Houghton Mifflin Company. All Rights Reserved. No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying and recording, or by any information storage or retrieval system, except as may be expressly permitted by the 1976 Copyright Act or in writing by the Publisher. Requests for permission should be addressed to Permissions, Houghton Mifflin Company, One Beacon Street, Boston, MA 02108.

Printed in the U.S.A.

Library of Congress Catalog Card Number: 86-81594

ISBN: 0-395-35694-6

ABCDEFGHIJ-D-8987

**BUSINESS**

---

# PREFACE

---

The development of a comprehensive business text is not unlike the development of a new business enterprise. The starting point is to identify the needs of the market and then to develop a plan designed to satisfy those needs. BUSINESS was written to satisfy three basic needs of the introduction to business market. These basic needs focus on balance, clarity, and realism.

1. BUSINESS provides a *balanced* coverage of business fundamentals, trends, issues, principles, and practices. Large corporations make many important contributions to our business system, but students also need to become aware of the exciting developments taking place in the small business sector. One would expect a modern business text to focus on the contemporary scene, but not at the expense of ignoring important historical developments and future perspectives. The desire to achieve balance throughout the text influenced hundreds of decisions regarding content selection, depth of coverage, and examples used to illustrate key points.
2. *Clarity* of presentation has been emphasized throughout the text. We believe that presentation clarity is positively associated with student achievement. To achieve clarity, we avoided the use of vague terms and complex theoretical jargon. An abundance of illustrations and examples are used to clarify key concepts and ideas. Finally, every effort was made to eliminate unessential content that might distract the reader. Our aim has been to present the material in a non-technical, interesting, and readable style.

3. *Realism* in terms of appropriate real-world examples builds student interest in reading the text. Our goal has been to develop a book that students will enjoy reading. Every effort was made to select examples that are realistic to the wide range of students who enroll in introductory business courses.

With a focus on balance, clarity, and realism we established our objectives for BUSINESS. They were:

- ☐ To survey the basic concepts of business
- ☐ To build a vocabulary of key business terms
- ☐ To develop business decision-making skills
- ☐ To provide a background for further study
- ☐ To create an awareness of career opportunities in business

Achieving our objectives will mean that students will be prepared to enter the business world with objectives of their own.

## The Text

BUSINESS will provide students with the opportunity to study the many dimensions of the American business system as well as help them to understand the relationship between business and the other elements of our modern society.

## Organization

BUSINESS is organized along the lines that an entrepreneur would want to consider in the creation and management of a business entity. Part 1, "The Business System," provides the framework for studying

American business including its economic context, social responsibility, legal forms and small business considerations. Part 2, "Management and Organization," describes both processes and the human side of enterprise. Part 3, "Human Resources and Production," is concerned with personnel, labor-management and operations management. Part 4, "Marketing Management," considers the decisions on how a product is developed, what its packaging will look like, how it will be presented to end-users, what its price will be, how the product will be transported from its manufacturer to the next purchaser, and what types of promotion will be used to sell it. Part 5, "Information for Business Decision-Making," describes accounting, computers, and the collection, analysis and presentation of management data. Part 6, "Financial Information," focuses on money, our banking and credit system, financial management, the securities market, risk management and insurance. Part 7, "Business and Its Environment," deals with legal, regulatory and international trade.

The basic concepts of business are clearly presented in these seven parts. Each part is a self-contained unit and may be assigned in any sequence. In our presentation of the material we have tried to make the reader aware of opportunities in business and value of planning a business career. It is with a focus on planning for a career that we have included the Career Appendix — work in the 21st century by Dr. S. Norman Feingold, President of National Career and Counseling Services. This appendix will prove to be a valuable tool to those who choose to use it.

## Presentation

Included in the plan for BUSINESS were special steps to assure that the design of the book would assist in the learning process. To be effective, a text must be inviting to the reader. It was with respect to this criterion that every aspect of the design of BUSINESS was evaluated. The art program is complementary as well as instructive. Photographs, tables, charts, and figures were either selected or created for the instructional and aesthetic value they bring to the book. The pedagogy is supportive without being obtrusive. Learning objectives, marginal notes, boxed inserts covering international, technological, and social issues, and two end-of-chapter cases support each chapter and help ensure comprehension of the material. Re-

view of each chapter is assisted by the chapter highlights, key vocabulary terms, review questions, and application exercises. Finally, a complete glossary and comprehensive index prove valuable items for reference and review.

A unique feature of BUSINESS is the inclusion of six "photo essays" that provide a business perspective on current issues affecting American business. *Business Views* present photographs and essays on timely issues that are changing the way we live our lives and the way we conduct our business. Changes in demographics, world economy, high technology, the work environment, and types of industries as well as questions about tomorrow have immediate and long-range effects on businesses large and small. These photo essays can be read at any time and as often as the reader wishes to reflect upon the big picture.

## The Supporting Package

Student mastery is enhanced by the following enrichment materials:

- *Study Guide* Written by Constantine G. Petrides, Borough of Manhattan Community College, this comprehensive study guide provides students with several options for reviewing and mastering the material. For each chapter of BUSINESS it contains a list of learning objectives, vocabulary mastery exercises, true/false, multiple choice, fill-in, and matching type questions.
- *Business Microstudy* A microcomputer version of the study guide available for use with the most popular microcomputers.
- *Entrepreneur* A computer simulation by Jerry Smith and Peggy Golden, both of the University of Louisville. This microcomputer simulation provides students with an introduction to the establishment and management of a new venture.

A battery of instructional support materials offer assistance for teaching and evaluation:

- *Instructor's Manual* Includes suggestions for organizing the course, grading, and preparing lectures. The instructor's manual also provides a chapter overview, detailed lecture outline, and answers to in-text questions for each chapter as well as transparency masters, sample business papers, and film lists.



- *Lecture Bank* A floppy disk containing detailed lecture outlines offers instructors the option of personalizing their lectures or creating material for use in the classroom.
- *Test Bank* This manual contains over 2,200 exam questions of multiple choice and true/false format.
- *Microtest* A microcomputer version of the test bank.
- *Transparencies* A set of 100 acetate transparencies provide a variety of tables, line art, definitions, and photographs as additional lecture support.
- *GPA: Grade Performance Analyzer* A record keeping system for use with microcomputers.
- *Videotapes* Real-world situations are presented for classroom viewing and discussion.

Numerous colleagues have contributed to make BUSINESS possible. It has been improved by their advice, critiques, suggestions and recommendations. While recognizing our responsibility for the finished product, we gratefully acknowledge and thank the following reviewers:

David Aiken  
*Hacking Technical College*

Nikki Altman  
*DeVry Institute of Technology*

Toby Atkinson  
*Brevard Community College*

Gregory A. Bach  
*University of North Dakota*

Barbara Barrett  
*St. Louis Community College At Meramec*

Harvey R. Blessing  
*Essex Community College*

William J. Boeger  
*St. Louis Community College at Florissant Valley*

John S. Bowdidge  
*Southwest Missouri State University*

Robert Carrel  
*Vincennes University*

Jill Chown  
*Mankato State University*

J. Michael Cicero  
*Highline Community College*

Helen A. Corley  
*Oxnard College*

Lewis K. Cushing  
*Illinois Valley Community College*

Dexter Dalton  
*St. Louis Community College at Meramec*

Kathy Daruty  
*Los Angeles Pierce College*

John Egan  
*Jersey City State College*

Ruben C. Estrada  
*Pima College, Downtown Campus*

Roy Farris  
*Southeast Missouri State University*

Gilbert Fleming  
*Guilford Technical Community College*

Donald M. Freeman  
*Pikes Peak Community College*

William Friedman  
*Fontbonne College*

David Gennrich  
*Waukesha County Technical Institute*

Martin Gerber  
*Kalamazoo Valley Community College*

David K. Graf  
*Northern Illinois University*

Joseph Gray  
*Nassau Community College*

Janet M. Green  
*San Bernadino Valley College*

Glennon Grothaus  
*St. Louis Community College at Meramec*

Paul Hegele  
*Elgin Community College, Fountain Square Campus*

Sanford B. Helman  
*Middlesex Community College*

Nathan Himelstein  
*Essex Community College*

Louis Hoekstra  
*Grand Rapids Jr. College*

Paul F. Jenner  
*Southwest Missouri State University*

Owens Jensen  
*North Dakota State School of Science*

Gene Johnson  
*Clark College*

Ann Kane  
*Rose State College*

Steve Kirman  
*Dyke College*

Paul Londrigan  
*C.S. Mott Community College*

Patricia A. Long  
*Tarrant County Jr. College*

Gary Lyons  
*East Texas State University*

Donald D. Manning  
*University of Northern Colorado*

Allen D. Mason  
*Stephens College*

Robert Masters  
*Fort Hays State University*

James M. McHugh  
*Forest Park Community College*

Randall D. Mertz  
*Mesa Community College*

Nancy Meyer  
*Northwestern Business College*

James Mezsaros  
*County College of Morris*

William F. Motz, Jr.  
*Lansing Community College*

Mary K. Nelson  
*University of Minnesota*

Kenneth Papenfuss  
*Ricks College*

Dennis P. Pappas  
*Columbus Technical Institute*

Constantine G. Petrides  
*Borough of Manhattan Community College*

Raymond E. Polchow  
*Muskingum Area Technical College*

Richard Randolph  
*Johnson County Community College*

Robert Redick  
*Lincoln Land Community College*

John H. Rich  
*Illinois State University*

Gabe Sanders  
*Jersey City State College*

Paul D. Sanders  
*West Valley College*

Richard E. Schallert  
*Black Hawk College*

Dennis E. Schmitt  
*Emporia State University*

Robert W. Sexton  
*Cuyahoga Community College*

Dennis Shannon  
*Belleville Area College*

Jeffery D. Stauffer  
*Ventura College*

David Streiford  
*St. Louis Community College at Forest Park*

Jack L. Taylor  
*Charles County Community College*

Robert Wagley  
*Wright State University*  
George Wang  
*St. Louis Community  
College Meramec*  
Bernard W. Weinrich  
*St. Louis Community  
College at Forest Park*  
Mildred M. Whitted  
*St. Louis Community  
College at Forest Park*  
William F. Wright  
*Mt. Hood Community  
College*

We would like to express  
our sincere thanks to Jane  
Sherman, Peter Kinder, and  
Brock Dethier for their  
contributions to this project.

BARRY L. REECE  
JAMES P. O'GRADY



---

# CONTENTS

---

## Preface

xxiii

---

## Part I THE BUSINESS SYSTEM

---

3

### ECONOMIC FOUNDATIONS OF AMERICAN BUSINESS

---

#### 1

##### *Learning Objectives*

5

##### The Economic World

6

##### Economics: A Definition.

6

##### Demand, Supply, and Equilibrium

8

##### Competition and Markets

9

##### Competition and Economic Systems

11

##### Karl Marx and Adam Smith: Two Economists and Their Theories

13

##### Karl Marx

14

##### Adam Smith

10

##### How Our System Works

17

##### The Free Market System

17

##### The Ideology of Free Enterprise

17

##### The Development of our Economic System

20

##### The Earliest Years

20

##### The Industrial Revolution

21

##### The Sales and Marketing Era

25

##### The Rise of the Service and Information Sectors

25

##### Why Study Business

27

##### Chapter Highlights

28

##### *Key Terms*

29

##### *Review Questions*

30

##### *Application Exercises*

30

##### *Case Problems*

31

## **SOCIAL RESPONSIBILITY AND BUSINESS ETHICS**

### **2**

<i>Learning Objectives</i>	33
The Philosophical Debate	34
The Nature of Social Responsibility	35
Voluntary Actions	36
Toward Greater Social Responsibility	36
The Evolution of the Concept of Social Responsibility	37
Caveat Emptor and the Nature of Contracts	37
The Coming of Regulation	40
The Decade of Regulation: The 1970s	41
The Reaction to Regulation	42
Social Responsibility Strategies	43
The Reaction Strategy	43
The Defense Strategy	45
The Accommodation and Proaction Strategies	45
Social Responsibility and Self-Interest	45
Altruism	46
Enlightened Self-interest	47
The Social Audit	50
Developing a Social Audit	51
Objections to the Social Audit Concept	52
The Future of the Social Audit	52
The Ethical Dimension of Management	52
Business Ethics	53
Encouraging Ethical Conduct	53
Business Ethics: A Perspective	54
<i>Chapter Highlights</i>	55
<i>Key Terms</i>	55
<i>Review Questions</i>	56
<i>Application Exercises</i>	56
<i>Case Problems</i>	56

### **3**

## **THE FORMS OF BUSINESS OWNERSHIP**

<i>Learning Objectives</i>	59
Sole Proprietorships	60
Advantages of Sole Proprietorships	60
Disadvantages of Sole Proprietorships	62
The People Who Work for Businesses	63
Employees and Agents	63
Agency and the Forms of Businesses	66

Partnerships	66
An Association of Co-owners	66
To Carry on a Business for Profit	69
Operating a Partnership	69
Limited Partnerships	71
Ending a Partnership	71
Corporations	72
The Key Characteristic of Corporations	73
Types of Corporations	76
Classification of Corporations	78
Managing the Corporation	78
Other Business Forms	80
The Joint Venture	81
Syndicates	81
Cooperatives	81
Business Forms: A Perspective	82
<i>Chapter Highlights</i>	83
<i>Key Terms</i>	83
<i>Review Questions</i>	84
<i>Application Exercises</i>	84
<i>Case Problems</i>	84

---

## 4

# ENTREPRE- NEURSHIP, SMALL BUSINESSES, AND FRANCHISES

<i>Learning Objectives</i>	87
Entrepreneurs and Entrepreneurship	88
The Nature of Small Business	89
A Working Definition of Small Businesses	90
Other Definitions of Small Business	91
The Economic Importance of Small Businesses	92
Fields that Attract Small Business	92
Owning a Small Business	94
The Rewards of Small Business Ownership	95
The Risks of Small Business Ownership	97
The Keys to Success	98
The Paths to Failure	99
Financing the Small Business	101
The Owner's Resources	103
Family and Friends	103
Financial Institutions	104
Trade Credit	104
Other Sources of Funding	104
Where to Go For Help	106
Entrepreneurial Training Programs	106
The Small Business Administration	106

Franchising	107
The Franchise Relationship	107
The Advantages and Disadvantages of Franchises	107
Franchisee Protections	110
Small Business: A Parting Look	110
<i>Chapter Highlights</i>	110
<i>Key Terms</i>	111
<i>Review Questions</i>	112
<i>Application Exercises</i>	112
<i>Case Problems</i>	112

---

## **Part 2   MANAGEMENT AND ORGANIZATION**

---

121

### **MANAGEMENT**

#### **5**

<i>Learning Objectives</i>	123
The Management Process	124
The Nature of Management	124
The Universality of Management Principles	125
The Management Hierarchy	126
Management Skills	127
Leadership	128
Managerial Roles	129
Interpersonal Roles	129
Informational Roles	129
Decisional Roles	130
The Managerial Decision-Making Process	130
Step 1: Define the Problem	130
Step 2: Identify Alternatives	131
Step 3: Evaluate Alternatives	132
Step 4: Select an Alternative and Implement the Decision	133
Step 5: Follow Up on Implementation	133
Management Functions	134
Planning	134
Organizing	138
Staffing	139
Directing	140
Controlling	140
Contemporary Trends in Management	142
Corporate Cultures	142
Excellence	143
Management: A Perspective	144
<i>Chapter Highlights</i>	145
<i>Key Terms</i>	146

<i>Review Questions</i>	146
<i>Application Exercises</i>	147
<i>Case Problems</i>	147

---

## 6

### ORGANIZATION

<i>Learning Objectives</i>	151
What is an Organization?	152
The Elements of an Organization	152
Organizational Structure	153
The Organization Chart	154
The Principles of Organizational Design	155
Division of Labor	155
Departmentalization	156
Authority, Responsibility, and Delegation	160
Policies and Procedures	161
The Span of Management	162
Centralization and Decentralization	163
Forms of Organizations	163
Line Organizations	165
Functional Organization	165
Line and Staff Organization	166
Matrix-Structured Organization	167
Informal Structures	168
Organization: A Perspective	170
<i>Chapter Highlights</i>	172
<i>Key Terms</i>	173
<i>Review Questions</i>	173
<i>Application Exercises</i>	174
<i>Case Problems</i>	174

---

## 7

### HUMAN RELATIONS IN BUSINESS

<i>Learning Objectives</i>	177
The Nature of Human Relations in Business	178
Morale	178
Motivating Workers	180
The Hawthorne Studies	180
The Nature of Needs	181
Physiological Needs	181
Psychological Needs	183
The Hierarchy of Needs Today	184

Frederick Herzberg's Motivation-Maintenance Model	185
Douglas McGregor's Theory X and Theory Y	186
The Dimensions of Motivation	188
Internal Motivators	188
External Motivators	189
Involving the Employee in Decision Making	192
The Quality of Work Life Movement	192
Theory Z	192
Quality Circles	193
Alternative Work Patterns	194
Flexitime	194
Compressed Work Week	196
Job Sharing	196
Telecommuting	197
Human Relations: A Perspective	198
<i>Chapter Highlights</i>	198
<i>Key Terms</i>	200
<i>Review Questions</i>	200
<i>Application Exercises</i>	200
<i>Case Problems</i>	201

---

<b>Part 3</b>	<b>HUMAN RESOURCES AND PRODUCTION</b>	209
---------------	---------------------------------------	-----

---

## MANAGING HUMAN RESOURCES

### 8

<i>Learning Objectives</i>	211
The Growth of Human Resource Management	212
The Legal Environment	212
Responsibility for Human Resource Management	215
Human Resource Planning	216
Forecasting Demand	216
Estimating the Supply of Workers	216
Planning to Meet Needs	217
Job Analysis	217
The Employment Process	220
Recruiting	220
Selection	221
Orientation	227
Life on the Job	227
Performance Appraisal	228
Training and Development Programs	228
Promotion, Transfer, and Discharge	232

Compensation and Benefits	232
The Purposes of a Compensation System	232
Types of Compensation	234
Bases of Compensation	234
Employee Benefits	235
Today's Human Resources Challenges	238
<i>Chapter Highlights</i>	238
<i>Key Terms</i>	239
<i>Review Questions</i>	240
<i>Application Exercises</i>	240
<i>Case Problems</i>	240

## LABOR- MANAGEMENT RELATIONS

---

<b>9</b>	
<i>Learning Objectives</i>	243
The Early Union Movement	244
The First Organizing Efforts: 1830–1865	244
The Emergence of Strong Unions: 1865–1914	245
The Modern Era: Regulation of Labor Relations	246
The Era of Government Neutrality: 1914–1932	246
The Era of Legislation: 1932–1959	247
Unions Today and Tomorrow	252
The Emerging Service Sector	252
Growing Numbers of Women and Minorities	253
The Unionization Process	253
The Organizing Drive	254
The Representation Election	254
The Subjects of Collective Bargaining	255
The Respective Rights of Management and Union	255
Wages and Benefits	257
Hours	258
Working Conditions	258
Job Security	259
The Grievance Process	259
Givebacks	261
The Collective Bargaining Process	262
Preparations for Bargaining	262
Negotiating Teams	262
The Bargaining	264
Mediation, Arbitration, and Factfinding	265
When the Parties Cannot Agree	266
Labor-Management Relations: A Perspective	267
<i>Chapter Highlights</i>	268
<i>Key Terms</i>	269



<i>Review Questions</i>	270
<i>Application Exercises</i>	270
<i>Case Problems</i>	270

---

## 10

### OPERATIONS MANAGEMENT

<i>Learning Objectives</i>	273
Products and Operations Management	274
The Transformation Process	275
Division of Labor and Specialization	276
A Classification of Production Processes	276
Planning the Operation	277
The Strategic Decision	277
The Make-or-Buy Decision	279
The Nature of the Business	279
High-Tech versus Low-Tech Decisions	279
Production Planning and Control	280
Facilities Location	282
The Layout of Production Facilities	284
Design Considerations	284
Mass Production, Computers, and Robotics	286
Implementing the Plan	288
Operational Planning	288
Inventory Control	288
Materials Requirements Planning	289
Purchasing	291
Quality Control	291
Operations Management: A Perspective	292
<i>Chapter Highlights</i>	292
<i>Key Terms</i>	294
<i>Review Questions</i>	294
<i>Application Exercises</i>	294
<i>Case Problems</i>	295

---

## Part 4 MARKETING

---

303

---

## 11

### MARKETING MANAGEMENT

<i>Learning Objectives</i>	305
What is Marketing?	306
Marketing Functions	306

The Evolution of Marketing	309
The Production Era: 1860–1920	309
The Sales Era: 1920–1950	309
The Marketing Era: 1950 to the Present	310
Marketing Today	311
The Four Ps and the Concept of Utility	314
The Marketing Mix	314
Customer Satisfaction	314
Identifying Markets	316
Marketing to Specific Groups	316
Consumer Behavior	319
Market Data	319
Consumer and Industrial Markets	321
Consumer Products	322
Industrial Products	323
Marketing's Costs and Benefits	324
<i>Chapter Highlights</i>	325
<i>Key Terms</i>	326
<i>Review Questions</i>	326
<i>Application Exercises</i>	326
<i>Case Problems</i>	327

## PRODUCT AND PRICING STRATEGIES

### 12

<i>Learning Objectives</i>	329
Product Strategy	330
Developing New Products	330
Phase 1: Idea Generation	330
Phase 2: Screening	331
Phase 3: Business Analysis	331
Phase 4: Product Development	331
Phase 5: Test Marketing	332
Phase 6: Commercialization	332
The Product Life Cycle	333
The Basic Stages	333
Extending a Product's Life	336
Branding	338
Names and Symbols	338
Brand Strategies	339
Packaging	341
Labeling	341
The Role of Pricing	343
Allocation of Resources	343
Pricing Objectives	344