



The Future
of Business

THE ESSENTIALS

Gitman &
McDaniel

4E

START PREPARING NOW FOR YOUR FUTURE

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 skills strategies to ensure your success, not only in class but in your careers as well.



The Future of Business

THE ESSENTIALS

4th Edition

Lawrence J. Gitman

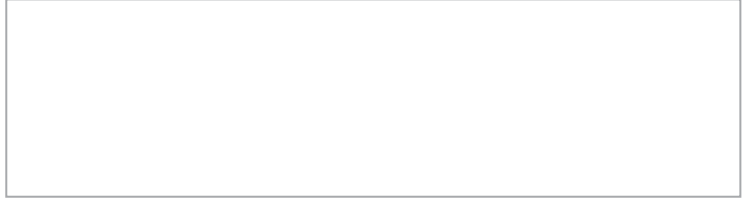
San Diego State University

Carl McDaniel

University of Texas, Arlington



Australia • Brazil • Japan • Korea • Mexico • Singapore • Spain • United Kingdom • United States



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.

In addition to this text, McDaniel has also co-authored a number of textbooks in marketing. McDaniel's research has appeared in such publications as *Journal of Marketing*, *Journal of Business Research*, *Journal of the Academy of Marketing Science*, and *California Management Review*.

McDaniel is a member of the American Marketing Association, Academy of Marketing Science, and the Society for Marketing Advances.

Besides his academic experience, McDaniel has business experience as the co-owner of a marketing research firm. The research firm has grown into one of the largest specialty marketing research companies in America. He has a bachelor's degree from the University of Arkansas and his master's degree and doctorate from Arizona State University.



Brief Contents

Part 1: The Business Environment 1

1. Understanding Economic Systems and Business 2
2. Making Ethical Decisions and Managing a Socially Responsible Business 37
Appendix: Understanding the Legal and Tax Environment 53
3. Competing in the Global Marketplace 68

Part 2: Business Ownership 97

4. Forms of Business Ownership 98
5. Entrepreneurship: Starting and Managing Your Own Business 124

Part 3: Managing Organizations 153

6. Management and Leadership in Today's Organizations 154
7. Designing Organizational Structures 177
8. Managing Human Resources and Labor Relations 202
9. Motivating Employees 234
10. Achieving World-Class Operations Management 257

Part 4: Marketing Management 287

11. Creating Products and Pricing Strategies to Meet Customers' Needs 288
12. Distributing and Promoting Products and Services 318

Part 5: Technology and Information 347

13. Using Technology to Manage Information 348
14. Using Financial Information and Accounting 376

Part 6: Finance 405

15. Understanding Money and Financial Institutions 406
16. Understanding Financial Management and Securities Markets 428

ONLINE RESOURCES

Online Enrichment Chapter: Managing Your Personal Finances
Online Enrichment Chapter: Using the Internet for Business Success
Online Appendix: Managing Risk and Insurance
www.cengage.com/introbusiness/gitman

- Glossary 459
Endnotes 473
Subject Index 483
Company Index 497

Contents

Part 1: The Business Environment 1

1 Understanding Economic Systems and Business 2

BizFlix: "Mapping Enemy Territory" 3

The Nature of Business 4

Not-for-Profit Organizations 5 • Factors of Production: The Building Blocks of Business 5

Understanding the Business Environment 6

Catching the Entrepreneurial Spirit: WOOt World 7

Economic Influences 8 • Political and Legal Influences 8 • Demographic Factors 8 • Social Factors 9 • Technology 9

How Business and Economies Work 9

Global Economic Systems 10 • Macroeconomics and Microeconomics 12

Macroeconomics: The Big Picture 13

Striving for Economic Growth 14 • Keeping People on the Job 14

Managing Change: Making "Green Gold" Green 15

Measuring Unemployment 15 • Types of Unemployment 15 • Keeping Prices Steady 16

Achieving Macroeconomic Goals 17

Monetary Policy 17 • Fiscal Policy 18

Microeconomics: Zeroing in on Businesses and Consumers 20

The Nature of Demand 20 • The Nature of Supply 21 • How Demand and Supply Interact to Determine Prices 22

Competing in a Free Market 24

Perfect Competition 24 • Pure Monopoly 24 • Monopolistic Competition 25 • Oligopoly 25

Customer Satisfaction and Quality: A Game of Pool with that Manicure? 26

Trends in the Business Environment and Competition 26

Not Over the Hill Yet 26

Managing Change: Plugging the Brain Drain 27

Running Out of Gas 28 • Meeting Competitive Challenges 29

2 Making Ethical Decisions and Managing a Socially Responsible Business 37

BizFlix: "The Real World" 38

Understanding Business Ethics 39

Recognizing Unethical Business Activities 39 • Justice—The Question of Fairness 40 • Utilitarianism—Seeking the Best for the Majority 40 • Following Our Obligations and Duties 41 • Individual Rights 41

How Organizations Influence Ethical Conduct 41

Leading by Example 42 • Offering Ethics-Training Programs 42 • Establishing a Formal Code of Ethics 42 • Making the Right Decision 44

Managing a Socially Responsible Business 45

Understanding Social Responsibility 45

Responsibilities to Stakeholders 47

Responsibility to Employees 47 • Responsibility to Customers 48 • Responsibility to Society 48 • Responsibilities to Investors 48

Expanding Around the Globe: Making a Fortune by Busting Monopolies and Selling to the Poor 49

Trends in Ethics and Social Responsibility 49

Changes in Corporate Philanthropy 49

Catching the Entrepreneurial Spirit: Small Companies but Big Hearts 50

Managing Change: Reducing Pollution with an Electric Car Network 51

Cause-Related Marketing 51

Customer Satisfaction and Quality: Checking on Charities 52

Global Ethics and Social Responsibility 52

Appendix: Understanding the Legal and Tax Environment 58

3 Competing in the Global Marketplace 68

BizFlix: "Teach Him Properly" 69

Global Trade in the United States 70

The Importance of Global Business to the United States 70 • The Impact of Terrorism on Global Trade 71

Measuring Trade Between Nations 71

Exports and Imports 71 • Balance of Trade 71 • Balance of Payments 71 • The Changing Value of Currencies 72

• *Comparative Advantage*
73 • *The Fear of Trade and Globalization* 73 • *Benefits of Globalization* 74

Barriers to Trade 74

Natural Barriers 74 • *Tariff Barriers* 74 • *Nontariff Barriers* 75

Fostering Global Trade 75

Antidumping Laws 75 • *The Uruguay Round and the World Trade Organization* 76 • *The World Bank and International Monetary Fund* 76

Managing Change: Antigua Free to Violate U.S. Copyrights 77

International Economic Communities 77

North American Free Trade Agreement (NAFTA) 77 • *Central America Free Trade Agreement* 78 • *The European Union* 78 • *The Importance of the EU to the United States* 80

Participating in the Global Marketplace 80

Exporting 80

Catching the Entrepreneurial Spirit: A Big Cheese in Exporting 81

Licensing and Franchising 82 • *Contract Manufacturing* 82 • *Joint Ventures* 82 • *Direct Foreign Investment* 83 • *Countertrade* 83

Threats and Opportunities in the Global Marketplace 84

Political Considerations 84 • *Cultural Differences* 84 • *Economic Environment* 85

The Impact of Multinational Corporations 86

Customer Satisfaction and Quality: Disney Localizes Mickey in Hong Kong 87

The Multinational Advantage 87

Trends in Global Competition 88

Market Expansion 88 • *Blocking Foreign Investment* 89 • *The Emergence of China and India* 89

Part 2: Business Ownership 97

4 Forms of Business Ownership 98

BizFlix: "I'm Not Trying to Tell You Your Business" 99

Going It Alone: Sole Proprietorships 100

Advantages of Sole Proprietorships 101 • *Disadvantages of Sole Proprietorships* 101

Catching the Entrepreneurial Spirit: Work-Life Balance Important in Small Business 102

Partnerships: Sharing the Load 102

Advantages of Partnerships 103 • *Disadvantages of Partnerships* 103

Corporations: Limiting Your Liability 104

Managing Change: Crocs Runs with the Bulls 105

The Incorporation Process 105 • *The Corporate Structure* 106 • *Advantages of Corporations* 106 • *Disadvantages of Corporations* 107 • *Types of Corporations* 108

Specialized Forms of Business Organization 108

Cooperatives 108 • *Joint Ventures* 110

Franchising: A Popular Trend 110

Advantages of Franchises 112 • *Disadvantages of Franchises* 112 • *Franchise Growth* 112 • *The Next Big Thing in Franchising* 113 • *International Franchising* 113

Expanding Around the Globe: Slicing the Pizza Market in India 114

Is Franchising in Your Future? 114

Mergers and Acquisitions 115

Types of Mergers 115 • *Merger Motives* 116 • *Emerging Truths* 117

Trends in Business Ownership 117

"Baby Boomers" Drive Franchise Trends 118 • *Mergers and Foreign Investment Boom, Too* 118

5 Entrepreneurship: Starting and Managing Your Own Business 124

BizFlix: "People Will Come" 125

Entrepreneurship Today 126

Entrepreneur or Small-Business Owner? 127 • *Types of Entrepreneurs* 128

Catching the Entrepreneurial Spirit: The Juice of Success 129

Why Become an Entrepreneur? 129

Characteristics of Successful Entrepreneurs 129

The Entrepreneurial Personality 130 • *Managerial Ability and Technical Knowledge* 130

Customer Satisfaction and Quality: Let Them Eat Bread 131

Small Business: Driving America's Growth 131

What Is a Small Business? 131

Ready, Set, Start Your Own Business 132

Getting Started 132 • *Financing the Business* 135 • *Buying a Small Business* 136 • *Risky Business* 137

Managing A Small Business 138

Using Outside Consultants 138 • *Hiring and Retaining Employees* 138

Managing Change: Hiring Friends Can Be—Whatever 139

Going Global with Exporting 139

Small Business, Large Impact 140

Why Stay Small? 141

The Small Business Administration 141

Financial Assistance Programs 141 • *SCORE-ing with Management Assistance Programs* 142 • *Assistance for Women and Minorities* 142

Trends in Entrepreneurship and Small-Business Ownership 142

Social Entrepreneurship 142 • *Changing Demographics Create Entrepreneurial Diversity* 143 • *The Growth of "Web-Driven Entrepreneurs"* 144

Part 3: Managing Organizations 153

6 Management and Leadership in Today's Organizations 154

BizFlix: "A Mighty and Terrible Thing" 155

The Role of Management 156

Planning 157

Catching the Entrepreneurial Spirit: Changing Strategy Can Change Your Opportunities 159

Organizing 160

Leading, Guiding, and Motivating Others 161

Leadership Styles 162

Customer Satisfaction and Quality: Working to Please 163

Employee Empowerment 163 • *Corporate Culture* 164

Controlling 164

Managing Change: Zipcar Zigs and Zags Before Setting Its Pace 165

Managerial Roles 166

Managerial Decision Making 167

Managerial Skills 168

Technical Skills 168 • *Conceptual Skills* 169 • *Human Relations Skills* 169

Trends in Management and Leadership 169

Crisis Management 169 • *Managers and Information Technology* 170 • *Managing Multinational Cultures* 171

7 Designing Organizational Structures 177

BizFlix: "Metro . . . Business . . . Foreign . . ." 178

Departmentalization—Building Organizational Structures 179

Division of Labor 179 • *Traditional Structures* 179 • *Line-and-Staff Organization* 182

Contemporary Structures 182

Matrix Structure 182 • *Committee Structure* 184

Using Teams to Enhance Motivation and Performance 184

Understanding Group Behavior 184

Managing Change: Notable Companies Trade Tradition for Teams 185

Work Groups versus Work Teams 186 • *Types of Teams* 186 • *Building High-Performance Teams* 186

Authority—Establishing Organizational Relationships 187

Managerial Hierarchy 187 • *Span of Control* 188

Degree of Centralization 189

Organizational Design Considerations 189

Mechanistic versus Organic Structures 190 • *Factors Influencing the Choice Between Mechanistic versus Organic Structures* 190

The Informal Organization 192

Functions of the Informal Organization 192 • *Informal Communication Channels* 192

Trends in Organizational Structure 192

Reengineering Organizational Structure 193 • *The Virtual Corporation* 193

Catching the Entrepreneurial Spirit: Instant Companies—Keen! 194

Virtual Teams 194 • *Outsourcing* 195

Expanding Around the Globe: Lego Builds a New Business Model—Without Its Bricks 196

8 Managing Human Resources and Labor Relations 202

BizFlix: "Would You Be Willing . . ." 203

Achieving High Performance Through Human Resource Management 204

HR Planning and Job Analysis and Design 204 • *HR Planning and Forecasting* 206

Employee Recruitment 207

Internal Labor Market 207 • *External Labor Market* 207 • *Electronic Job Boards* 207

Expanding Around the Globe: Podcasting Goes Corporate 208

Social Networking 208 • *Recruitment Branding* 208 • *Realistic Job Previews* 209

Employee Selection 209

Employee Training and Development 211

On-the-Job Training 211 • *Off-the-Job Training* 212

Performance Planning and Evaluation 212

Managing Change: The New Review 214

Employee Compensation and Benefits 214

Types of Compensation or Pay 214

Customer Satisfaction and Quality: Benefits Make a Difference—Especially for Working Moms 216

The Labor Relations Process 216

The Modern Labor Movement 216 • *Union Organizing* 217

Negotiating Union Contracts Through Collective Bargaining 219

Union Security 219 • *Management Rights* 220 • *Wage and Benefits* 220 • *Job Security and Seniority* 220

Managing Grievances and Conflicts 221

Grievance Handling and Arbitration 221 • *Tactics for Pressuring a Contract Settlement* 222

Legal Environment of Human Resources and Labor Relations 222

Trends in Human Resource Management and Labor Relations 225

Employee Diversity and Competitive Advantage 225 • *Outsourcing HR and Technology* 225 • *Organizational Culture and Hiring for Fit* 226 • *More Service Workers Joining Labor Unions* 226

9 Motivating Employees 234

BizFlix: "Just Throw" 235

Early Theories of Motivation 237

Frederick Taylor's Scientific Management 237 • *The Hawthorne Studies* 237 • *Maslow's Hierarchy of Needs* 238

Catching the Entrepreneurial Spirit: How Maslow Saved My Company 239

McGregor's Theories X and Y 240 • *Theory Z* 240 • *Hazberg's Motivator-Hygiene Theory* 241

Customer Satisfaction and Quality: Employee Satisfaction Leads to Five-Star Service 242

Contemporary Views on Motivation 243

Expectancy Theory 243 • *Equity Theory* 243 • *Goal-Setting Theory* 244 • *Reinforcement Theory* 245

From Motivation Theory to Application 245

Motivational Job Design 245

Expanding Around the Globe: Motivation Is Culture Bound 246

Work-Scheduling Options 246 • *Recognition and Empowerment* 247 • *Economic Incentives* 248

Trends in Employee Motivation 249

Praise 249 • *Employee Ownership* 249 • *Work-Life Benefits* 250 • *Coping with the Rising Costs of Absenteeism* 251

10 Achieving World-Class Operations Management 257

BizFlix: "Dreams for Cash" 258

Production and Operations Management—An Overview 259

Gearing Up: Production Planning 260 • *The Production Process: How Do We Make It?* 261

Catching the Entrepreneurial Spirit: Waiting for a Steelman 263

Location, Location, Location: Where Do We Make It? 263 • *Designing the Facility* 264 • *Pulling It Together: Resource Planning* 266 • *Keeping the Goods Flowing: Supply Chain Management* 268

Expanding Around the Globe: Look Before You Leap into Global Sourcing 269

Strategies for Supply Chain Management 269

Production and Operations Control 270

Routing: Where to Next? 270 • *Scheduling: When Do We Do It?* 270

Looking for a Better Way: Improving Production and Operations 272

Putting Quality First 273 • *Lean Manufacturing Trims the Fat* 274 • *Transforming the Factory Floor with Technology* 274 • *Technology and Automation at Your Service* 275

Customer Satisfaction and Quality: Can Technology Save Your Life? 276

Trends in Production and Operations Management 276

Looming Workforce Crisis Threatens U.S. Competitiveness 276 • *A Challenging Domestic Business Environment* 277 • *Business Process Management (BPM)—The Next Big Thing?* 277

Part 4: Marketing Management 287

11 Creating Products and Pricing Strategies to Meet Customers' Needs 288

BizFlix: "Like a Better Person" 289

The Marketing Concept 290

Customer Value 291 • *Customer Satisfaction* 291 • *Building Relationships* 291

Managing Change: JetBlue and Southwest Airlines Target the Business Set 292

Creating a Marketing Strategy 292

Customer Satisfaction and Quality: The Net Promoter Score Helps Measure Loyalty and Satisfaction 293

Defining the Target Market 293 • *Creating a Competitive Advantage* 293

Developing a Marketing Mix 295

Product Strategy 295 • *Pricing Strategy* 295 • *Distribution Strategy* 295 • *Promotion Strategy* 296 • *Not-for-Profit Marketing* 296

Buyer Behavior 296

Influences on Consumer Decision Making 296

Expanding Around the Globe: Understanding Foreign Cultures Is a Key to Marketing Success 298

Business-to-Business Purchase Decision Making 298

Market Segmentation 299

Demographic Segmentation 299 • *Geographic Segmentation* 300 • *Psychographic Segmentation* 301 • *Benefit Segmentation* 301 • *Volume Segmentation* 301

Using Marketing Research to Serve Existing Customers and Find New Customers 301

What Is a Product? 302

Classifying Consumer Products 302 • *Classifying Business Products* 304

Creating Products that Deliver Value 304

How New Products Are Developed 304 • *The Role of the Product Manager* 306

The Product Life Cycle 306

Stages of the Life Cycle 306 • *The Product Life Cycle as a Management Tool* 308

Pricing Strategies 308

Pricing Objectives 308 • *Product Pricing* 308

Trends in Developing Products and Pricing 310

The Impact of the Internet on Pricing 310 • *Brand/Product Line Extensions* 311 • *Private-Label Branding* 311

12 Distributing and Promoting Products and Services 318

BizFlix: "Perfect for Your Frame" 319

The Nature and Functions of Distribution 320

Marketing Intermediaries in the Distribution Channel 320 • *The Functions of Distribution Channels* 322

Wholesaling 323

Expanding Around the Globe: Procter & Gamble Often Targets Tiny Stores in Its Global Distribution Strategy 324

Types of Wholesaler Intermediaries 324

The Competitive World of Retailing 324

Types of Retail Operations 325 • Creating an Image and Promotional Strategy 325

Using Supply Chain Management to Increase Efficiency and Customer Satisfaction 326

Managing Change: Zara—Retailing at the Speed of Light 327

Promotional Goals 327

The Promotional Mix 328 • Integrated Marketing Communications 329

The Huge Impact of Advertising 329

The Crazy New World of Advertising 330 • Choosing Advertising Media 330

The Importance of Personal Selling 331

The Selling Process 331

Sales Promotion 333

Public Relations Helps Build Goodwill 335

Trends in Promotion and Distribution 335

Promotion through Blogs 336 • Advertisers Jump on It's All about Buzz 337

Part 5: Technology and Information 347

13 Using Technology to Manage Information 348

BizFlix: "Houston, We Have a Problem" 349

Transforming Businesses through Information 350

Expanding Around the Globe: Electronic Hubs Integrate Global Commerce 352

Data and Information Systems 352

Linking Up: Computer Networks 353

Connecting Near and Far with Networks 353 • An Inside Job: Intranets 354 • Enterprise Portals Open the Door to Productivity 354

Managing Change: Unlocking the Power of Social Networking 355

No More Tangles: Wireless Technologies 355 • Private Lines: Virtual Private Networks 356 • Software on Demand: Application Service Providers 356

Catching the Entrepreneurial Spirit: Surfing the Internet at 40,000 Feet 357

Management Information Systems 358

Transaction-Processing Systems 359 • Decisions, Decisions: Management Support Systems 360 • Decision Support Systems 360 • Executive Information Systems 361 • Expert Systems 361 • Office Automation Systems 361

Technology Management and Planning 362

Optimize IT! 362 • Managing Knowledge Resources 362 • Technology Planning 363

Protecting Computers and Information 363

Data Security Issues 364 • Preventing Problems 366 • Keep IT Confidential: Privacy Concerns 367

Trends in Information Technology 369

Virtualization 369 • Web-Based Applications 369 • Grid Computing Offers Powerful Solutions 369

14 Using Financial Information and Accounting 376

BizFlix: "I Can't See, Charlie" 377

Accounting: More than Numbers 378

Accounting Basics 379 • Who Uses Financial Reports? 379

The Accounting Profession 380

Public Accountants 380

Expanding Around the Globe: Moving toward One World of Numbers 381

Private Accountants 381 • Reconfiguring the Accounting Environment 381 • Better Numbers Ahead 382

Basic Accounting Procedures 384

The Accounting Equation 384 • The Accounting Cycle 385 • Computers in Accounting 385

The Balance Sheet 386

Assets 386 • Liabilities 387 • Owners' Equity 388

The Income Statement 388

Revenues 388 • Expenses 388

Catching the Entrepreneurial Spirit: Starting a Barbershop Means Brushing Up on Accounting 389

Net Profit or Loss 390

The Statement of Cash Flows 390

Managing Change: Increasing Cash Flow Helps Company Navigate a Turbulent Economy 391

Analyzing Financial Statements 392

Liquidity Ratios 392 • Profitability Ratios 393 • Activity Ratios 394 • Debt Ratios 394

Trends in Accounting 394

Reevaluating SarbOx 394 • Accountants Stick to the Numbers 395 • Tagging Data in Financial Reports 395 • Closing the GAAP 396

Part 6: Finance 405

15 Understanding Money and Financial Institutions 406

BizFlix: "Dirt" 407

Show Me the Money 408

Characteristics of Money 408 • Functions of Money 408 • The U.S. Money Supply 409

The Federal Reserve System 410

Carrying Out Monetary Policy 410 • Setting Rules on Credit 412 • Distributing Currency: Keeping the Cash Flowing 412 • Making Check Clearing Easier 412

U.S. Financial Institutions 412

Depository Financial Institutions 413

Customer Satisfaction and Quality: Who Gives Better Service—Big or Small Banks? 415

Nondepository Financial Institutions 416

Insuring Bank Deposits 417

Catching the Entrepreneurial Spirit: Easy Money between Family and Friends 418

Role of the FDIC 418 • Enforcement by the FDIC 418

International Banking 419

Expanding Around the Globe: Wal-Mart Finally Gets Approval to Open a Bank, But It's in Mexico 420

Trends in Financial Institutions 420

Direct Banking 420 • Mobile Banking 421 • Operational Technologies 422 • Microlending 422 • Dirty Money—New Focus on Money Laundering 423

16 Understanding Financial Management and Securities Markets 428

BizFlix: “In the End . . .” 429

The Role of Finance and the Financial Manager 430

The Financial Manager's Responsibilities and Activities 430 • The Goal of the Financial Manager 431

How Organizations Use Funds 432

Short-Term Expenses 432

Long-Term Expenditures 434

Managing Change: Turning Fashion on a Dime 435

Obtaining Short-Term Financing 435

Unsecured Short-Term Loans 435 • Secured Short-Term Loans 436

Raising Long-Term Financing 436

Debt versus Equity Financing 436 • Debt Financing 437 • Equity Financing 438

Securities Markets 440

Types of Markets 440 • The Role of Investment Bankers and Stockbrokers 440 • Online Investing 440

Customer Satisfaction and Quality: Crowdsourced Investment Information 441

Investing in Bonds 441 • Other Popular Securities 443

Buying and Selling at Securities Exchanges 444

Broker Markets 444 • Dealer Markets 445 • Alternative Trading Systems 446 • Global Trading and Foreign Exchanges 446 • Regulation of Securities Markets 447

Expanding Around the Globe: E*Trade Builds a Network—of Brokers 448

Trends in Financial Management and Securities Markets 448

Consolidation Continues 449 • Trade-Cycle Automation 449

ONLINE RESOURCES

Online Enrichment Chapter: Managing Your Personal Finances

Online Enrichment Chapter: Using the Internet for Business Success

Online Appendix: Managing Risk and Insurance

www.cengage.com/introbusiness/gitman

Glossary 459

Endnotes 473

Subject Index 483

Company Index 497

This page intentionally left blank



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!

©PhotoAlto/Getty Images

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



The federal government is pushing America's Big 3 automakers to manufacture eco-friendly automobile fleets. In 2007, the president and Congress passed the Energy Independence and Security Act, which requires automakers to boost fleetwide gas mileage to 35 miles per gallon by the year 2020. The significantly higher fuel-economy standard will force General Motors to produce more Chevy Axcels and fewer best-selling Chevy Tahoes, since even the hybrid version of the popular SUV can't achieve government-mandated fuel efficiency. How might the changing political-legal environment affect GM's business and profits?

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: Lovers of Burgers Face Personal Responsibility Challenge—for Now,” *Nation's Restaurant News*, February 14, 2010, <http://galvestonjournal.com/content/view/full/9999>; 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/content/view/full/10000>.

EXPANDING AROUND THE GLOBE



Making a Fortune by Ducting Monopolies and Selling to the Poor

It is hard to believe that in the 1800s there were men in America who could make a fortune by selling water. In 1852, a 35-year-old entrepreneur by the name of John D. Rockefeller started a company called Standard Oil. Rockefeller's company made the common kerosene that was used to light homes and businesses. Rockefeller's company was the only one in the country to produce kerosene. Rockefeller's company was the only one in the country to produce kerosene. Rockefeller's company was the only one in the country to produce kerosene.

Critical Thinking Questions

- 1. How did Rockefeller's company make its fortune?
- 2. How did Rockefeller's company make its fortune?
- 3. How did Rockefeller's company make its fortune?

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>.

CENGAGE Learning

Business & Company Resource Center

Put a complete business library at your fingertips with *The Business & Company Resource Center*. The BCRC is a premier online business research tool that allows you to seamlessly search thousands of periodicals, journals, references, financial information, industry reports, company histories and much more.

- BCRC is conveniently accessible from anywhere with an Internet connection, allowing students to access information at school, at home, or on the 'go'.
- BCRC is a powerful and time saving research tool for students-- whether they are completing a case analysis, preparing for a presentation or discussion, creating a business plan, or writing a reaction paper.
- Instructors can use the BCRC like an online coursepack, assigning readings and research-based homework without the inconvenience of library reserves, permissions, and printed materials.
- BCRC filters out the 'junk' information students often find when searching the Internet, providing only the high quality, safe, and reliable news and information sources.

The *Business & Company Resource Center* can be packaged with any Cengage Learning textbook or coursepack at little or no additional cost. Use the resources on this page to learn more about this complete online information solution. To learn how you can include BCRC in your course, [contact your local Cengage Learning representative](#).

BCRC Applications in Your Class

- Combine BCRC with your favorite Harvard Business School Publishing cases and provide your students with a complete research tool for case analysis at an additional cost. [Contact your Cengage Learning representative](#) for additional information.
- Easily assign homework, share articles, create journal lists, and save searches using [BCRC bookmarks](#).
- BCRC saves students valuable time and provides them a safe and reliable resource in which to hone their research skills and analytical abilities.
- [Click here](#) to view some examples of how you can integrate BCRC into your course.

Find Your Rep: Custom Publishing www.cengage.com/highered Contact Us

Web Site When you use the Fourth Edition, you will have access to a rich array of learning resources that you won't find anywhere else. This outstanding site features chapter-by-chapter online tutorial quizzes, a final exam, chapter outlines, chapter review, chapter-by-chapter weblinks, flashcards, and more!



YOUR FUTURE IS OUR BUSINESS



© PhotoAlto / Getty Images



preface

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.

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.

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

sample content of The Future of Business: The Essentials (with Building Your Career Booklet) (Book Only)

- [I'd Sooner Starve! pdf](#)
- [Fair Oaks 1862: McClellan's Peninsular Campaign \(Campaign, Volume 124\) here](#)
- [click Fianchetto Systems \(Kotronias on the King's Indian, Volume 1\)](#)
- [download online House of Echoes pdf, azw \(kindle\), epub, doc, mobi](#)
- [read Beckett's Words: The Promise of Happiness in a Time of Mourning pdf](#)
- [download *At Home in the Universe: The Search for the Laws of Self-Organization and Complexity for free*](#)

- <http://crackingscience.org/?library/I-d-Sooner-Starve-.pdf>
- <http://honareavalmusic.com/?books/Psychologists-on-the-March--Science--Practice--and-Professional-Identity-in-America--1929-1969--Cambridge-Studie>
- <http://metromekanik.com/ebooks/Fianchetto-Systems--Kotronias-on-the-King-s-Indian--Volume-1-.pdf>
- <http://aneventshop.com/ebooks/A-Good-Man.pdf>
- <http://tuscalaural.com/library/The-Sega-Master-System-Encyclopedia--Volume-1-Action-Fighter---F-16-Fighting-Falcon.pdf>
- <http://yachtwebsitedemo.com/books/Splinter-the-Silence--Tony-Hill---Carol-Jordan--Book-9-.pdf>