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of Business

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# The Future of Business

THE ESSENTIALS

4th Edition

**Lawrence J. Gitman**

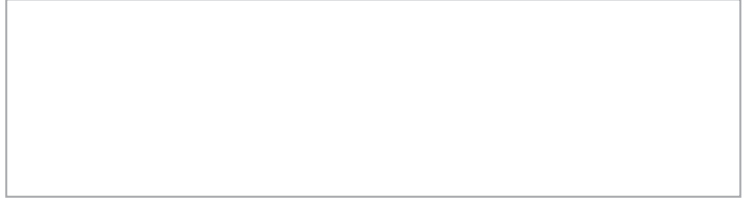
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## Lawrence J. Gitman

Lawrence J. Gitman is an emeritus professor of finance at San Diego State University. He received his bachelor's degree from Purdue University, his M.B.A. from the University of Dayton, and his Ph.D. from the University of Cincinnati. Professor Gitman is a prolific textbook author and has over 50 articles appearing in *Financial Management*, *Financial Review*, *Financial Services Review*, *Journal of Financial Planning*, *Journal of Risk and Insurance*, *Journal of Financial Research*, *Financial Practice and Education*, *Journal of Financial Education*, and other publications.

His singly authored major textbooks include *Principles of Managerial Finance: Brief*, Fifth Edition, *Principles of Managerial Finance*, Twelfth Edition, and *Foundations of Managerial Finance*, Fourth Edition. Other major textbooks include *Personal Financial Planning*, Eleventh Edition, and *Fundamentals of Investing*, Tenth Edition, both co-authored with Michael D. Joehnk. Gitman and Joehnk also wrote *Investment Fundamentals: A Guide to Becoming a Knowledgeable Investor*, which was selected as one of 1988's 10 best personal finance books by *Money* magazine. In addition, he co-authored *Introduction to Finance* with Jeff Madura and *Corporate Finance*, Second Edition, with Scott B. Smart and William L. Meggison.

An active member of numerous professional organizations, Professor Gitman is past president of the Academy of Financial Services, the San Diego Chapter of the Financial Executives Institute, the Midwest Finance Association, and the FMA National Honor Society. In addition he is a Certified Financial Planner (CFP®) and a Certified Cash Manager (CCM). Gitman served as vice-president, Financial Education of the Financial Management Association, as a director of the San Diego MIT Enterprise Form, and on the CFP® Board of Standards. He and his wife have two children and live in La Jolla, California, where he is an avid bicyclist.

## Carl McDaniel

Carl McDaniel is a professor of marketing at the University of Texas—Arlington, where he is currently on leave. He served as chairman of the marketing department for 30 years. He has also been an instructor for more than 30 years and is the recipient of several awards for outstanding teaching. McDaniel has also been a district sales manager for Southwestern Bell Telephone Company. He served as a board member of the North Texas Higher Education Authority, a \$1.5 billion organization that provides financing for student loans across America. He has also held the position of senior trade advisor for the International Trade Center (ITC) in Geneva, Switzerland. The ITC is jointly funded by the World Trade Organization and the United Nations. Currently, McDaniel is teaching in Executive MBA programs in both the United States and China.

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## What is in your future?

*The Future of Business: The Essentials* prepares you for a successful career in business by equipping you with the knowledge, skills, and competencies you need to prepare for tomorrow's competitive workplace. The authors present business principles and highlight emerging business trends in fields such as management, leadership, production, marketing, and finance.

Advanced learning tools such as the [Integrated Learning System](#) help build business competencies. This system provides learning goals at the beginning of each chapter to outline the key concepts that will be discussed throughout the chapter. The authors designed this approach to anchor chapter concepts, provide a framework for study, and help you learn quickly and study more efficiently. Your future is our business!

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YOUR FUTURE IS  
OUR BUSINESS



This edition is packed with updated features and cases to help you stay excited about the business world. Each feature, case, or activity is designed to help you understand how real business problems are solved, determine what business careers are right for you, and evaluate how ethics come into play. All of these are in place to prepare you for the future business world.

**New Building Your Career Booklet** This lively, concise booklet on career planning and study skills is the perfect complement to the Fourth Edition of *The Future of Business: The Essentials*. The *Building Your Career Booklet* covers career planning and study strategies to ensure success, not only in class but in your careers.



**NEW BizFlix Videos** These video clips show the world of business from a new perspective. Taken from popular Hollywood films, the videos offer a unique and tangible way to present business principles. You can draw the connections and articulate the relationship between the movie and the chapter concepts.

# THE FUTURE WITH THE

## Apple, Inc. continuing case

Part 1: The Evolution of Apple, Inc.

In the 1970s, the U.S. business environment was volatile, with unpredictable swings in inflation and recession. The political and social environments were unstable due largely to the country's continued presence in Vietnam. Price controls, oil embargoes, high unemployment, highly politicized labor disputes, and rapid rates of change in consumer prices all contributed to a decade of pessimism. Such economic issues contributed to the productivity slowdown of the 1970s. The largest slowdowns were in pipelines, motor vehicles, oil/gas extraction, utilities, and air transportation—all industries affected by the energy crisis of the 1970s. Interestingly, this environment proved ripe for innovation and was the backdrop for the inception of Apple, Inc. and a new product category that would ultimately become a way of life in society.

Apple created a new product category when it offered the first personal computer (PC) to truly meet the market's needs. This new product category was the result of a unique combination of entrepreneurial energy, innovative technical skills, and financial acuity. Steve Jobs provided the entrepreneurial energy. Stephen Wozniak imparted the innovative technical skills, and Bill Hurtubise furnished his financial expertise upon the product effort. At Apple Computer, these three individuals started an evolution from hobbyists to technical hacker to a mass consumer-market personal computer.

A frequently overlooked precursor of Apple's start, however, was the invention and later misapplication of integrated circuits. The first integrated circuit was introduced in the early 1950s as Texas Instruments and led to the invention of the handheld calculator. The ability to miniaturize electronic circuitry, and a group of "geeks" who could foresee a computer's real-world use, are key components in the development of our computerized society.

**The Homebrew Computer Club**  
In March 1975, the Homebrew Computer Club met for the first time in one of the members' garages. Members of the club were hobbyists who had electrical engineering or programming backgrounds. Initially, the typical discussion centered around the Altair 8800, a personal computer based on the Intel 8080 microprocessor. But the real interest of the club meeting was for attendees to trade parts, devices, and information. According to Stephen Wozniak, the Apple's was designed for fun to take to the Homebrew Computer Club meetings, not to be a product for a company. Diagrams of the Apple's were shared at the club meetings. Thus, the Apple computer was being demonstrated as it was being developed. In this manner, the product was reviewed, critical technical review from experts who were dabbling in computers as a hobby. The Homebrew Computer Club was one

of the first steps in the development of today's multibillion-dollar personal computer industry.

**The Wozniak and Jobs Duo**  
Stephen Wozniak and Steve Jobs met in 1969 and developed their first commercial product in 1975. Unfortunately, their first invention was not a viable product offering. The two had developed and packaged a "blue box" that could hack into the phone system. Product development was shut down, however, when the discovery of the original phone-hacking concept was revealed in 1972 of phone fraud charges.

Wozniak was employed at Hewlett-Packard in the mid-1970s when he was developing the early stages of the computer product that was shown regularly at the Homebrew Computer Club meetings. He discussed the computer with his employees at Hewlett-Packard, but they had no interest in the personal computer marketplace and provided him with a legal release. This legal release provided Wozniak ownership rights to the computer he was building while still employed at Hewlett-Packard. Whereas Wozniak was interested in the technical development of the computer, Jobs was more interested in its commercialization. This combination of technical and commercial expertise enabled the two entrepreneurs to begin developing and selling the Apple I computer on a very small scale.

**The Rapid Growth of the PC Industry**  
Intel was the first company to use miniaturization in the development of a microprocessor in 1971. This particular microprocessor was intended for calculators and watches. The Altair 8800, the first personal computer, was introduced in 1975, and the now famous Bill Gates got his start by writing the software for the Altair. Wozniak and Jobs introduced the International Business Machines (IBM) released the IBM PC in 1981, the world of personal computers truly began to open up. IBM used its established brand name to capture a huge chunk of the evolving PC marketplace in the early 1980s. Apple Computer introduced the Macintosh. This user-friendly computer had a mouse that allowed users to point and click on icons to execute demands. Although there were several early computer manufacturers, such as Commodore, Atari, and Radio Shack, the

**Apple, Inc. Continuing Case** Apple Computer, Inc. is featured in a continuing case at the end of each part, providing an in-depth look at the company's tumultuous evolution and demonstrating how chapter concepts are applied in an actual business. By presenting the strategies that helped Apple rebound from a business slump in the mid-80s to success today, you will understand management and organizational problems and solutions over an extended period of time.



**Exploring Business Careers Videos** End-of-chapter “Exploring Business Careers” vignettes and videos highlight the careers of successful business leaders from a variety of service and manufacturing firms. In addition to providing insight into a variety of business careers, the end-of-chapter vignettes and videos help reinforce an interest in the chapter topics through professionally produced videos.



**Concept in Action Photo Essays** “Concept in Action” photo essays help illustrate chapter concepts using interesting companies and business leaders. Each photo is accompanied by descriptive captions that provide detailed information about the person or business profiled and is followed by a critical-thinking question.

**Ethics Activities** Ethics activities at the end of each chapter present real-world ethical challenges and prompt you to choose the most ethical course of action. Scenarios include the Enron collapse, teenage obesity and fast food, executive compensation, outsourcing jobs to foreign countries, whistleblowing, and more.

**Ethics Activity**

**Too Delicious to Resist**

We are constantly bombarded with media reports claiming that as a nation Americans are becoming dangerously overweight. A recent medical study also just classified obesity as a disease in its own right, unconnected to such symptoms as high blood pressure, cholesterol, or heart problems. So perhaps it is not surprising that a recent lawsuit claimed that McDonald's is responsible for the obesity of two teenagers by “getting them hooked” on their burgers and fries.

You are the attorney approached by the teens' parents to bring suit against McDonald's. You ask yourself some soul-searching questions. Does McDonald's market and sell food in such a manner that it poses a health danger to unsuspecting consumers? And what about personal accountability? Shouldn't the teens, and/or their parents be held responsible for their food choices? You wonder whether if this were a local mom-and-pop restaurant, would the teens' parents be suing? Or are the deep pockets of McDonald's too delicious to resist?

Using a Web search tool, locate articles about this topic and then write responses to the following questions. Be sure to support your arguments and cite your sources.

**ETHICAL DILEMMA** Do you tell the teens' parents to go home, cook healthy, and put their kids on a diet? Or do you take the case, believing that McDonald's has not acted in a socially responsible way and recognizing the potential for some serious money?

Sources: David Carpenter, “Diet: McDonald's Is Just Nutrition Facts on Packaging Next Year,” *The America's Intelligence Wire*, October 26, 2010, <http://galvestonjournal.com/content/view/full/10000>; Patrick Connor, “McDonald's,” *New York Business Week Online*, February 17, 2010, <http://www.businessweek.com>; Richard Martin, “The World's Most Obese,” *Lawrence Hill Professor Personal Responsibility Database—for Teens*, *Nation's Restaurant News*, February 14, 2010, <http://galvestonjournal.com>; Wendy Madly, “Strongly Up Baby: Where's the Juice and Who Should Drink It,” *Advertising to Children?*, *ADWEEK*, February 12, 2010, p. 14; Libby Quast, “House Votes to Block Lawsuits Seeking Food Industry for Obesity,” *The America's Intelligence Wire*, October 19, 2010, <http://galvestonjournal.com>.



**Expanding Around the Globe** As you enter today's workplace, you are very likely to conduct business with colleagues, clients, and vendors from around the world. This feature offers insights into the global economy and highlights the strategies firms employ to expand their business and improve their productivity by using global resources.

**SCANS Integration** To help you develop high-performance workplace skills, the Secretary's Commission on Achieving Necessary Skills (SCANS) recommends developing five workplace competencies: using and allocating resources, working with others, acquiring and using information, understanding systems, and working with technology. The “Preparing for Tomorrow's Workplace” activities are designed to develop these workplace skills and are included in the homework section of each chapter.

**Business & Company Resource Center (BCRC)** Through Cengage Learning's Business & Company Resource Center, you can get access to a dynamic database of information and resources that will keep you up-to-date and continually interacting with the business world. BCRC supplies online access to a wide variety of global business information, including competitive intelligence, career and investment opportunities, business rankings, company histories, and much more. View a guided tour of the Business & Company Resource Center at <http://www.gale.com/BusinessRC>.

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- BCRC is conveniently accessible from anywhere with an Internet connection, allowing students to access information at school, at home, or on the 'go'.
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**YOUR FUTURE IS OUR BUSINESS**



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The future is coming at you at warp speed! Yes, your future and all of the excitement and challenges it entails. The story that we are about to tell you is all about your future. If you plan to be an engineer, medical doctor, social worker, or any other type of professional person, business will impact you. Even though a doctor will devote the bulk of her day to treating patients, she also needs the skills and understanding of business to make her office run smoothly and profitably. What you choose to do in life will also have a big impact on your lifestyle as well. A doctor, for example, may have a good income but a limited amount of free time. Our point is this: you will be in business one way or another!! So enjoy reading this exciting, easy-to-read, story-filled book because it will help you navigate the tricky waters that make up the future of business and prepare you for success!

## Features that Help You Learn

We are thrilled that you have joined us on the journey to the future of business. We have made many changes in the Fourth Edition that make it by far the best ever. In this preface, we describe the hallmark features that make this text a success with both students and instructors. We also spotlight the new features and content of this dynamic edition.

### Each Chapter Continues to Offer Both Business Principles and Business Trends

You told us that you wanted a crisp, innovative chapter structure, and that's what we deliver in the Fourth Edition. With the dual coverage of business principles and business trends in every chapter, *The Future of Business: The Essentials* prepares you for tomorrow's business world.

**Principles of Business** Each chapter delivers a comprehensive overview of current business principles and practices. You will learn what is happening in today's businesses with examples from the largest global corporate giants, such as General Electric and Procter & Gamble, to the smallest family start-ups.

**Trends in Business** The last learning goal of every chapter explores new business trends and how they are reshaping today's business and altering tomorrow's competitive environment. Technology and the global economy are covered extensively in every trends section. We expose you to the fundamental factors that are reshaping the business world in which you will soon begin professional careers. With this preview of the future, you gain a keen advantage when entering the workplace.

### The Integrated Learning System Ties Everything Together

The Integrated Learning System helps you learn quickly by driving home key chapter concepts and providing a framework for studying. We tie all instructor and student materials to each chapter's learning goals. The learning goals provide a common link to the text and all of the great supplements that accompany the Fourth Edition. Learning goals are listed at the beginning of each chapter and then repeated throughout the chapter in the margins of the text. After reading each section, you can test your retention by answering the questions in the Concept Checks. Every learning goal is further reinforced by the chapter summary.

# Preface



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The Integrated Learning System also helps instructors easily prepare their lectures. Learning goals at the beginning of each chapter outline the key concepts in the chapter and provide structure for lesson plans and help in exam preparation. Test questions, the PowerPoint Slides, and the Instructor's Manual lecture outline are all organized by the Integrated Learning System.

## **Hundreds of Business Examples Bring Business Concepts to Life**

This book is about you—the typical student. We have done a lot of research about your needs, abilities, experiences, and interests and then shaped the text around them. We have used our vast experience both inside and outside the classroom to create a book that is both readable and enjoyable. We believe that the real business applications that are found throughout every chapter set the standard for readability and understanding of key concepts.

## **BizFlix Video Cases Offer an Excellent Tool for Generating Excitement and Interest in Both the Printed Textbook and Online Book Companion Site**

The online BizFlix Video Cases enable the instructor to launch the chapter with student excitement and enthusiasm for the concepts and principles to come. It is all real-world and is what is happening right now! At the end of each chapter a second video, including such firms as BP, Harley Davidson, JP Morgan Chase, and Caterpillar, explores business careers and highlights the main ideas from each chapter. Learning is made fun and interesting through the study of real business issues and strategies implemented by a variety of America's best-known service and manufacturing firms.

## **Learning Business Terminology Is Made Easy**

As you begin your study of business, you will begin to explore new words and concepts like entrepreneurship, venture capital, competitive advantage, relationship management, the European Union, strategic alliance, and more. To help you learn this language of business, we define each new term in the chapter, print them in blue type, list the word and its definition in the margin, and offer a complete glossary at the end of the book. When you finish this book, you will be able to speak the language of business!

## **Activities and Cases Put Knowledge to Work**

*The Future of Business: The Essentials*, Fourth Edition helps you develop a solid grounding in skills like those you will apply in the workplace. These skill-building activities and resources help you build and polish competencies that your future employer will value.

- **Preparing for Tomorrow's Workplace and Team Activities.** These activities are designed to help build your business skills and practice teamwork. These highly practical exercises give you a meaningful advantage over fellow graduates in the workplace. New team activities in every chapter give you an opportunity to work with other students, building communication skills and interpersonal skills.
- **Ethics Activities Explore Right and Wrong.** Ethics activities at the end of each chapter present real-world ethical challenges and prompt students to choose the most ethical course of action. Scenarios include the Enron collapse, teenage obesity and fast food, executive compensation, outsourcing jobs to foreign countries, whistle-blowing, and more. Each activity gives you a chance to decide the most ethical course of action in these challenging situations.
- **Working the Net Activities.** These activities guide you through a step-by-step analysis of actual e-business practices and give you opportunities to build online research skills.
- **Creative Thinking Cases.** The creative thinking cases invite you to explore business strategies of various companies, analyze business decisions, and prepare comments.
- **Exploring Business Careers.** This feature offers an inside look at successful people in business. Students end each chapter by reading the stories of these successful business leaders in the *Exploring Business Careers* feature and watching the professionally produced, fast-paced video to gain quick insight into business careers and the chapter topic.

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## **Student-Friendly Writing Makes *The Future of Business: The Essentials*, Fourth Edition, Accessible**

Our objective is for you to finish this text and feel like this is absolutely the best college textbook that you have ever read! You will find that our writing style is friendly and very conversational—like two friends speaking together. Instead of formal language that can often be stilted, chapter titles, headings, and chapter text are written in a relaxed, inviting manner.

## **New Features in the Fourth Edition**

The Fourth Edition has been thoroughly updated with new learning tools and content to offer a complete, creative learning experience.

### **The Apple, Inc. Continuing Case Has Been Fully Updated**

What company could be more exciting and fun than Apple? Apple, Inc. is featured in a continuing case at the end of each part, providing an in-depth look at the company's tumultuous evolution and demonstrating how chapter concepts are applied in a real business. By presenting the strategies that helped Apple rebound from a business slump in the mid-1980s to success today, you gain an insider's look at the organizational problems and solutions of one of America's most creative companies!!

### **BizFlix Video Cases**

This new and engaging feature uses scenes from current Hollywood films in the beginning of every chapter and closes with critical thinking questions. The powerful and memorable scenes explore the essential business concept, while case questions foster student class participation. The BizFlix Video Cases are available in the PowerPoint presentation and the written case description is conveniently located at the beginning of every chapter.

### **Fully Updated Concept in Action Photo Essays Demonstrate Concepts at Work**

In each chapter you will find interesting companies and business leaders profiled in our "Concept in Action" photo essays. The photos and accompanying essays are fun, contemporary, insightful, and a super learning tool for the visual learner. Each photo essay concludes with a critical thinking question to spark further discussion and study about a business topic.

### **Building Your Career Booklet**

This lively, concise booklet on career planning and study skills, bundled with the text is the perfect complement to *The Future of Business: The Essentials*, Fourth Edition. The *Building Your Career* booklet covers career planning and study skills strategies to ensure the success of the student, not only in class but in their careers as well.

This booklet can also be easily customized to meet specific campus needs or bundled with any Cengage Learning text. This booklet is also perfect for professors who do not use a conventional text for the student success course and want information on career planning.

## **We Have Retained the Most Popular Features from the Third Edition**

This edition has been completely updated so that you are prepared for tomorrow's competitive workplace. However, we have retained those features that instructors and students tell us they really enjoy.

**Chapter 1 (Understanding Economic Systems and Business)** has been updated to reflect the latest economic conditions and structured to present more thorough coverage of the economic, political and legal, demographic, social, competitive, global, and technological sectors of the business environment. New material includes knowledge as a potential fifth factor of production, a fully updated discussion of baby boomers and their economic impact, and the critical importance of America's petroleum shortage.

**Chapter 2 (Making Ethical Decisions and Managing a Socially Responsible Business)** contains new material on ethics as a two-way street between buyer and seller. It stresses the notion that





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