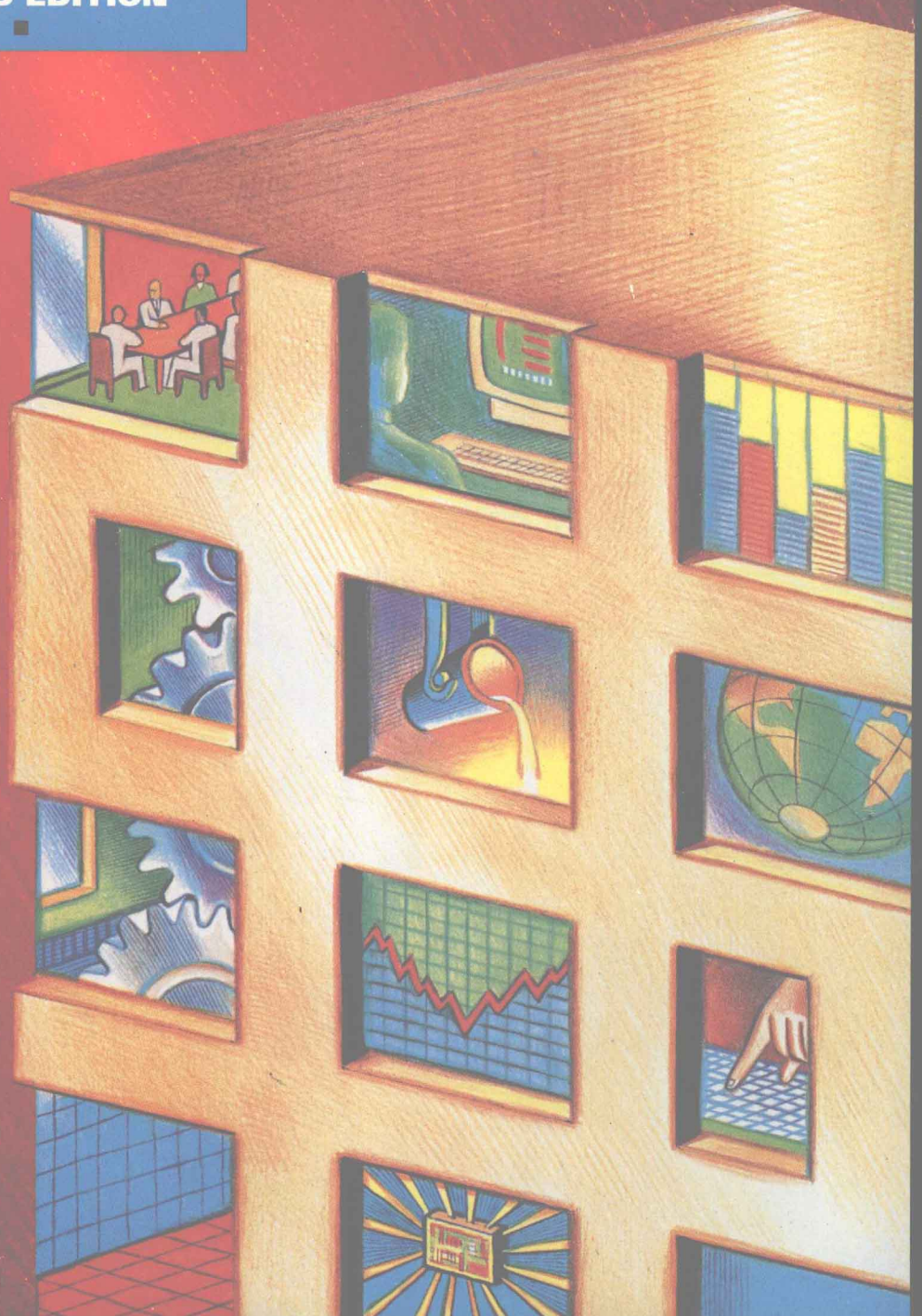


SECOND EDITION



SECOND EDITION

BUSINESS IN TODAY'S WORLD

JAMES R. LOWRY

Ball State University
Muncie, Indiana

BERNARD W. WEINRICH

St. Louis Community College
St. Louis, Missouri



COLLEGE DIVISION South-Western Publishing Co.

Cincinnati Ohio

Sponsoring Editor: Randy G. Haubner
Developmental Editor: Ann Torbert
Production Editor: Mark Sears
Production House: Bookmark
Cover and Internal Designer: Craig LeGessee Ramsdell
Photo Editor: Jennifer Mayhall
Photo Researcher: Photosynthesis
Marketing Manager: Scott D. Person
Cover Illustration: © 1992 David Suter

Copyright © 1994
by
SOUTH-WESTERN PUBLISHING CO.
Cincinnati, Ohio

South-Western is a subsidiary of ITP (International Thomson Publishing). The trademark ITP is used under license.

All Rights Reserved

The text of this publication, or any part thereof, may not be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, storage in an information retrieval system, or otherwise, without the prior written permission of the publishers.

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

Printed in the United States of America

Library of Congress Cataloging-in-Publication Data

Lowry, James Rolf.

Business in today's world. – 2nd ed. / James R. Lowry, Bernard W. Weinrich.
p. cm.

Includes bibliographical references and index.

ISBN 0-538-82806-4

1. Business. 2. Management—United States. I. Weinrich, Bernard W., 1937- ,
II. Title.

HF5351.L75 1994

658—dc20

93-33068

CIP

PREFACE

Business in today's world is constantly changing and becoming more complex. U.S. businesses are no longer insulated from international competition, and the business environment is no longer dominated by large-scale manufacturing. Business ethics and social responsibility are no longer just topics for an end-of-chapter discussion question. Global competition, information technology, quality and productivity, social responsibility, and the role of services and small businesses are the major elements in business today.

The next decade will be a period of extraordinary global competition, ecological focus, ethical considerations, and technological change. Only individuals and businesses that are able to adapt and grow will survive. **BUSINESS IN TODAY'S WORLD** presents a contemporary reflection of today's business world. Global markets, the changing business environment, competitiveness, and the importance of small business are covered at the beginning so that students will see how these concepts affect all other business functions.

Today's Introduction to Business students come from varied backgrounds and are involved in varied programs of study. Some are business administration majors, but many are enrolled in career programs. **BUSINESS IN TODAY'S WORLD** is a student-oriented text that is attractive, uncluttered, and logically organized. It will not only assist the student in learning introductory business concepts but also make the learning process interesting and enjoyable.

The primary focus of BUSINESS IN TODAY'S WORLD is to help prepare the student to compete in today's business world. The goal is for the student to know, understand, and use the concepts presented in the text. Accompanying the text is the student Study Guide that is the most direct student-oriented, informative and rewarding guide available. The student activities require much more than simple memorization of the text. Through the activities, the student will gain a broader understanding of the concepts presented in the text and will apply this knowledge in real-life situations.

- At the knowledge level, crossword puzzles add interest to learning key terms and definitions.
- A series of applied multiple-choice questions helps the student to understand the basic concepts presented in the text chapter.
- The student applies the concepts discussed in the text chapter in one or more decision-making activities.
- Lastly, for each text chapter, the issue of written communication is addressed. In answering the questions in the final application, the student prepares a short written answer. In most cases, the answer will be based on an interview with a businessperson concerning the real-world application of the concepts presented in the chapter.

BUSINESS IN TODAY'S WORLD is based on carefully documented studies on educational methods and learning theories. Each chapter begins with three useful sections:

- "Objectives" outlines the competencies that the student will acquire upon completion of the chapter.
- "Business Terms" highlights the business vocabulary introduced in the chapter.
- "What's Your Opinion?" presents a thought-provoking issue related to the topic of the chapter. After finishing the chapter, the student will be able to formulate his or her own opinion on the issue and compare that opinion with the authors'.

The text itself is written at a level attuned to today's student. Definitions and objectives in the margin, numerous examples, and lists aid the learning process. Descriptive figures and photographs stimulate interest and provide a graphic illustration of the textual materials presented. Each text chapter also includes several "Business Line" sections that illustrate how concepts discussed in the chapter relate to actual occurrences in today's business world.

The end-of-chapter materials continue the student-oriented framework of the text:

- An "Action Case" with questions can be used to synthesize the concepts contained in the chapter. Answers to the case questions are included in the instructor's manual.
- The "Summary" is presented in the form of answers to the learning objectives at the beginning of the chapter.
- "Discussion Questions" ask for more than simple recitation of the chapter content; many will stimulate active class discussion.
- Lastly "Our Opinion" gives the authors' thoughts concerning the "What's Your Opinion?" question.

Each of the six parts of the text opens with a brief narrative that provides information about the background and accomplishments of an interesting businessperson who is related to the topic of that part. At the end of each part, "Careers for You" describes employment opportunities in the areas discussed

within that part of the text. This section also includes a “Job Line” that presents the major requirements, responsibilities, median salary, and employment potential for specific positions. A relevant “Video Case” is located at the end of the last chapter of each part.

A comprehensive glossary at the end of the text again defines all of the business terms. The glossary has been carefully prepared to meet the student’s need for completeness and clarity. Lastly, **BUSINESS IN TODAY’S WORLD** contains a detailed index, which will aid the student in locating business terms and concepts.

FRAMEWORK OF THE BOOK

This book is a blend of topics that will provide the student with a contemporary reflection of today’s business world. The text is divided into six parts:

- Part One, “Overview of Business,” contains four chapters that explain concepts that permeate each of the basic business functions. Chapter 1, “Economic Foundations of Business,” provides the historical and economic foundations of our capitalistic system. Chapter 2, “Global Business,” describes the nature of international trade and why it is so critical to today’s successful businesses. Chapter 3, “Competitiveness Through Quality and Productivity,” discusses standards of quality and productivity and business’s concern about obtaining them. Chapter 4, “Small Business and Franchising,” conveys the importance of small business in the U.S. economy and the phenomenal growth of franchising.
- Part Two, “Social and Legal Environments,” contains three chapters that examine business’s social responsibilities and legal constraints. Chapter 5, “Business Ethics and Social Responsibility,” describes how society’s values and the external environment influence the manager’s job. Chapter 6, “Business Regulation and Taxes,” is an introduction to the laws and regulations used to promote competition and the principles of taxation. Chapter 7, “Legal Forms of Business Ownership,” examines the advantages and disadvantages of proprietorships, partnerships, corporations, and cooperatives.
- Part Three, “Management and Human Resources,” contains five chapters that discuss management responsibilities involving workers. Chapter 8, “The Manager’s Job,” explains managerial roles, levels, skills, and functions. Chapter 9, “Building the Organization,” describes organization structure and culture. Chapter 10, “Operations Management,” discusses the basic considerations and decisions involving the production of goods and services. Chapter 11, “Human Resources Management,” explains the methods by which people are brought into the organization, trained, evaluated, and compensated. Chapter 12, “Labor-Management Relations,” considers the goals of organized labor and the role of labor unions.
- Part Four, “Marketing Management,” illustrates the critical role of marketing in today’s business world through four chapters. Chapter 13, “Marketing Management,” explains the concept of marketing and identifies the marketing functions. The chapter also discusses consumer motivations and marketing research. Chapter 14, “Products and Their Distribution,” covers many topics concerning the characteristics and distribution of consumer goods and industrial goods. Chapter 15, “Promotional Strategies,” considers the four parts of a promotional mix—personal selling, advertising, publicity, and sales promotion. Chapter 16, “Pricing Strategies,” discusses pricing objectives and policies and explains the use of consumer and producer price indexes.

- Part Five, “Information Systems,” is composed of two chapters that examine the use of information and data in making business decisions. Chapter 17, “Management Information Systems and Computers,” describes the efforts of businesses to integrate information functions and technologies. Chapter 18, “Financial Information and Accounting,” provides a concise description of the accounting process, the income statement and balance sheet, and uses of financial information.
- Part Six, “Financial Management,” contains four chapters that cover diverse topics concerning financial matters. Chapter 19, “Financial Strategies,” explains the uses for and sources of short- and long-term financing. Chapter 20, “Security and Commodity Exchanges,” explains the role of security and futures exchanges for both businesses and individuals. Chapter 21, “Money and Banking,” discusses the role of money, the Federal Reserve System, and banking regulation in the United States. The chapter also covers international monetary operations. Chapter 22, “Risk Management and Insurance,” discusses risk and the role of insurance for both businesses and individuals.

SUPPLEMENTS

BUSINESS IN TODAY'S WORLD is accompanied by comprehensive instructional support materials.

- *Instructor's Resource Manual.* The instructor's manual provides resources to increase the teaching and learning value of BUSINESS IN TODAY'S WORLD. All of the written support materials for classroom activities are included in this single volume personally prepared by both authors.

For each text chapter, the manual provides a chapter transition and preview, a listing of the learning objectives, and suggestions for videos and films. A detailed lecture outline correlates lecture materials with transparencies, discussion questions, and commentaries that expand the lecture beyond the textbook. Also included is the chapter summary prepared as answers to the learning objectives and answers to the action case questions and the end-of-chapter discussion questions. Lastly, for each text chapter, there is an exercise that can be easily photocopied for use in the classroom or as homework. Answers for this exercise are also provided. Transparency masters are provided for many tables and figures. At the end of each of the six parts are the answers to the video case questions.

The instructor's manual also includes the operational guide and cases that accompany the South-Western *Decision Assistant* software. Each case places the student in a decision-making role. Solutions to the cases are provided.

- *Study Guide.* The text authors have prepared an exciting and informative study guide containing a variety of materials that readily leads students to the proper learning outcomes.
- *Test Bank.* The test bank was prepared by the text authors to assure accuracy and consistency. It includes 120 questions (40 true/false and 80 multiple choice), which are organized by major chapter headings for each text chapter. The text page reference is included with the answer for each question. Each question is identified by its degree of difficulty for students: “E” is easy, “M” is moderate, and “D” is difficult.
- *Computerized Test Bank.* In addition to the printed version, the test bank is available in a computerized format, MicroSWAT II, for use with IBM and IBM-compatible personal computers. MicroSWAT II allows the instructor to edit existing questions, create new questions, and print multiple versions of tests.

- *Transparencies.* The transparency package includes 50 full-color acetates and over 100 transparency masters. Although some of the most useful figures from the text are included, many of the acetates supplement the material covered in the text. The acetates and transparency masters are listed in the lecture notes in the instructor's manual.
- *Videos.* Six videos which accompany the video cases are part of the instructional package. South-Western Publishing College Division also maintains a video lending library. Contact your South-Western representative for more information.

ACKNOWLEDGMENTS

BUSINESS IN TODAY'S WORLD was produced with the help of dozens of instructors and students. The authors are grateful to the many dedicated instructors who answered their survey concerning what content and pedagogy are important in today's Introduction to Business classes. They would also like to thank the following reviewers who made thoughtful comments and suggestions on individual chapters of the manuscript:

Jerry Blanton
Crown Business Institute

Rochelle Ferrin
Phillips Junior College

Stephen Kober
Pierce College

Lynn Loudenback
New Mexico State University

Dennis Lupher
Ohio University, Lancaster

Hershel Nelson
Polk Community College

Deborah Reed
Community College of Beaver County

Appreciation also goes to the students who offered suggestions from the users' viewpoint.

CONTENTS IN BRIEF

Part 1 Overview of Business 1

- 1 Economic Foundations of Business 2
- 2 Global Trade 34
- 3 Competitiveness Through Quality and Productivity 64
- 4 Small Business, Entrepreneurship, and Franchising 90

Part 2 Social and Legal Environments 121

- 5 Business Ethics and Social Responsibility 122
- 6 Business Regulation and Taxes 150
- 7 Legal Forms of Business Ownership 178

Part 3 Management and Human Resources 207

- 8 The Manager's Job 208
- 9 Building the Organization 234
- 10 Operations Management 254
- 11 Human Resources Management 280
- 12 Labor-Management Relations 300

Part 4 Marketing Management 327

- 13 Marketing Management 328
- 14 Products and Their Distribution 358
- 15 Promotional Strategies 384
- 16 Pricing Strategies 414

Part 5 Information Systems 441

- 17 Management Information Systems and Computers 442
- 18 Financial Information and Accounting 472

Part 6 Financial Management 499

- 19 Financial Strategies 500
- 20 Security and Commodity Exchanges 528
- 21 Money and Banking 552
- 22 Risk Management and Insurance 582

Glossary 617

Index 631

Acknowledgments 641

CONTENTS

PART 1 OVERVIEW OF BUSINESS 1

1 Economic Foundations of Business 2

WHAT BUSINESS IS ALL ABOUT 4

WHAT IS AN ECONOMIC SYSTEM? 6

Capitalism: In Theory and Practice 6 Socialism: In Theory and Practice 7 Communism:
In Theory and Practice 8 Mixed Economies 8 Comparing Economic and Political
Systems 8

HOW OUR ECONOMIC SYSTEM GOT STARTED 9

Colonial Era 9 Industrial Revolution 10 Production-Driven Era 11 Marketing-Driven
Era 11 Service-Driven Era 12

WHAT MAKES A CAPITALIST SYSTEM WORK? 12

Circular Flow 12 Consumers 13 Producers 15 Governments 16

WHAT DOES OUR ECONOMY PROVIDE? 18

Goods and Services 18 Income 19

HOW DOES OUR ECONOMY FIT TOGETHER? 21

Supply, Demand, and Prices 21 Pure Competition 22 Monopolistic Competition 23

Oligopoly 23 Monopoly 23 Productivity 24

CRITICAL ISSUES IN OUR ECONOMY 24

Business Cycles 25 Inflation 25 Unemployment 26 The Budget Deficit 27

2 Global Trade 34

REASONS FOR GLOBAL TRADE 36

Economic Reasons 38 Political Reasons 41 Strategic Business Reasons 41

PROTECTIONISM AND ECONOMIC INTEGRATION 44

Forms of Protectionism 45 Forms of Economic Integration 46

CONDUCTING GLOBAL TRADE	48
Cultural Differences	48
Methods of Conducting Global Trade	51
PROMOTING GLOBAL TRADE	53
General Agreement on Tariffs and Trade (GATT)	53
Foreign-Trade Zones	53
U.S. Export-Import Bank	54
Foreign Sales Corporations (FSCs)	54
Trading Companies	54
INTERNATIONAL PAYMENTS AND BALANCE OF TRADE	55
MULTINATIONAL CORPORATIONS	57
Motives of MNCs	59
Benefits from MNCs	59
Criticisms of MNCs	60
3 Competitiveness Through Quality and Productivity	64
THE IMPORTANCE OF BEING COMPETITIVE	66
QUALITY AND ITS STATUS IN THE UNITED STATES	68
PRODUCTIVITY AND ITS STATUS IN THE UNITED STATES	69
Measures of Productivity	70
Status of U.S. Productivity	71
Productivity Problems in the Service Sector	72
Productivity in Various Industries	74
MAJOR CAUSES OF DECLINING U.S. COMPETITIVENESS	77
Misdirected Emphasis of Corporate Management	77
Lagging Capital Investment	77
Decline in Research and Development	78
High Energy Costs	79
Changing Composition of the Work Force	79
Educational Preparedness of the U.S. Work Force	79
Employee Attitudes	81
Environmental Compliance Costs	81
Restrictions on Management's Options	82
DO WE NEED A NATIONAL INDUSTRIAL POLICY?	82
SOME U.S. SUCCESS STORIES	83
Florida Power & Light	83
Nucor Corporation	85
Motorola	86
4 Small Business, Entrepreneurship and Franchising	90
IMPORTANCE OF SMALL BUSINESSES	92
Dominating the Service Sector	92
Providing Numerous Economic Contributions	93
Offering Ownership Opportunities to Minorities	94
Offering Ownership Opportunities to Women	95
DISTINCTIONS BETWEEN SMALL AND LARGE BUSINESSES	96
Differences in Marketing	96
Differences in Human Resources	97
Differences in Production	97
Differences in Finance	98
GROUPINGS OF SMALL BUSINESSES	99
Entrepreneurial Businesses	99
Lifestyle Businesses	99
Cottage Businesses	100
Franchised Businesses	100
Tax-Sheltered Businesses	100
STARTING A SMALL BUSINESS	100
Success Factors to Evaluate	102
Unique Qualities of Entrepreneurs	102
Forms of Ownership to Consider	104
Need for a Business Plan	105
Using a Small-Business Incubator	105
SBA SERVICES	106
SBA Loans	106
Long-Term Financing	107
Fixed-Asset Financing	108
Aid to Minority Businesses	108
Other Important SBA Services	108
FRANCHISING OPPORTUNITIES	108
Reasons for Buying a Franchise	110
Sources of Information about Franchises	111
Cautions for Franchisees	111
Future of Franchising	113
CAREERS FOR YOU	117
PART 2	
SOCIAL AND LEGAL ENVIRONMENTS	121
5 Business Ethics and Social Responsibility	122
IMPACT OF BUSINESS ETHICS ON MANAGERIAL DECISION MAKING	124
Ethics as a Reflection of Our Society's Character	125
Ethical Responsibilities of Business	125
Types of Ethical Standards	127
WAYS TO OBTAIN ETHICAL BEHAVIOR	127
Codes of Ethics	128
Other Ways to Achieve Ethical Conduct	129
No Assurance of Ethical Conduct	130
The Gray Area of Business Ethics	131
THE GROWING SOCIAL RESPONSIBILITY OF BUSINESS	131
American Value Patterns	132
Models of Business Responsibility	133
MAJOR SOCIAL RESPONSIBILITY ISSUES	135
Corporate Giving	136
Consumerism	136
Responsibility to Investors	140
Attention to Social Concerns	141
Other Social Responsibility Issues	143
Why Should Business Be Socially Responsible?	144
Business Legitimacy	144
Corporate Accountability	144
6 Business Regulation and Taxes	150
REGULATION OF COMPETITIVE BUSINESSES	152
Federal Laws to Promote Competition	153
Federal Laws to Protect Consumer Health and Safety	155
State and Local Laws	155

REGULATION OF MONOPOLIES 156

Regulatory Agencies and Commissions 158 Deregulation of Certain Industries 159

BUSINESS LAW 160

Bases for Laws 160 Tort Law 161 Commercial Law: The Uniform Commercial Code 163

Contract Law 163 Agency Law 164 Property Law 164 Bankruptcy Law 164 Product

Liability Law 165 Administrative Law 166

PRINCIPLES OF TAXATION 166

Bases for Taxation 167

STATE AND LOCAL TAXES 167

Sales Taxes 167 Income Taxes 168 Property Taxes 170 Lotteries 170

FEDERAL TAXES 171

Income Taxes 171 Social Security Taxes 174

7 Legal Forms of Business Ownership 178**PROPRIETORSHIPS 180**

Features of a Proprietorship 180 Advantages of a Proprietorship 182 Disadvantages of a Proprietorship 182

PARTNERSHIPS 183

Features of a Partnership 183 Kinds of Partners 184 The Limited Partnership 184

Advantages of a Partnership 185 Disadvantages of a Partnership 185 The Partnership

Contract 186

CORPORATIONS 187

Nature of the Corporation 188 Formation of a Corporation 188 Classifications of

Corporations 189 Corporate Boards of Directors 190 Corporate Annual Meetings 192

Advantages of a Corporation 194 Disadvantages of a Corporation 195

OTHER INCORPORATED FORMS OF BUSINESS OWNERSHIP 195

S Corporations 195 Corporate Forms of Ownership 196 Cooperatives 198

CAREERS FOR YOU 204**PART 3****MANAGEMENT AND HUMAN RESOURCES 207****8 The Manager's Job 208**

WHAT IS A MANAGER? 210

MANAGERIAL ROLES 210

Interpersonal Roles 211 Informational Roles 211 Decisional Roles 211

THE DIFFERENT LEVELS OF MANAGEMENT 212

Top Management 212 Middle Management 213 First-Line Management 214

WHAT SKILLS DOES A MANAGER NEED? 214

Technical Skill 214 Human Skill 215 Conceptual Skill 215 Managerial Skills at

Different Levels 215

THE FUNCTIONS A MANAGER PERFORMS 216

Planning 217 Organizing 218 Influencing 219 Controlling 223 Managerial Functions

at Different Levels 225 Coordinating Processes 225

MANAGERIAL APPROACHES 228

Management by Objectives 228 Team Management 229

9 Building the Organization 234**THE MEANING OF ORGANIZATION 236**

Formal Organization 236 Informal Organization 236

DIVIDING AND CONTROLLING THE ORGANIZATION 237**STEPS IN THE ORGANIZING PROCESS 239**

Job Definition 239 Departmentalization 241 Establishment of Authority

Relationships 243 Delegation 245

ORGANIZATION STRUCTURE 247

Mechanistic Structure 247 Organic Structure 247

ORGANIZATION CULTURE 249**ORGANIZATIONAL CHANGE 250****10 Operations Management 254****OPERATIONS MANAGEMENT 256**

High-Quality Outputs 256 Low-Cost Production 256 Dependability 258

BASIC DECISIONS OF AN OPERATING SYSTEM 258

Types of Products and Production Processes 258 Simple and Automated Machines 260

Computers in Production Systems 263

DESIGN OF A PRODUCTION SYSTEM 266

Capacity Planning 266 Location of the Facility 266 Layout of the Facility 270

OPERATION OF A PRODUCTION SYSTEM 271

Production Planning 272 Control of the Production System 275

11 Human Resources Management 280

PURPOSE AND FUNCTIONS OF HUMAN RESOURCES MANAGEMENT 282

HUMAN RESOURCES PLANNING 284

Laws Affecting Human Resources 284 Job Analysis 285

RECRUITMENT AND SELECTION 286

Filling Positions from Inside vs. Outside the Firm 287 Sources of Recruits 288 Use of an Application Form or Résumé 288 Use of Tests 288 The Preemployment Interview 289

ACHIEVING DESIRED PERFORMANCE 289

Induction to the Job 290 Job Orientation 290 Performance Appraisal 290 Employee Movement 291

TRAINING AND DEVELOPMENT 291

On-the-Job Training 292 Off-the-Job Training 292

COMPENSATION 293

Base Pay 293 Incentives 293 Fringe Benefits 295

12 Labor-Management Relations 300

THE EMERGENCE AND GROWTH OF LABOR UNIONS 302

Beginnings of Organized Labor in the United States 302 Modern Union Growth 303

The Shrinking Labor Movement 305

LABOR GOALS AND BARGAINING 306

Goals of Organized Labor 306 The Collective Bargaining Process 308

METHODS OF SETTLING LABOR DISPUTES 313

LABOR LEGISLATION 314

The Norris-LaGuardia Act 314 The Wagner Act 314 The Taft-Hartley Act 314 The

Landrum-Griffin Act 315 The Plant Closing Notification Act 315

TRENDS FOR ORGANIZED LABOR 316

Concessionary Bargaining and Givebacks 317 Changes in Work Force Composition 318

Technological Changes 319 The Need for Teamwork 319

CAREERS FOR YOU 323

PART 4**MARKETING MANAGEMENT 327****13 Marketing Management 328**

THE IMPORTANCE OF MARKETING IN OUR SOCIETY 330

The Marketing Concept 330 Marketing Costs 331 Marketing as a Productive System 332

Importance of the Industrial/Organizational Market 333 Importance of Service

Marketing 334 Marketing by Nonprofits Is Growing 335

MARKETING ORGANIZATION STRUCTURE 336

MARKETING FUNCTIONS AND MARKETING MIX 336

Marketing Strategies 338 Market Segmentation 339 Product Differentiation 344

Application of Segmentation and Differentiation 344

UNCONTROLLABLE VARIABLES IN THE MARKETING ENVIRONMENT 345

Competition 345 Legislation and Public Policy 345 Technology 345 Demand 346

CONSUMER BEHAVIOR 349

Buying Motives 350 Buying Process 352

MARKETING RESEARCH 353

Sources of Data 353 Data-Gathering Methods 353 Need for a Marketing Information System 355

14 Products and Their Distribution 358

TYPES OF GOODS 360

Industrial/Organizational Goods 360 Consumer Goods 362

PRODUCT POLICIES 363

New Product Development 363 Product Line and Product Mix 365 Brands and

Trademarks 365 Labels 366 Packaging 366 Warranties 368

DISTRIBUTION POLICIES 368

Channels for Consumer Goods 369 Channels for Industrial Goods 370

WHOLESALE 370

Reasons for Wholesaling 370 Merchant Wholesalers 370 Functional Middlemen 373

Integrated Wholesaling 373

RETAILING 373

By Lines of Goods Handled 374 By Ownership 376 By Geographic Location 377 By

Type of Operation 378

PHYSICAL DISTRIBUTION AND TRANSPORTATION 379

15 Promotional Strategies 384

PROMOTIONAL MIX AND STRATEGY 386

PERSONAL SELLING 388

Types of Salespeople 388 Types of Sales Organizations 390 Steps in the Sales Process 391 Telemarketing 394

SALES PROMOTION 394**ADVERTISING 394**

Objectives of Advertising 395 Methods of Budgeting for Advertising 396 Types of Advertising Messages 396 Types of Advertising Media 400

THE ADVERTISING AGENCY 407**CRITICISMS OF ADVERTISING 408**

Industry Self-Regulation 409 Government Regulation 409 Consumer Actions 410

16 Pricing Strategies 414**PRICING OBJECTIVES 416****APPROACHES IN DETERMINING PRICES 416**

Cost Approach 417 Marketing Approach 420

PRICING POLICIES 421

High Prices, Competitive Prices, or Low Prices 421 Skimming vs. Penetration Pricing 422

Odd Pricing 423 Delivered Prices 423 Unit Pricing 423 One Price vs. Varying Price 423

Leader Pricing and Bait Pricing 424 Discount Pricing 424

PRICING LEGISLATION 426

Robinson-Patman Act 426 Unfair-Trade Laws 426

PRICING THEORIES 426

Equilibrium Theory 427 Elasticity of Demand 427 Economic Market Situations 427

PRICE INDEXES AND TRENDS 427

Consumer Price Index 428 Producer Price Index (PPI) 429

APPENDIX 432**CAREERS FOR YOU 435****PART 5****INFORMATION SYSTEMS 441****17 Management Information Systems and Computers 442****MANAGEMENT INFORMATION SYSTEMS (MIS) 445**

Definition of an MIS 445 Characteristics of Quality Information 446 Functions of an MIS 446 Components of an MIS 446

BEYOND MIS: ADVANCED INFORMATION-GENERATING SYSTEMS 448

Decision Support System (DSS) 448 Executive Support System (ESS) 448

COMPUTER HARDWARE 450

A Brief History of Computers 450 Computer Components 451 Peripheral

Equipment 454 Types of Computers 455

COMPUTER SOFTWARE 456

Computer Programs 456 PC Operating Systems 458 Programming Language 458

BASIC DATA-PROCESSING SYSTEMS 459

Real-Time System 459 Batch Processing System 460

ARTIFICIAL INTELLIGENCE 461**BUSINESS APPLICATIONS FOR PERSONAL COMPUTERS 461**

Word Processing 462 Electronic Spreadsheet 462 Database Management 463 Desktop Publishing 464

STATISTICS 464

Collection of Data 465 Analysis, Summary, and Measurement of Data 466 Presentation of Data 467 Interpretation of Data 467

18 Financial Information and Accounting 472**FINANCIAL INFORMATION USERS 474**

Governmental Taxing Agencies 474 Governmental Regulatory Agencies 474

Stockholders 475 Potential Investors 475 Suppliers 475 Lenders 475 Managers 476

Potential Buyers of the Business 476

FINANCIAL STATEMENTS 476

Balance Sheet 476 Income Statement 480 Statement of Owner's Equity 481 Statement of Cash Flows 481

BUDGETS 483

The Master Budget 483 Zero-Base Budgeting 485

ACCOUNTING 485

Basic Steps in the Accounting Process 486 Generally Accepted Accounting Principles 487

Audits 487**TYPES OF ACCOUNTANTS 488**

Private Accountants 488 Public Accountants 488

APPENDIX 492
CAREERS FOR YOU 496

PART 6 FINANCIAL MANAGEMENT 499

19 Financial Strategies 500

FINANCIAL MANAGEMENT 502

Role of the Chief Financial Officer 503 Preparing Financial Plans 504

SOURCES OF LONG-TERM FINANCING 505

Bonds 506 Preferred Stock 510 Common Stock 511 Use of Leverage in Long-Term Financing 515 Financial Institutions Supplying Long-Term Funds 515

SOURCES OF SHORT-TERM FINANCING 519

Types of Short-Term Debt 519 Collateral for Short-Term Financing 521 Cost of Short-Term Financing 523 Financial Institutions Supplying Short-Term Funds 524

20 Security and Commodity Exchanges 528

SECURITY EXCHANGES 530

National and Regional Security Exchanges 531 Over-the-Counter Market 532 Buying and Selling Securities 534 Role of Security Exchanges 539

REGULATION OF SECURITY SALES AND EXCHANGES 540

State Regulation 540 Federal Regulation 540 Regulation of OTC Markets 542

DEVELOPMENT OF COMPUTERIZED MARKET SYSTEMS 543

GLOBAL SECURITY MARKETS 544

OTHER POPULAR SECURITIES 544

Government and Municipal Bonds 545 Options 546 Financial Futures 546

COMMODITY EXCHANGES 547

PROGRAM TRADING 548

21 Money and Banking 552

MONEY 554

The Nature of Money 554 Characteristics of Money 554 Forms of Money 555 Near-Money 556

THE FEDERAL RESERVE SYSTEM 556

The Fed's Functions 557 The Fed's Structure 558 Our Money Supply and Monetary Policy 560 The Fed's Three Monetary Policy Instruments 560

THE U.S. BANKING SYSTEM 562

Depository Institutions 562 Insuring Deposits 564 Nonbanks 564 Deregulation of the Banking System 565 Banking Legislation in 1991 567 Commercial Banking Today 567 S&Ls Today 568 Interstate Banking 569

INTERNATIONAL MONETARY OPERATIONS 570

International Money Instruments 570 Roles of the World Bank and the IMF 572 Global Role of Money-Center Banks 572 Role of Central Banks 573

GROWTH OF ELECTRONIC FUNDS TRANSFER SYSTEMS 574

Automated Teller Machines 574 Point-of-Sale Terminals 575 Automatic Deposit of Payments 576

22 Risk Management and Insurance 582

BUSINESS RISKS 584

Speculative Risk and Pure Risk 585 Risk Management 585 Characteristics of Insurable Risks 587

THE INSURANCE BUSINESS 588

Governments as Underwriters 588 Private Insurance Companies Classified by Ownership 589 Private Insurance Companies Classified by Specialization 589

HEALTH INSURANCE 590

PROPERTY AND LIABILITY INSURANCE 593

Fire Insurance 594 Multiple Peril Policies 595 Automobile Insurance 596 Burglary, Robbery, and Theft Insurance 597 Workers' Compensation Insurance 598 Marine Insurance 599 Fidelity and Surety Bonds 599 Specialized Liability Insurance 599 Other Insurance Coverages 601

LIFE INSURANCE 601

Individual Life Insurance 602 Group Life Insurance 605 Credit Life Insurance 605

Business Uses of Life Insurance 606

THE INTERNATIONAL INSURANCE MARKET 606

CAREERS FOR YOU 611

GLOSSARY 617

INDEX 631

ACKNOWLEDGMENTS 641

OVERVIEW OF BUSINESS

PART 1

Many of today's highly successful business people were youngsters during the Great Depression. They learned that in spite of the very difficult economy, there was a way to earn a living by going into business for oneself. Some of these entrepreneurs had a great deal in common with each other. Two in particular who did were Sam Walton and H. Ross Perot. Both were from small midwestern towns, delivered newspapers as youngsters, became Eagle Scouts in the Boy Scouts, and had fathers who owned their own businesses. Both had an undying faith that if you worked hard and gave the customers what they wanted, you could be successful in business. As you will see in Chapter 1, Sam Walton used these concepts to create the largest retailing company in the world, Wal-Mart, and went on to become one of the richest men in the world.

H. Ross Perot, until recently, was not as familiar to the American public as Sam Walton was. Most of us have not shopped with the company he created, Electronic Data Systems Corporation (EDS). He created EDS on his thirty-second birthday in 1962 with \$1,000 he and his wife, Margot, had saved from her teaching salary. Prior to this, Ross had worked for IBM, where he was a very successful salesman. In his fifth year with IBM he sold his year's quota in the first three weeks of January. He felt that selling computers at this time was like selling umbrellas on a rainy day—everybody wanted one—and IBM had the market locked up.

In Perot's eyes, IBM sold the hardware and gave the buyer the software. The problem was that frequently the software wasn't what the buyer needed. Then the buyer had to spend a lot of money to tailor IBM's software to his or her own needs. Perot's idea was to sell computer services rather than the hardware. The IBM hierarchy wasn't interested in his idea. As many other entrepreneurs have had to do, Perot quit his job to start a business that would take advantage of his idea. He rented unused computer time from computer owners. With the help of two salesmen and a programmer, he sold computer services to other firms. His first customers were insurance companies who needed their medical insurance claims processed.

This experience in processing medical insurance claims later proved to be fortunate. In 1965 Congress legislated Medicare and Medicaid, large government health-care programs. Private sector firms such as Blue Cross were swamped with claims. EDS soon became the prime Medicare and

Medicaid subcontractor in Texas, California, and a number of other states. EDS doubled its business annually in the 1960s.

In 1968 Perot sold to the public some of the stock in EDS. His net worth at the end of the day on which the stock was sold was \$200 million. Within two years his net worth exceeded a billion dollars.

The general public first became aware of Perot in December 1969 when he collected 26 tons of supplies that he flew to Vietnam to give to U.S. POWs. He wasn't successful in this effort because the North Vietnamese would not let him land his plane. However, Perot felt that there were very positive results in terms of better treatment for the POWs in Vietnam after his attempt.

Fifteen years later, the sale of EDS to General Motors (GM) and the ensuing conflict with GM's chief executive officer, Roger Smith, again brought Perot before the public. In 1984 GM bought EDS for \$2.5 billion with the intention of tying together its fragmented data processing. Perot received \$1 billion in cash, a position on the GM Board of Directors, and 11.3 million shares of GM stock tied to the performance of EDS.

Smith at first welcomed Perot's public chastising of the ponderous GM bureaucracy. However, statements such as "Revitalizing GM is like teaching an elephant to tap dance" soon became tiresome. In late 1986 Roger Smith decided that Perot was too much of a thorn in

GM's side. He bought back Perot's GM stock for over \$700 million.

Perot has since founded a new business, Perot Systems Corporation, with the avowed purpose of fighting EDS for its health-claim business. He also helped the state of Texas reform its public school system. In 1992 Perot ran for the U.S. presidency after enthusiastic supporters managed to get his name on the ballot in every state. After the election Perot managed to keep pressure on the government to reduce the huge federal deficit by forming a citizens' action group called United We Stand America. Perot's story demonstrates how far a person with a good idea and lots of energy can go.



Sources: N. R. Kleinfield, "Pesky Entrepreneur: Henry Ross Perot," *The New York Times*, 2 December 1986: 29, 33; "The Wild Card," *Newsweek*, 27 April 1992: 21–27; and "Perot, H(enry) Ross," *Current Biography* 1971: 322–324.

ECONOMIC FOUNDATIONS OF BUSINESS

1

OBJECTIVES

1

Explain how profit is crucial to our capitalist economic system.

2

Discuss the differences among capitalism, socialism, and communism.

3

Identify and explain the importance of the five major eras for business in this country.

4

Explain the roles of consumers, producers, and governments in our capitalistic system.

5

Distinguish between personal income and business income.

6

Distinguish among pure competition, monopolistic competition, oligopoly, and monopoly.

7

Identify the critical issues facing our economy.

BUSINESS TERMS

budget deficit	market economy
business	market price
business cycle	mixed economy
business income	monopolistic competition
capitalism	monopoly
communism	national debt
cost-push inflation	oligopoly
cyclical unemployment	personal income
demand-pull inflation	privatization
democracy	producers
disposable income	productivity
economic system	profit
entrepreneurs	pure competition
frictional unemployment	seasonal unemployment
gross domestic product (GDP)	services
gross national product (GNP)	socialism
inflation	structural unemployment
laissez-faire	transfer payments
	unemployment