

Understanding Business

Nickels

THE GOLD STANDARD

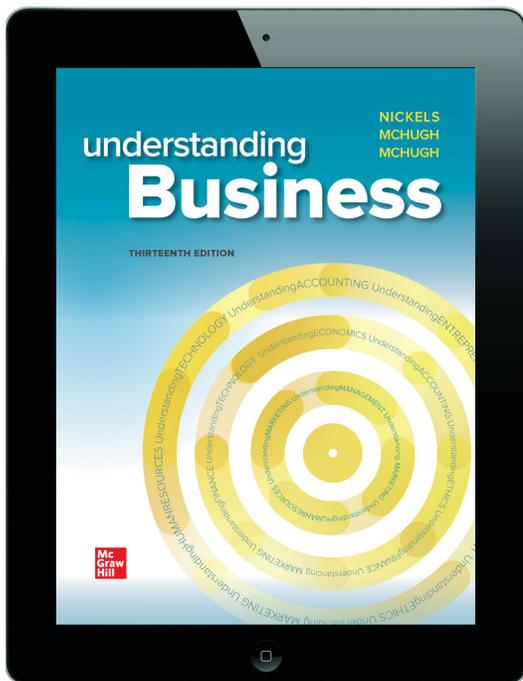


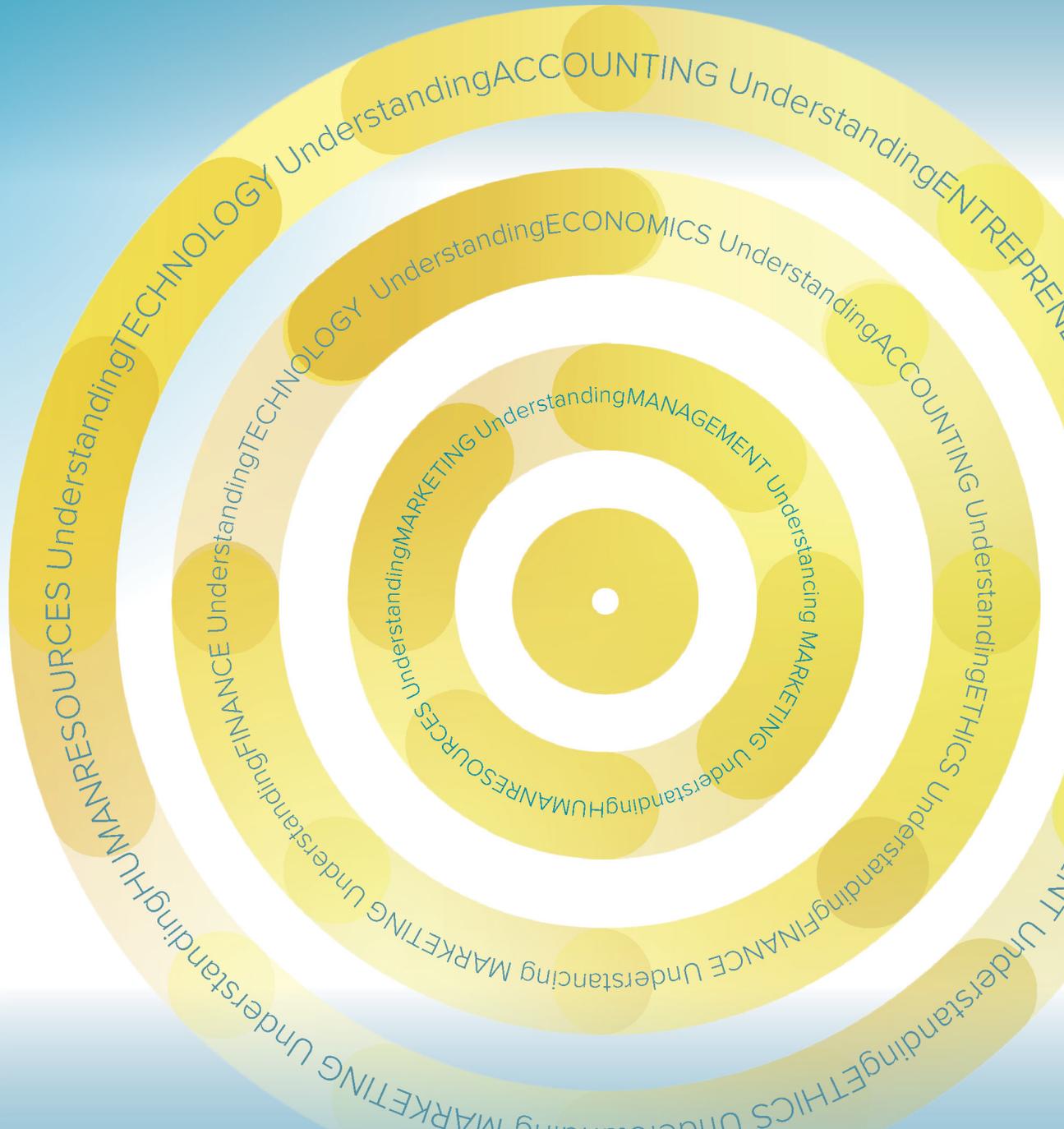
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understanding Business

NICKELS
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THIRTEENTH EDITION



Letter from the Authors:

As authors, it is thrilling to see the results of the work we love embraced by colleagues at hundreds of colleges and universities across the nation. *Understanding Business (UB)* is considered by many to be the gold standard of introduction to business texts. While we, of course, believe that to be true, we also know that in order to remain the gold standard we must continually strive to improve and adapt our teaching and learning system to meet your instructional needs. We want to thank the hundreds of instructors who have been generous with their time and sharing their insights into how we can continue to enhance the text and package.

Commitment to Students: The Gold Standard

The primary goal of our product has always been to help students learn the key practices, principles, strategies, and skills that will serve them beyond this course and into their career and life. I think we can all admit that this is an exciting and challenging time for business across the globe. The pace of change in the business environment has been astounding! Just think of all the changes we've made in the way we work and interact with each other since last March! The soon-to-be-published 13th edition of UB highlights the need for businesses to adapt to their ever-changing environment through the use of current, real-life examples from successful businesspeople and companies of all sizes and industries around the world.

Top-Notch Supplements: The Gold Standard

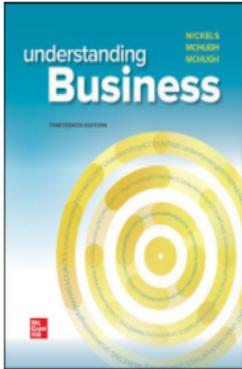
We know that not only is a market-leading, current and accurate product critical, but so is a robust, aligned instructor supplements package! *Understanding Business* would not be the Gold Standard of introductory business courses without its trusted comprehensive, accurate, and innovative package. UB 13e is no exception! All of our supplements are thoroughly reviewed and vetted by the author team and subject-matter experts to guarantee accuracy. We have also worked to ensure the assignable, digital content within Connect is up-to-date and refreshed. With this edition you can expect 15+ Application-Based Activities (Mini Sims), new assignable video cases, updated quiz and test banks and more.

Current Content: The Gold Standard

Users of *Understanding Business* have always appreciated the currency of the material and the large number of examples from companies of all sizes and industries in the United States and around the world. A glance at the list of changes found in the Preface will show you that almost all of them are from 2019 or 2020! In addition, one of the best ways to keep our package as current as possible is to continuously update our blog "From the News to the Classroom" (<http://understandingbiz.com/>)! Our frequent (2-3 times/week) blog posts include article abstracts and videos along with discussion questions that instructors can use now to illustrate key concepts in business.

We are eager to show off the new edition and, of course, we look forward to hearing how you and your students like it. As always, we value our relationship with our fellow instructors who share with us their opinions, input, and advice. It's from this collegial cornerstone that the 13th edition was created. Together, we'll continue to build the best teaching and learning system to help your students succeed!

Bill Nickels | Jim McHugh | Susan McHugh



**3 NEW
Mini Sims!**

Leadership
& Management
HR
Fundamentals
of Business

Understanding Business

Chapter by Chapter Changes 12e to 13e

Chapter 1 Taking Risks and Making Profits within the Dynamic Business Environment

What's New in this Edition?

Additions:

- Getting to Know Ann-Marie Campbell of Home Depot
- Name That Company: Equifax
- Issues regarding the COVID-19 pandemic and social injustice protests are addressed in several photo essays throughout the text.
- Adapting to Change box: Creating Sustainability through a Circular Economy
- Connecting through Social Media box: The Lucrative Challenge of Connecting with Gen Z Online
- Reaching Beyond Our Borders box: Coca-Cola's Global Offerings Expand Far beyond Soda
- Video Case: Building a Shopping Community of People (Poshmark)

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- Subsection "Managing Diversity" was enhanced with discussion of promoting inclusion and belonging in the workplace.

Deletions:

- Boxes: Adapting to Change Spotlight on Small Business, Reaching Beyond Our Borders, Adapting to Change
- Video Case

Chapter 2 Understanding Economics and How It Affects Business

What's New in this Edition?

Additions:

- Getting to Know Mariana Mazzucato, Economist
- Name That Company: Boeing
- Adapting to Change box: The World Population Could Go from Boom to Bust
- Reaching Beyond Our Borders box: How a Stack of Cash Can Become Worthless
- Video Case: Kiva, Giving Poor Entrepreneurs a Chance

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- Subsection "The Unemployment Rate" was expanded with a discussion of the real unemployment rate compared to the standard unemployment rate.

Deletions:

- Boxes: Adapting to Change, Reaching Beyond Our Borders
- Video Case

Chapter 3 Doing Business in Global Markets

What's New in this Edition?

Additions:

- Getting to Know Tim Cook of Apple
- Name That Company: adidas
- Connecting through Social Media box: Global Consumers Increasingly Listen to Influencers
- Video Case: Domino's Wild World of Pizza

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- Reaching Beyond Our Borders: A World of Options Under the Arches was revised and updated.
- Subsection "Common Markets" was updated with a discussion of Brexit, the trade agreement between the EU and Mercosur, and the African Continental Free Trade Area.
- Subsection "North American and Central American Trade Agreements" was divided into two subsections "NAFTA and the United States-Mexico-Canada Agreement" and "Central American Free Trade Agreement." The new NAFTA/USMCA subsection was expanded with a more detailed discussion of USMCA.

Deletions:

- Boxes: Connecting Through Social Media
- Video Case

Chapter 4 Demanding Ethical and Socially Responsible Behavior

What's New in this Edition?

Additions:

- Getting to Know Matt Damon and Gary White, Cofounders of Water.org
- Name that Company: Patagonia
- Connecting through Social Media box: Creating an Online Garage Sale for a Good Cause
- Video Case: Conscious Marketing at Gluten Free Bars

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information.

Deletions:

- Video Case

Chapter 5 How to Form a Business

What's New in this Edition?

Additions:

- Getting to Know Alli Webb, Founder of Drybar
- Name that Company: Disney
- Adapting to Change box: How B Corps Help Society While Earning Profits
- Spotlight on Small Business box: Franchising a Different Form of Fun
- Video Case: Domino's Still Rolling in the Dough

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information.

Deletions:

- Boxes: Adapting to Change, Spotlight on Small Business
- Video Case

Chapter 6 Entrepreneurship and Starting a Small Business

What's New in this Edition?

Additions:

- Getting to Know Joel Clark, Cofounder and CEO of Kodiak Cakes
- Name that Company: Hershey
- Spotlight on Small Business box: Student Start-Ups
- Adapting to Change box: Small Businesses Struggle to Fight Fakes on Amazon
- Video Case: Cousins Maine Lobster: From Small Partnership to Successful Franchisor

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- Subsection "Encouraging Entrepreneurship: What Government Can Do" was revised to include discussion of opportunity zones identified by federal government.
- Figure 6.5 Types of SBA Financial Assistance was revised (Guaranteed Loan was changed to Standard (7a) Loan; SBA Express and International Trade Loan were added; and Pollution Control Loan was deleted.)

Deletions:

- Video Case

Chapter 7 Management and Leadership

What's New in this Edition?

Additions:

- Getting to Know Sheena Wright, CEO of United Way of New York
- Name that Company: Google
- Adapting to Change box: Does AI Mean the End of Managers?
- Video Case: Rosetta Stone: Leader in Learning Language

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information.

Deletions:

- Boxes: Adapting to Change
- Video Case

Chapter 8 Structuring Organizations for Today's Challenges

What's New in this Edition?

Additions:

- Getting to Know Michele Buck, President and CEO of the Hershey Company
- Name that Company: CVS Health
- Adapting to Change box: Unholy Hierarchy!
- Adapting to Change box: My Time is Your Time

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information.

Deletions:

- Boxes: Adapting to Change, Connecting through Social Media

Chapter 9 Production and Operations Management

What's New in this Edition?

Additions:

- Name that Company: Amazon
- Reaching Beyond Our Borders box: Will Bats, Bombs, and Regulations Stall Tesla's German Production Venture?
- Adapting to Change Box: Meet Your New Workmate, R2D2

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- Getting to Know Shahid Khan, CEO of Flex-N-Gate, was revised and updated.
- Subsection "Operations Management in the Service Sector" was expanded with a discussion of the use of robots and AI in the service sector.

Deletions:

- Boxes: Reaching Beyond Our Borders, Adapting to Change

Chapter 10 Motivation Employees

What's New in this Edition?

Additions:

- Getting to Know Rose Marcario, CEO of Patagonia
- Adapting to Change box: Instant Insight into Employee Engagement
- Video Case: Enriching Employees at Taco Bell

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information.

Deletions:

- Box: Adapting to Change
- Video Case

Chapter 11 Human Resource Management: Finding and Keeping the Best Employees

What's New in this Edition?

Additions:

- Getting to Know Cynthia Marshall, CEO of the Dallas Mavericks
- Name that Company: Facebook
- Connecting through Social Media box: Putting Your Worst Foot Forward
- Spotlight on Small Business box: Would You Rather Work Nine to Five or Eight to One?
- Video Case: Hiring and Developing Employees at Hilton

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- Subsection "Laws Affecting Human Resource Management" was revised to include the 2020 Supreme Court ruling that the Civil Rights Act applies to sexual orientation and gender identity and the 2020 Fair Chance Law.
- Subsection "Laws Protecting Employees with Disabilities and Older Employees" was enhanced with a discussion of the Supreme Court ADEA decision that age must be the determining factor in a wrongful employee termination and not one of a number of factors.
- Subsection "Hiring Contingent Workers" was enhanced with discussion of recent legislative attempts to convert contingent workers to permanent employees.
- Subsection "Retiring Employees" was expanded with discussion of efforts to retain older experienced workers and/or transfer their knowledge to younger employees.

Deletions:

- Reverse discrimination discussion was deleted from subsection “Laws Affecting Human Resource Management.”
- Boxes: Connecting through Social Media, Spotlight on Small Business
- Video Case

Chapter 12 Dealing with Employee-Management Issues**What’s New in this Edition?****Additions:**

- Name that Company: AFL-CIO
- Adapting to Change box: Playing for Dollars or Degrees?

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- Getting to Know Lily Eskelsen Garcia, President of the NEA, was revised and updated.
- Figure 12.4 States with Right-to-Work Laws was revised by deleting Missouri.

Deletions:

- Boxes: Adapting to Change

Chapter 13 Marketing: Helping Buyers Buy**What’s New in this Edition?****Additions:**

- Getting to Know Daniel Lubetzky, Founder of KIND
- Name that Company: Campbell Soup Company
- Adapting to Change box: Sending the Very Best Online
- Spotlight on Small Business: Creating Mass Appeal for a Custom Product
- Connecting through Social Media box: Shuffling Your Style with Stitch Fix
- Video Case: National Park Service, Using the Four Ps to Help You Find Your Park

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information.

Deletions:

- Boxes: Connecting through Social Media, Spotlight on Small Business, Adapting to Change
- Video Case

Chapter 14 Developing and Pricing Goods and Services**What’s New in this Edition?****Additions:**

- Getting to Know Katrina Lake, Founder of Stitch Fix
- Name that Company: Walmart
- Connecting through Social Media: Becoming Insta-Worthy Bridesmaids

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- Subsection “The Growing Importance of Packaging” was updated to include the recent additional FDA requirement to include the nutritional value of the whole package, not just individual servings.

Deletions:

- Boxes: Connecting through Social Media, Spotlight on Small Business

Chapter 15 Distributing Products

What's New in this Edition?

Additions:

- Getting to Know Toby Johnson, Vice President of Sales Operations at Frito-Lay
- Name that Company: Kia
- Spotlight on Small Business box: Docs on Demand
- Adapting to Change box: Walmart's Vision of the Future of Retail
- Video Case: Tuft & Needle

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information.

Deletions:

- Boxes: Spotlight on Small Business, Connecting through Social Media, Adapting to Change
- Video Case

Chapter 16 Using Effective Pro,otions

What's New in this Edition?

Additions:

- Getting to Know Neil Parikh, Cofounder and Chief Strategy Officer of Casper
- Name that Company: Taco Bell
- Adapting to Change: Advancing Past Traditional TV Ads
- Connecting through Social Media box: The Rise and Fall of Social Influencers
- Video Case: Getting Zapped by Promotio

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- Figure 16.4 was redesigned, illustrating that digital advertising has overtaken TV advertising as the advertising dominant medium.
- Reaching Beyond Our Borders box was revised

Deletions:

- Boxes: Connecting through Social Media, Adapting to Change
- Video Case

Chapter 17 Understanding Accounting and Financial Information

What's New in this Edition?

Additions:

- Name that Company: Under Armour
- Making Ethical Decisions box Less Than Purr-fect Accounting
- Adapting to Change box A Nose for Sniffing Out Problems

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- Getting to Know Shelly Sun, CEO of BrightStar Care, was revised and updated.

Deletions:

- Boxes: Making Ethical Decisions, Adapting to Change

Chapter 18 Financial Management

What's New in this Edition?

Additions:

- Getting to Know Dhivya Suryadevara, CFO of General Motors
- Name that Company: Apple
- Spotlight on Small Business box Saving the Firm or Digging Its Grave
- Spotlight on Small Business box An Angel on Your Start-up's Shoulder
- Video Case: Threadless, Setting the Financial Design

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information.

Deletions:

- Boxes: Adapting to Change, Spotlight on Small Business
- Video Case

Chapter 19 Using Securities Markets for Financing and Investing Opportunities

What's New in this Edition?

Additions:

- Getting to Know Warren Buffett, CEO of Berkshire Hathaway
- Name that Company: Berkshire Hathaway
- Spotlight on Small Business box How Independent is Your Independent Advisor?
- Adapting to Change box Investing in Green Bonds, Not Greenbacks

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- Subsection "Investing through Online Brokers" was expanded with a discussion of robo-advisors.
- Putting Principles to Work exercise was revised and updated.

Deletions:

- Boxes: Connecting through Social Media, Adapting to Change

Chapter 20 Money, Financial Institutions, and the Federal Reserve

What's New in this Edition?

Additions:

- Getting to Know Jerome (Jay) Powell, Chairman of the Federal Reserve
- Name that Company: International Monetary Fund
- Adapting to Change box Saying "See You" to the C-Note
- Reaching Beyond Our Borders box Your Piggy Bank Could Pay Better Than a Bank
- Video Case: Understanding the Federal Reserve System

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information.

Deletions:

- Boxes: Adapting to Change, Spotlight on Small Business, Reaching Beyond Our Borders
- Video Case

Bonus Chapter A Working within the Legal Environment

What's New in this Edition?

Additions:

- Getting to Know Jerome (Jerry) Schlichter, Attorney
- Name that Company: Apple and Broadcom

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information.

Deletions:

- NA

Bonus Chapter B Using Technology to Manage Information

What's New in this Edition?

Additions:

- Getting to Know Jim Kavanaugh, CEO of World Wide Technology
- Name that Company: Dominos
- Subsection "5G"
- Subsection "Roadblocks Slowing 5G"
- Subsection "Artificial Intelligence Plus 5G"
- Subsection "Web 3.0 – Moving Toward Decentralization" which includes a discussion of blockchain
- Putting Principles to Work exercise

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- Subsections "Intranets," "Extranets," and "Virtual Private Networks" were combined, condensed, and updated.
- Subsection "Networks and Cloud Computing" was revised and expanded with a description of LAN and WAN.
- Subsection "Social Media and Web 2.0" was enhanced with the addition of discussions of social media managers and search engine optimization.
- Subsection Hackers was enhanced with discussion of the Yahoo, Equifax, and Marriott breaches, the increased risk of identity theft, and the effects of ID-theft on employees and employers.
- Subsection "Privacy Issues" was enhanced with recommendations to use password managers and VPNs.

Deletions:

- Discussion about vBNS was deleted from subsection "Internet2"
- Enterprise portal discussion was deleted from subsection "Virtual Private Networks."
- Subsection "Web 3.0"
- Subsection "Semantic Web"
- Virtual networking was deleted as a key term
- Putting Principles to Work exercise

Chapter C Managing Risk

What's New in this Edition?

Additions:

- Getting to Know Tricia Griffith, CEO of Progressive
- Name That Company: Johnson & Johnson

Revisions:

Statistical data and examples throughout the chapter were updated to reflect current information.

Deletions:

- NA

Chapter D Managing Personal Finance & Investing

What's New in this Edition?

Additions:

- Getting to Know Lauryn Williams, Founder of Worth Winning
- Name that Company: Schwab

Revisions:

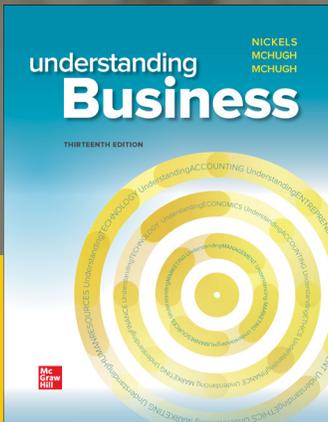
Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- Subsection "Real Estate: Historically, a Relatively Secure Investment" was revised significantly to emphasize that the value of a home as an investment depends on multiple factors.
- Subsection "Tax Deductions and Home Ownership" was updated to include the 2018 tax deduction changes.
- Subsection "Individual Retirement Plans" was enhanced with a discussion of SEP IRAs for self-employed individuals.
- Subsection "Keogh Plans" was updated with the more current name for these plans, "Qualified Plans."

Deletions:

- NA

UNDERSTANDING BUSINESS, 13TH EDITION
DOES MORE THAN TEACH.
IT CREATES STUDENTS PREPARED TO IMPACT
THE WORLD.



Understanding Business has long been the **Gold Standard** and the preeminent teaching and learning experience for Introduction to Business.

The experienced author team, alongside the long-tenured McGraw Hill product team have created a market-leading product that meets the needs of nearly all classrooms, no matter the size, teaching modality or learning objectives. The content is *unmatched in depth, breadth, currency, and relevancy*, and is presented in an *extremely readable format* for students with all learning styles. A wealth of *technology solutions* engages students, enriches learning, furthers understanding, and simplifies instructors' assessment processes. *Course supplements* tightly align with chapter concepts to enhance retention, making instructors of all experience levels Grade-A rock stars. And *unparalleled support* from our Digital Faculty Consultants (peer mentors) helps ensure you and your students benefit from the full experience of what is now the **Gold Standard** in Introduction to Business classes.



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AND LONG-TENURED
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BRING THE BUSINESS WORLD TO YOUR CLASSROOM BLOG

Real-world case studies—across nearly all industries and company sizes—ensure your students are apprised of the most current challenges businesspeople face today.

From COVID-19 and unemployment to USMCA and artificial intelligence, you have access to numerous relevant samples that tie directly into chapter lessons. Plus, with the option to take advantage of our **From the News to the Classroom** blog, you can enrich the learning experience with content that is updated *multiple times each week*. Check back regularly or request a newsletter via email that will include abstracts of relevant news stories, videos tied to chapter topics, and critical-thinking questions that streamline your prep time and help create an ultra-current course.

Nickels/McHugh/McHugh, Understanding Business
From the News to the Classroom

HOME TOPICS/TAGS VIDEOS STUDENT LEARNING TOOLS WHAT'S NEW CONTACT US

Airlines Ease Fees in Effort to Attract Travelers

September 10, 2020 • NickelsMcHughMcHugh



With Labor Day weekend come and gone, airlines have entered the period of the year where business travelers usually make up the bulk of their flights rather than tourists. But as the pandemic continues to disrupt life throughout the U.S., almost nothing is proceeding like normal in the air travel industry. All told, the nation's carriers are losing \$6 billion per month and have laid off more than one-fifth of workers as the industry desperately looks for ways to cut [Continue reading →](#)

📖 Airlines, Coronavirus, Global, Health, Marketing, Operations Management, Product Distribution, Promotions, Travel
📖 Chapter 13: Marketing, Chapter 14: Product and Price, Chapter 16: Place and Promotion, Chapter 1: Taking Risks and Making Profits, Chapter 3: Globalization, Chapter 4: Ethics and Social Responsibility, Chapter 9: Production and Operations Management
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MAKE YOUR CLASSROOM THE NEW C-SUITE.

Bring relevant, real-world, current and engaging examples from the news to the classroom through a variety of our digital tools.

Hershey Prepares to Preserve Halloween Sales

September 15, 2020 • NickelsMcHughMcHugh

While makers of staple foods like soups and cereals have seen sales skyrocket during the pandemic, candy companies like Hershey have not been so fortunate. With foot traffic down significantly in convenience stores and other shops, consumers are not making as many impulsive treat purchases as they did last year. Still, matters could get even worse for Hershey in the coming months if the company does not have a happy Halloween.



The nearly \$800 million haul that the company brings [Continue reading →](#)

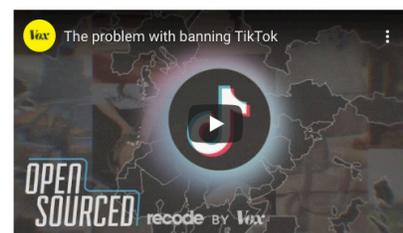
📖 Coronavirus, Food & Drink, Halloween, Hershey, Holidays, Marketing, Promotions
📖 Chapter 13: Marketing, Chapter 14: Product and Price, Chapter 16: Place and Promotion, Chapter 1: Taking Risks and Making Profits
🗨️ Leave a comment

[CONTINUE READING...](#)

[VIDEO] The Problem With Banning TikTok

September 2, 2020 • NickelsMcHughMcHugh

The video sharing app TikTok has become a big hit with millions of Americans over the last few years. According to the federal government, however, the Chinese-owned company presents national security risks that could lead to a ban on the app in the U.S. This video looks at the controversy surrounding TikTok's American operations as well as the larger dangers of a fractured global Internet.



Questions:

1. Why is the federal government considering a ban on TikTok?
2. Do you think the federal government should ban TikTok if it does not sell to an American company? Why or why not?



Because learning changes everything.®

Asset Alignment with Bloom's Taxonomy

Connect Introduction to Business

We Take Students Higher

As a learning science company, we create content that supports higher order thinking skills. Within McGraw Hill Connect, we tag content according to Blooms, difficulty, AACSB, learning objective and more! This allows you to filter, search, assign and report on the assessments you want to assign.

The chart below shows a few of the key assignable, digital assets available for Connect Introduction to Business aligned with Bloom's Taxonomy. Take your students higher by assigning a variety of application exercises, moving them from simple memorization to concept application.

	SmartBook® 2.0	iSeeit! Videos	Click and Drags	Video Cases/ Case Analyses	Manager's Hot Seat Videos	ABAs/ Role-Playing Sims	Business Plan Prep Activities	Writing Assignment Premium
Higher Order Thinking Skills							✓	✓
CREATE							✓	✓
EVALUATE						✓	✓	✓
ANALYZE				✓	✓	✓	✓	✓
APPLY			✓	✓	✓	✓	✓	✓
UNDERSTAND	✓	✓	✓	✓	✓	✓	✓	✓
Lower Order Thinking Skills	✓	✓	✓	✓	✓	✓	✓	✓
REMEMBER	✓	✓	✓	✓	✓	✓	✓	✓

GET TO KNOW YOUR

EXTENSIVE TOOL CHEST

Whether it's your 1st or 40th year teaching, you can benefit from a wealth of assessments and class-tested resources that simplify your evaluation process and enrich the learning experience.

ASSESSMENT TOOLS:

- » **SmartBook 2.0** helps students study more efficiently by highlighting where in the chapter to focus, asking review questions, and pointing them to resources until they understand.
- » **Chapter quizzes** are pre-built to cover all chapter learning objectives.
- » **Test bank** is by far the largest and most accurate collection of questions on the market, with over 300 questions per chapter.
- » **Application exercises** reinforce concepts and facilitate comprehension.
- » **Video assignments** help exemplify difficult concepts.
- » **Application-Based Activities** allow students to immerse themselves in realistic business situations and develop their critical thinking and problem-solving skills.
- » **Business Plan Prep** assignments help students see the interconnectedness of business functions through creating a basic business plan.
- » **Writing Assignment Premium** evaluates, scores, and gives feedback on student responses to provided prompts.

ADDITIONAL RESOURCES:

- » **Instructor's Manual** includes icebreaker activities, lecture, critical thinking exercises, and bonus cases to improve retention and engagement while helping save preparation time.
- » **PowerPoint presentations** include integrated polling questions and additional examples that improve student engagement and help make you a rock star instructor.
- » **Video library** with teaching guides includes:
 - **Company case videos** produced specifically to expound on chapter learning objectives via real-world business situations across a broad range of industries, sizes, and geographic locations, allowing students to contextualize the chapter's content.
 - **Manager's Hot Seat videos** offer short cases that show real business professionals confronting a variety of workplace challenges.
 - **iSeelt! animated videos** clarify the most commonly confused topics and can be accessed within the e-book and are also assignable within Connect.

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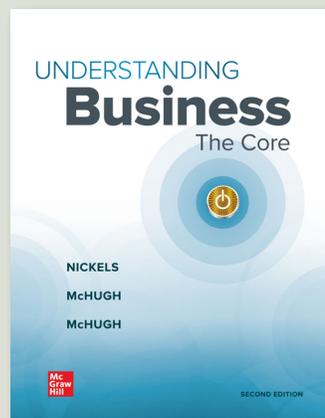
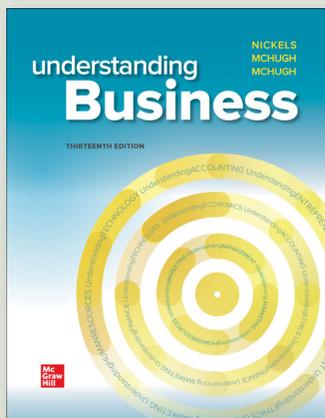
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Our dedicated author team, experienced product team, stellar sales team, and implementation consultants all paired with an extensive toolbox of support programs ensure you receive the Gold Standard training and support you deserve.



THE BOTTOM LINE

The business world is constantly changing, and your classroom needs to keep up. With Nickels/McHugh/McHugh, ***Understanding Business, 13th Edition***, and ***Understanding Business: The Core, 2e***, both you and your students can experience the *Gold Standard* in Introduction to Business.

To request a desk or examination copy of either *Understanding Business 13e* or *Understanding Business: The Core 2e*, please contact your Local McGraw Hill Learning Technology Consultant. mheducation.link/rep

BRIEF CONTENTS

Gold Standard v

Prologue: Getting Ready for This Course
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understanding **Business**

THIRTEENTH EDITION



1

Taking Risks and Making Profits within the Dynamic Business Environment

LEARNING OBJECTIVES »

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

- LO 1-1** Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.
- LO 1-2** Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.
- LO 1-3** Analyze the effects of the economic environment and taxes on businesses.
- LO 1-4** Describe the effects of technology on businesses.
- LO 1-5** Demonstrate how businesses can meet and beat competition.
- LO 1-6** Analyze the social changes affecting businesses.
- LO 1-7** Identify what businesses must do to meet global challenges, including war and terrorism.
- LO 1-8** Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.

GETTING TO KNOW

Tristan Walker, Founder of Walker & Company

For entrepreneur Tristan Walker, one of the most frustrating parts of his daily life was finding the right razor for his coarse, curly facial hair. “The need here was really the fact that I could not shave,” said Walker. “Why are there no products that really understood the fact that I have curly hair?”

Besides failing to find the razor he needed, Walker also couldn't believe that companies would ignore such a large portion of the market. “People of color spend more money on this stuff than anyone else,” said Walker. “So I said, ‘I'm going to respect those things before anybody else does, and really create a long-term view around celebrating this beautiful community and culture.’” That long-term view turned into Walker & Company, a lifestyle brand dedicated to providing Black men with top-quality personal care products. When he first launched the company, Walker claimed he wanted to create the “Procter & Gamble for people of color.” And after years of solid sales and growth, in 2018 Walker & Company grew large enough to attract the attention of the actual Procter & Gamble. Although the consumer goods conglomerate purchased the brand for millions of dollars, Walker remains in charge so he can continue the company's mission. “We want this company and its purpose to still be around 150 years from now,” said Walker.

Of course, building a company with such lofty goals isn't easy. In order to realize his vision, Walker needed expertise and connections, and the willingness to do plenty of hard work. While Walker has always been motivated to work hard, he didn't have access to any high-level business connections when he was growing up. “I'm from Jamaica, Queens, New York, born and raised in the projects on welfare,” said Walker. “And the necessity of not wanting to live that life really got me where I am today.” After excelling at his studies as well as sports, a basketball coach advised Walker to apply to an elite boarding school. Walker took his advice and received a full scholarship to the prestigious Hotchkiss School. This led to his enrollment at Stony Brook University where he earned a degree in economics.

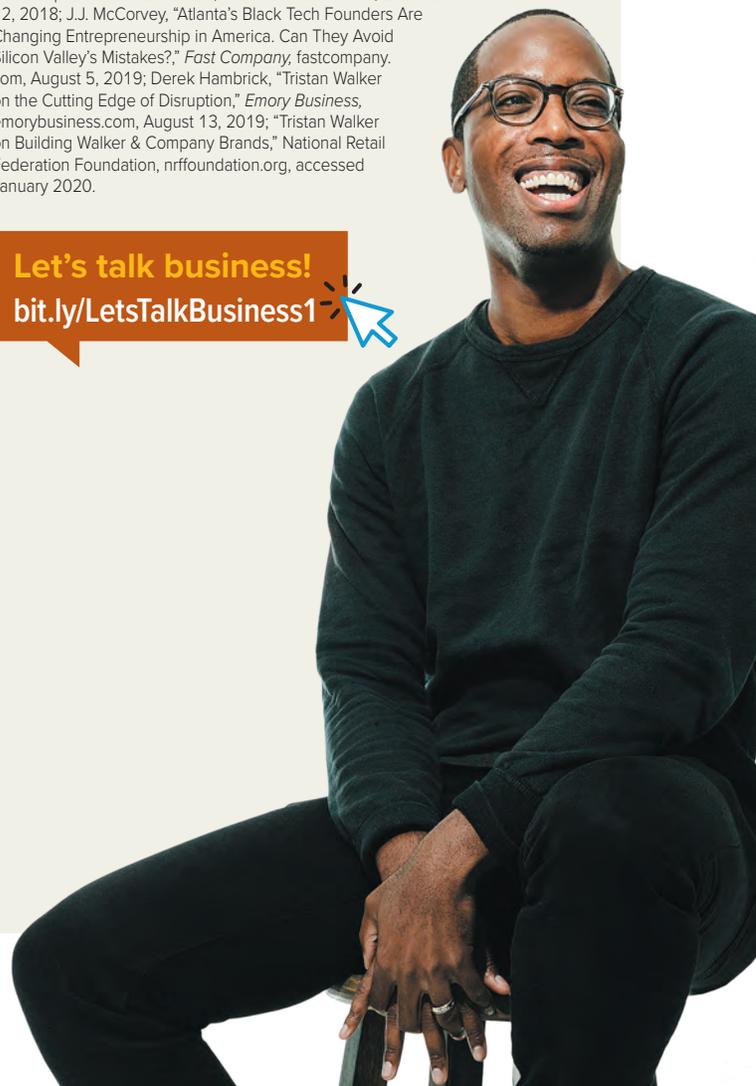
Walker's drive and impeccable educational background landed him a job on Wall Street after graduation. However, he quickly grew tired of the hectic pace of the financial industry and decided to look at business graduate schools far out of state. That's when he learned about Silicon Valley, the famed tech hub in California's San Francisco Bay Area. He enrolled in nearby Stanford University to take advantage of the region's abundance of tech-related resources. “I was 24 when I came to Stanford,” said Walker. “The other 24-year-olds here were not only making millions of dollars but fundamentally changing the world. Why did I not have any idea this place existed?” After graduating in 2008, Walker joined the newly launched location-based search company Foursquare. Although Walker made only a \$1,000 stipend for his first months as head of business development, he played a vital role in expanding the company through partnerships with other brands.

When he left Foursquare in 2012, he joined Andreessen-Horowitz as the venture capital firm's “entrepreneur-in-residence.” This gave him the resources to develop and launch Walker & Company. The business is centered around a shaving brand called Bevel. Unlike other major shaving brands that use multiple blades for their razors, Bevel sticks to a single-blade system that helps prevent bumps. Walker & Company also sells a line of hair care products called Form, which it initially had trouble promoting due to lack of resources. Now that the company is part of Procter & Gamble, though, it can take advantage of the conglomerate's multibillion-dollar marketing budget. Walker & Company will also have access to P&G's \$2 billion research and development budget, allowing it to keep innovating for years to come.

The business environment is constantly changing, and along with those changes come opportunities. The purpose of this chapter and this textbook is to introduce you to the dynamic world of business and to some of the people who thrive in it. Businesspeople like Tristan Walker contribute much to the communities they serve, and they also make a good living doing so. That's what business is all about.

Sources: Jason Del Rey, “Procter & Gamble Has Acquired the Startup Aiming to Build the Procter & Gamble for People of Color,” *Vox*, vox.com, December 12, 2018; J.J. McCorvey, “Tristan Walker Announces Acquisition by Procter & Gamble, Will Remain as CEO and Move Company to Atlanta,” *Fast Company*, fastcompany.com, December 12, 2018; David Gelles, “Tristan Walker on the Roman Empire and Selling a Start-Up to Procter & Gamble,” *The New York Times*, December 12, 2018; J.J. McCorvey, “Atlanta's Black Tech Founders Are Changing Entrepreneurship in America. Can They Avoid Silicon Valley's Mistakes?,” *Fast Company*, fastcompany.com, August 5, 2019; Derek Hambrick, “Tristan Walker on the Cutting Edge of Disruption,” *Emory Business*, emorybusiness.com, August 13, 2019; “Tristan Walker on Building Walker & Company Brands,” National Retail Federation Foundation, nrffoundation.org, accessed January 2020.

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EVEN THOUGH THIS COMPANY is charged with protecting consumers from identity theft and fraud, it was hacked itself. The data breach exposed the personal information of 147 million people. Name that company. (Find the answer in the chapter.)

business

Any activity that seeks to provide goods and services to others while operating at a profit.

goods

Tangible products such as computers, food, clothing, cars, and appliances.

services

Intangible products (i.e., products that can't be held in your hand) such as education, health care, insurance, recreation, and travel and tourism.

LO 1-1

Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Business and Wealth Building

Success in business depends on consistently adapting to changes in the market. A **business** is any activity that seeks to provide goods and services to others while operating at a profit. To earn that profit, you provide desired goods, jobs, and services to people or other businesses. **Goods** are *tangible* products such as computers, food, clothing, cars, and appliances. **Services** are *intangible* products (i.e., products that can't be held in your hand) such as education, health care, insurance, recreation, and travel and tourism. Once you have developed the right goods and services, based on consumer wants and needs, you need to reach those consumers using whatever media they prefer, including social media, online advertising, TV, and more.

Although you don't need to have wealth as a primary goal, one result of successfully filling a market need is that you can make money for yourself, sometimes a great deal, by giving customers what they want. Sam Walton of Walmart began by opening one store in Arkansas and, over time, became one of the richest people in the United States. Now his heirs are some of the richest people in the United States.¹

There are over 22.1 million millionaires in the United States.² Maybe you will be one of them someday if you start your own business. An **entrepreneur** is a person who risks time and money to start and manage a business.

Revenues, Profits, and Losses

Revenue is the total amount of money a business takes in during a given period by selling goods and services. **Profit** is the amount of money a business earns above and beyond what it spends for salaries and other expenses needed to run the operation. A **loss** occurs when a business's expenses are more than its revenues. If a business loses money over time, it will likely have to

When Aaron Krause couldn't find buyers at auto body shops for his polymer foam product, he tossed it in a box labeled "scrap" and forgot about it. A few years later, Krause dug out his old invention to clean some patio furniture and discovered it worked surprisingly well on his lounge chairs as well as his dirty dishes. He redesigned the foam into a smiling face, branded it Scrub Daddy, and took it onto the ABC show Shark Tank. Scrub Daddy is the most successful product to appear on Shark Tank to date. What risks and rewards did Krause face when starting his business?



Scrub Daddy Inc.

close, putting its employees out of work. Over 175,000 businesses in the United States close each year.³

As noted, the business environment is constantly changing. What seems like a great opportunity one day may become a huge failure when the economy changes. Starting a business may thus come with huge risks. But huge risks often result in huge profits. We'll explore that concept next.

Matching Risk with Profit

Risk is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable. Profit, remember, is the amount of money a business earns *above and beyond* what it pays out for salaries and other expenses. For example, if you were to start a business selling hot dogs from a cart in the summer, you would have to pay for the cart rental. You would also have to pay for the hot dogs and other materials, and for someone to run the cart while you were away. After you paid your employee and yourself, paid for the food and materials you used, paid the rent on the cart, and paid your taxes, any money left over would be profit.

Keep in mind that profit is over and above the money you pay yourself in salary. You could use any profit to rent or buy a second cart and hire other employees. After a few summers, you might have a dozen carts employing dozens of workers.

Not all enterprises make the same amount of profit. Usually those that take the most risk may make the most profit. There is high risk, for example, in making a new kind of automobile. It's also risky to open a business in an inner city, because insurance and rent are usually higher than in suburban areas, but reduced competition makes substantial profit possible. Big risk can mean big profits.

Standard of Living and Quality of Life

Entrepreneurs such as Sam Walton (Walmart), Bill Gates (Microsoft), Jeff Bezos (Amazon), and Sara Blakely (Spanx) not only became wealthy themselves; they also provided employment for many other people. Walmart is currently the nation's largest private employer, with Amazon coming in second.⁴

Businesses and their employees pay taxes that the federal government and local communities use to build hospitals, schools, libraries, playgrounds, roads, and other public facilities. Taxes also help keep the environment clean, support people in need, and provide police and fire protection. Thus, the wealth businesses generate and the taxes they pay help everyone in their communities. A nation's businesses are part of an economic system that contributes to the standard of living and quality of life for everyone in the country (and, potentially, the world). How has the economic recovery and growth over the past 10 years affected the standard of living and quality of life in your part of the world?

The term **standard of living** refers to the amount of goods and services people can buy with the money they have. Prices for goods and services in some locations are higher than in others, so people in those places can't buy as much with the same amount of money. Often, goods cost more in one country than in another because of higher taxes and stricter government regulations. Finding the right level of taxes and regulation is important in making a country or city prosperous. We'll explore those issues in more depth in Chapter 2. At this point, it is enough to understand that the United States enjoys a high standard of living largely because of the wealth created by its businesses.

The term **quality of life** refers to the general well-being of a society in terms of its political freedom, natural environment, education, health care, safety, amount of leisure, and rewards that add to the satisfaction and joy that other goods and services provide. Maintaining a high quality of life requires the combined efforts of businesses, nonprofit organizations, and government agencies. Remember, there is more to quality of life than simply making money.

entrepreneur

A person who risks time and money to start and manage a business.

revenue

The total amount of money a business takes in during a given period by selling goods and services.

profit

The amount of money a business earns above and beyond what it spends for salaries and other expenses.

loss

When a business's expenses are more than its revenues.

risk

The chance an entrepreneur takes of losing time and money on a business that may not prove profitable.

standard of living

The amount of goods and services people can buy with the money they have.

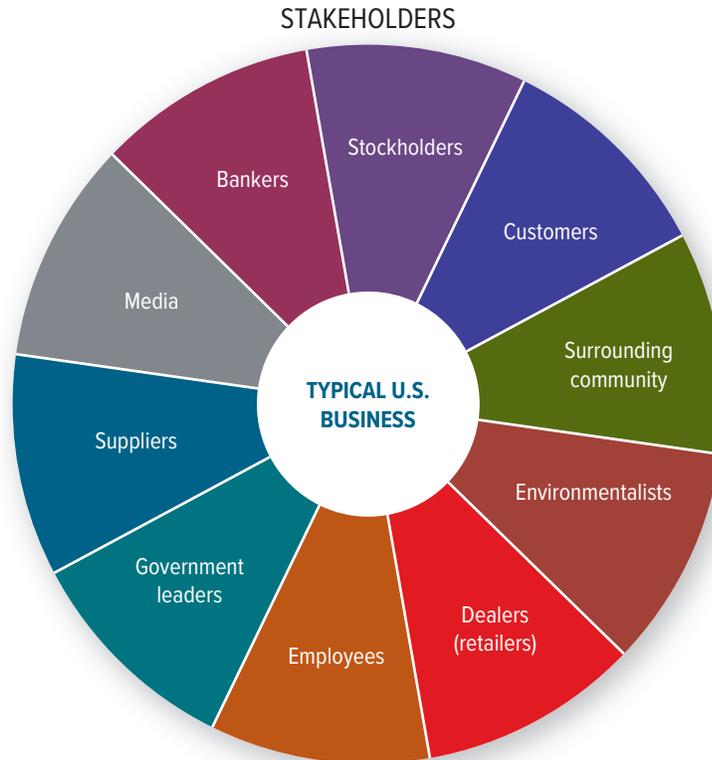
quality of life

The general well-being of a society in terms of its political freedom, natural environment, education, health care, safety, amount of leisure, and rewards that add to the satisfaction and joy that other goods and services provide.

FIGURE 1.1 A BUSINESS AND ITS STAKEHOLDERS

Often the needs of a firm's various stakeholders will conflict. For example, paying employees more may cut into stockholders' profits. Balancing such demands is a major role of business managers.

Source: John Mackey and Raj Sisodia, *Conscious Capitalism* (Boston, MA: Harvard Business Review Press, 2013).



Responding to the Various Business Stakeholders

stakeholders

All the people who stand to gain or lose by the policies and activities of a business and whose concerns the business needs to address.

outsourcing

Contracting with other companies (often in other countries) to do some or all of the functions of a firm, like its production or accounting tasks.

Stakeholders are all the people who stand to gain or lose by the policies and activities of a business and whose concerns the business needs to address. They include customers, employees, stockholders, suppliers, dealers (retailers), bankers, people in the surrounding community, the media, environmentalists, competitors, unions, critics, and elected government leaders (see Figure 1.1).⁵

A primary challenge for organizations of the 21st century will be to recognize and respond to the needs of their stakeholders.⁶ For example, the need for the business to make profits may be balanced against the needs of employees to earn sufficient income or the need to protect the environment. Ignore the media, and they might attack your business with articles that hurt sales. Oppose the local community, and it may stop you from expanding.

Staying competitive may call for outsourcing. **Outsourcing** means contracting with other companies (often in other countries) to do some or all of the functions of a firm, like its production or accounting tasks. Outsourcing has had serious consequences in some states where jobs have been lost to overseas competitors. We discuss outsourcing in more detail in Chapter 3.

The other side of the outsourcing coin is *insourcing*. Many foreign companies are setting up design and production facilities here in the United States. For example, Korea-based Hyundai designs cars in California, operates engineering headquarters in Detroit, Michigan, and produces cars in Montgomery, Alabama.⁷ Japanese automaker Honda has been producing cars in the United States for over 40 years, and opened its 12th U.S. manufacturing plant in 2016.⁸ Some information technology firms have begun to bring jobs back to the United States because it can save time in decision-making processes which leads to saving money.⁹ Insourcing creates many new U.S. jobs and helps offset those jobs being outsourced.

It may be legal and profitable to outsource, but is it best for all the stakeholders? Business leaders must make outsourcing decisions based on all factors. Pleasing stakeholders is not easy and often calls for trade-offs.

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The goals of nonprofit organizations are social and educational, not profit-oriented. The American Red Cross, for example, provides assistance to approximately 30 million people annually, from refugees to victims of natural disasters to relief. Why do good management principles apply equally to profit-seeking businesses and nonprofit organizations?

Using Business Principles in Nonprofit Organizations

Despite their efforts to satisfy their stakeholders, businesses cannot do everything needed to make a community all it can be. Nonprofit organizations—such as public schools, civic associations, charities like the United Way and the Salvation Army, and groups devoted to social causes—also make a major contribution to the welfare of society. A **nonprofit organization** is an organization whose goals do not include making a personal profit for its owners or organizers. Nonprofit organizations often do strive for financial gains, but they use them to meet their social or educational goals rather than for personal profit.

Your interests may lead you to work for a nonprofit organization. That doesn't mean, however, that you shouldn't study business in college. You'll still need to learn business skills such as information management, leadership, marketing, and financial management. The knowledge and skills you acquire in this and other business courses are useful for careers in any organization, including nonprofits. We'll explore entrepreneurship right after the Test Prep.

nonprofit organization

An organization whose goals do not include making a personal profit for its owners or organizers.

TESTPREP

- What is the difference between *revenue* and *profit*?
- What is the difference between *standard of living* and *quality of life*?
- What is *risk*, and how is it related to *profit*?
- What do the terms *stakeholders*, *outsourcing*, and *insourcing* mean?

LO 1–2 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

The Importance of Entrepreneurs to the Creation of Wealth

There are two ways to succeed in business. One is to rise through the ranks of a large company. The advantage of working for others is that somebody else assumes the company's



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To create wealth for its citizens, a country requires more than natural resources. It needs the efforts of entrepreneurs and the skill and knowledge to produce goods and services. How can government support entrepreneurship and the spread of knowledge?

factors of production

The resources used to create wealth: land, labor, capital, entrepreneurship, and knowledge.

entrepreneurial risk and provides you with benefits like paid vacation time and health insurance. It's a good option, and many people choose it.

The other, riskier, but often more exciting, path is to become an entrepreneur. The national anthem, "The Star Spangled Banner," says that the United States is the "land of the free and the home of the brave." Part of being free is being able to own your own business and reap the profits from it. But freedom to succeed also means freedom to fail, and many small businesses fail each year. It takes a brave person to start one. As an entrepreneur, you don't receive any benefits such as paid vacation time, day care, a company car, or health insurance. You have to provide them for yourself! But what you gain—freedom to make your own decisions, opportunity, and possible wealth—is often worth the effort. Before you take on the challenge, you should study successful entrepreneurs to learn the process. You can talk to

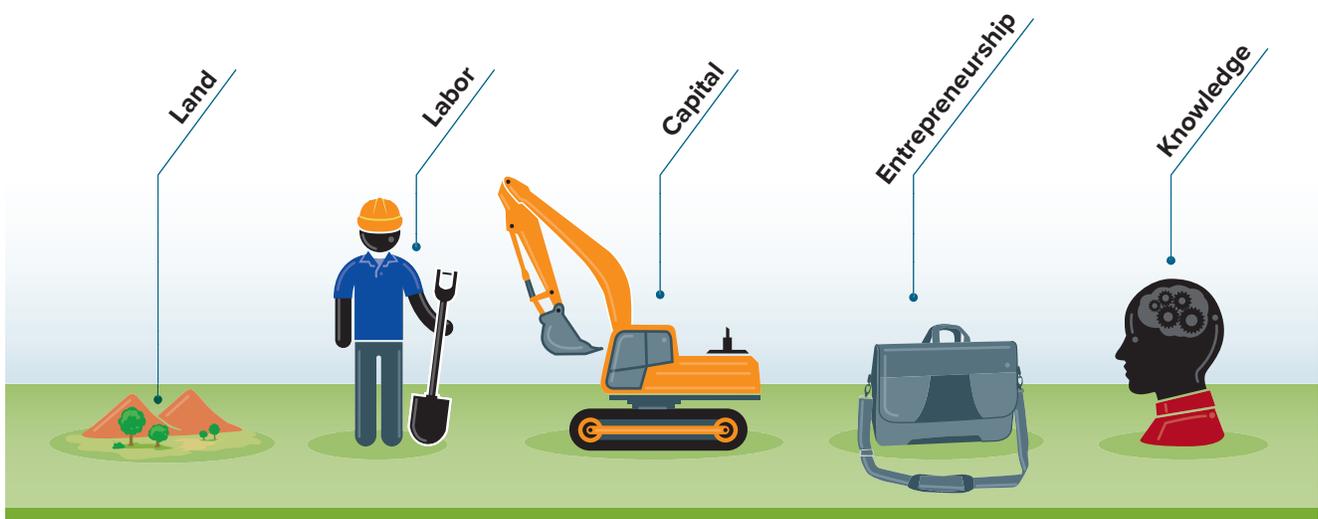
them personally and read about them in Chapter 6, as well as in other books, magazines (e.g., *Entrepreneur*, *Fast Company*, and *Inc.*), and online (e.g., Small Business Administration at sba.gov).

The Five Factors of Production

Have you ever wondered why some countries are relatively wealthy and others poor? Economists have been studying the issue of wealth creation for many years. They began by identifying five **factors of production** that seemed to contribute to wealth (see Figure 1.2):

1. *Land* (or natural resources). Land and other natural resources are used to make homes, cars, and other products.
2. *Labor* (workers). People have always been an important resource in producing goods and services, but many people are now being replaced by technology.
3. *Capital*. This includes machines, tools, buildings, or whatever else is used in the production of goods. It might not include money; money is used to buy factors of production but is not always considered a factor by itself.
4. *Entrepreneurship*. All the resources in the world have little value unless entrepreneurs are willing to take the risk of starting businesses to use those resources.
5. *Knowledge*. Information technology has revolutionized business, making it possible to quickly determine wants and needs and to respond with desired goods and services.

FIGURE 1.2 THE FIVE FACTORS OF PRODUCTION



Source: Drucker Institute, druckerinstitute.com, April 2017.

Traditionally, business and economics textbooks emphasized only four factors of production: land, labor, capital, and entrepreneurship. But the late management expert and business consultant Peter Drucker said the most important factor of production in our economy is and always will be *knowledge*.¹⁰

What do we find when we compare the factors of production in rich and poor countries? Some poor countries have plenty of land and natural resources. Russia, for example, has vast areas of land with many resources such as timber and oil, but it is not considered a rich country (yet). Therefore, land isn't the critical element for wealth creation.

Most poorer countries, such as Mexico, have many laborers, so it's not labor that's the primary source of wealth today. Laborers need to find work to make a contribution; that is, they need entrepreneurs to create jobs for them. Furthermore, capital—machinery and tools—is now fairly easy for firms to find in world markets, so capital isn't the missing ingredient either. Capital is not productive without entrepreneurs to put it to use.

What makes rich countries rich today is a combination of *entrepreneurship* and the effective use of *knowledge*. Entrepreneurs use what they've learned (knowledge) to grow their businesses and increase wealth. Economic and political freedom also matter.

The business environment either encourages or discourages entrepreneurship. That helps explain why some states and cities in the United States grow rich while others remain relatively poor. In the following section, we'll explore what makes up the business environment and how to build an environment that encourages growth and job creation.

TESTPREP

- What are some of the advantages of working for others?
- What benefits do you lose by being an entrepreneur, and what do you gain?
- What are the five factors of production? Which ones seem to be the most important for creating wealth?

The Business Environment

The **business environment** consists of the surrounding factors that either help or hinder the development of businesses. Figure 1.3 shows the five elements in the business environment.

1. The economic and legal environment.
2. The technological environment.
3. The competitive environment.
4. The social environment.
5. The global business environment.

Businesses that create wealth and jobs grow and prosper in a healthy environment. Thus, creating the right business environment is the foundation for social benefits of all kinds, including good schools, clean air and water, good health care, and low rates of crime. Businesses normally can't control their environment, but they need to monitor it carefully and do what they can to adapt as it changes.

LO 1–3 Analyze the effects of the economic environment and taxes on businesses.

The Economic and Legal Environment

People are willing to start new businesses if they believe the risk of losing their money isn't too great. The economic system and the way government works with or against businesses can have a strong impact on that level of risk. For example, a government can minimize

business environment

The surrounding factors that either help or hinder the development of businesses.

connect



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FIGURE 1.3 TODAY'S DYNAMIC BUSINESS ENVIRONMENT



spending and keep taxes and regulations to a minimum—policies that tend to favor business. Much of the debate in recent elections has focused on whether to raise or cut taxes, how to control government spending, and whether to cut regulations.

One way for government to actively promote entrepreneurship is to allow private ownership of businesses. In some countries, the government owns most businesses, and there's little incentive for people to work hard or create profit. Around the world today, however, some governments are selling those businesses to private individuals to create more wealth. One of the best things the governments of developing countries can do is to minimize interference with the free exchange of goods and services. (You can read more about the various economic systems in different countries in Chapter 2.)

The government can further lessen the risks of entrepreneurship by passing laws that enable businesspeople to write enforceable contracts. In the United States, the Uniform Commercial Code, for example, regulates business agreements such as contracts and warranties so that firms know they can rely on one another. In countries that don't yet have such laws, the risks of starting a business are that much greater. (You can read more about business laws in Bonus Chapter A.)

The government can also establish a currency that's tradable in world markets. That is, the currency lets you buy and sell goods and services anywhere in the world when it is easily exchanged for that of the other countries where you do business. If the Chinese did not want to trade their yuan for the U.S. dollar, for instance, it's hard to imagine how Coca-Cola or Disney would be able to sell their products and services there. (You can read more about currency in Chapters 3 and 20).



Tuul & Bruno Morandi/Getty Images

Starting a business is more difficult in some countries than in others. In India, for example, it takes a time-consuming and bureaucratic process to obtain government permission. Nonetheless, new businesses can become a major source of wealth and employment. This sari shop is one small example. What do you think would be the effect of a little more freedom to create business opportunities in this country of over a billion people?

Finally, the government can help minimize corruption in business and in its own ranks. Where governments are corrupt, it's difficult to build a factory or open a store without a government permit, which is obtained largely through bribery of public officials. Among businesses themselves, unscrupulous leaders can threaten their competitors and unlawfully minimize competition.

Many laws in the United States attempt to minimize corruption. Nonetheless, corrupt and illegal activities at some companies do negatively affect the business community and the economy as a whole. The news media widely report these scandals. Ethics is so important to the success of businesses and the economy as a whole that we feature stories about ethics in most chapters and devote Chapter 4 to the subject.

Governments from different countries can work together to create an environment that allows entrepreneurship to thrive. For example, in 2015 the United Nations adopted what it calls Sustainable Development Goals (SDGs) that list specific targets for ending poverty and improving the lives of the disadvantaged in the next 15 years. The ultimate goal is to move toward prosperity by partnering governments, businesses, and nonprofits in order to solve problems at the ground level in developing countries.

LO 1–4 Describe the effects of technology on businesses.

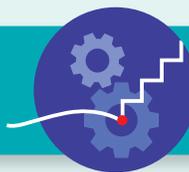
The Technological Environment

Since prehistoric times, humans have felt the need to create tools that make work easier. Few technological changes have had a more comprehensive and lasting impact on businesses, however, than information technology (IT). IT has completely changed the way people communicate with one another. Advertisers and other businesspeople have created ways of using these tools to reach their suppliers and customers. Even politicians have harnessed the power of the Internet to advance their causes.¹¹ IT is such a major force in business today that we discuss its impact on businesses throughout the entire text.

How Technology Benefits Workers and You Technology means everything from phones to computers, mobile devices, medical imaging machines, robots, the Internet, social media, and the various software programs and apps that make business processes more effective, efficient, and productive.¹² *Effectiveness* means producing the desired result.

technology

Everything from phones to computers, mobile devices, medical imaging machines, robots, the Internet, social media, and the various software programs and apps that make business processes more effective, efficient, and productive.



Creating Sustainability through a Circular Economy

plantchicago.org

There's no denying that people around the world create a lot of waste. Each year, more than 52 million tons of food end up in landfills with an additional 10 million tons remaining unharvested on farms. Less than 1 percent of the material used to produce clothing gets recycled into new apparel. The vast majority of plastic doesn't get recycled either, with much of it ending up in garbage dumps or incinerators. Besides squandering resources, the world's waste also pollutes the environment and contributes to rising greenhouse gas emissions.

To combat this problem of global proportions, some entrepreneurs have launched companies that depend on a circular economy to succeed. *Circular economy* refers to reusing, redistributing, refurbishing, and recycling products instead of dumping them in landfills—in other words, keeping products in the value circle. The aim is to produce no waste as every material is either recycled or reused



Plant Chicago

in some capacity. For example, the Chicago-based firm Bubbly Dynamics refurbishes vacant industrial buildings and transforms them into sustainable business incubators. At one site called The Plant, indoor farms irrigated with rainwater and power generated by solar panels helps more than 20 companies thrive without creating unnecessary waste. The

Plant's largest tenant is a brewery that produces about 20,000 pounds of compost per month, providing plenty of fertilizer for the facility's farmers.

Other circular economy-driven companies include Earth Angel, a Brooklyn start-up that recycles waste generated by film and television productions based in New York. The company donates mattresses and used clothing to humanitarian agencies while redistributing old scenery to independent theaters and filmmakers. Socially minded enterprises like Earth Angel and Bubbly Dynamics hope other companies will follow their lead and adopt similarly sustainable business practices in the near future. Not only would it help the environment, but it could also be good for business.

Sources: Anne Kadet, "The 'Circular Economy' Rolls into New York City," *The Wall Street Journal*, June 18, 2019; Eduardo Garcia, "Where's the Waste? A 'Circular' Food Economy Could Combat Climate Change," *The New York Times*, September 21, 2019; Anne Field, "Building a Circular Economy: A Society Where 'There's No Concept of Waste,'" *Forbes*, forbes.com, October 31, 2019; "What Is a Circular Economy?," Ellen Arthur Foundation, ellenarthurfoundation.org, accessed January 2020.

Efficiency means producing goods and services using the least amount of resources. The Adapting to Change box discusses how some businesses strive to become so effective and efficient that they create no waste.

productivity

The amount of output you generate given the amount of input (e.g., hours worked).

Productivity is the amount of output you generate given the amount of input, such as the number of hours you work. The more you can produce in any given period, the more money you are worth to companies. The problem with productivity today is that workers are so productive that fewer are needed.¹³

Technology affects people in all industries. For example, a farmer can use his computer to compare data from the previous year's harvest with drone or satellite photos of his farm that show which crops are flourishing. He can check the latest grain prices and use the website newAgTalk.com to converse with other farmers from all over the world. He can also save money on chemicals by bidding for bulk fertilizer on FarmTrade.com, an online agricultural exchange. High-tech equipment tells him how and where to spread fertilizer and seed, tracks yields yard by yard, and allows him to maintain high profit margins.¹⁴ Of course, more tech often means fewer workers. Is that a good or bad thing for farmers?

e-commerce

The buying and selling of goods over the Internet.

The Growth of E-commerce E-commerce is the buying and selling of goods online. There are two major types of e-commerce transactions: business-to-consumer (B2C) and

business-to-business (B2B). As important as the Internet has been to online retailers in the consumer market, it has become even more important in the B2B market, where businesses sell goods and services to one another, such as IBM selling consulting services to a local bank. E-commerce has become so important that we discuss it in many chapters throughout the text.

Using Technology to Be Responsive to Customers A major theme of this text is that those businesses most responsive to customer wants and needs will succeed. Technology can help businesses respond to customer needs in many ways. For example, businesses use bar codes to identify products you buy and their size, quantity, and color. The scanner at the checkout counter identifies the price but can also put all your purchase information into a **database**, an electronic storage file for information.

Databases enable stores to carry only the merchandise their local customers want. But because companies routinely trade database information, many retailers know what you buy and from whom you buy it. Thus they can send you online ads or catalogs and other direct mail advertising offering the kind of products you might want based on your past purchases. We discuss many of the other ways businesses use technology to be responsive to consumers throughout the text.

Unfortunately, the legitimate collection of personal customer information also opens the door to identity theft. **Identity theft** is the obtaining of individuals' personal information, such as Social Security and credit card numbers, for illegal purposes. For example, in 2017 Equifax, one of the credit bureaus charged with protecting consumers from identity theft and fraud, was hacked itself. The data breach exposed the personal information of 147 million people. Equifax agreed to spend up to \$425 billion to help people affected by the breach.¹⁵

Experts advise us to create new passwords for each account so that if the password on one account is stolen, the hackers can't access the rest of your accounts too. They also recommend storing them in a password manager, and activating two-factor authentication, which is an additional layer of security, when possible.¹⁶ The Federal Trade Commission says millions of U.S. consumers are victims of identity theft each year. Cybersecurity will continue to be a major concern of governments, business, and consumers.¹⁷

Many people are concerned about how technology might be used to invade the privacy of their phone or e-mail conversations or even to track their movement through facial recognition technology used in stores, casinos, on cruise ships, and in other public places.¹⁸ You can read more about security and privacy issues and how businesses use technology to manage information in Bonus Chapter B.

LO 1–5

Demonstrate how businesses can meet and beat competition.

The Competitive Environment

Competition among businesses has never been greater. Some have found a competitive edge by focusing on *quality*. The goal for many companies is zero defects—no mistakes in making the product. However, even achieving a rate of zero defects isn't enough to stay competitive in world markets. Companies now have to offer both high-quality products and good value—that is, outstanding service at competitive prices.

Competing by Exceeding Customer Expectations Today's customers want not only good quality at low prices but great service as well. Every manufacturing and service organization in the world should have a sign over its door telling its workers that the customer is king. Business has become more customer-driven, not management-driven as often occurred in the past. Successful organizations must now listen more closely to customers to determine their wants and needs, and then adjust the firm's products, policies, and practices accordingly. We will explore these ideas in more depth in Chapter 13.

Walt Disney World introduced MyMagic+, a convenient way for guests to create their ideal vacation experience. The key element is the MagicBand, providing an all-in-one way to effortlessly connect all the vacation choices guests make online. The MagicBand uses RF technology and serves as park ticket, hotel room key, access to FastPass+ advance reservation of attraction times, and Disney's PhotoPass. Disney hotel guests may use the bands to charge meals and merchandise to their hotel account.



Bob Croslin/Getty Images News/Getty Images

database

An electronic storage file for information.

identity theft

The obtaining of individuals' personal information, such as Social Security and credit card numbers, for illegal purposes.

empowerment

Giving frontline workers the responsibility, authority, freedom, training, and equipment they need to respond quickly to customer requests.

demography

The statistical study of the human population with regard to its size, density, and other characteristics such as age, race, gender, and income.

In 2020 people around the world joined protests against institutionalized racism and police violence. The movement placed a renewed focus on racial bias in many areas of life, including business. What can companies do to create diverse and inclusive workplaces?



Mark Kerrison/In Pictures/Getty Images

Competing by Restructuring and Empowerment To meet the needs of customers, firms must give their frontline workers—for example, office clerks, front-desk people at hotels, and salespeople—the responsibility, authority, freedom, training, and equipment they need to respond quickly to customer requests. They also must allow workers to make other decisions essential to producing high-quality goods and services. The process is called **empowerment**, and we'll be talking about it throughout this book.

As many companies have discovered, it sometimes takes years to restructure an organization so that managers can and will give up some of their authority and employees will assume more responsibility. We'll discuss such organizational changes in Chapter 8.

LO 1–6

Analyze the social changes affecting businesses.

The Social Environment

Demography is the statistical study of the human population with regard to its size, density, and other characteristics such as age, race, gender, and income. In this text, we're particularly interested in the demographic trends that most affect businesses and career choices. The U.S. population is going through major changes that are dramatically affecting how people live, where they live, what they buy, and how they spend their time. Furthermore, tremendous population shifts are leading to new opportunities for some firms and to declining opportunities for others. For example, there are many more retired workers than in the past, creating new markets for all kinds of goods and services.

Managing Diversity

Diversity means much more than recruiting and retaining minority and female employees. Diversity efforts include older adults, people with disabilities, people with different sexual orientations, atheists, religious people, extroverts, introverts, married people, and single people. It also means dealing sensitively with workers and cultures around the world.¹⁹ Managing diversity involves creating a workplace that promotes inclusion and belonging. *Inclusion* is about having a voice that is heard. *Belonging* is about feeling part of a community.²⁰

Legal and illegal immigrants have had a dramatic effect on many regions, and will continue to do so as the government debates immigration reform.²¹ Businesses, schools, and hospitals have been especially affected.²² Some local governments are making efforts to adapt, including changing signs, brochures, websites, and forms to include other languages. Has your city experienced such changes? What are some of the impacts you've noticed? How has the debate about changing immigration policies affected your community?

The Increase in the Number of Older Citizens People aged 75 and over are currently the richest demographic group in the United States.²³ Therefore they represent a lucrative market for companies involved with food service, transportation, entertainment, education, lodging, and so on. By 2030 the percentage of the population 65 or older will be over 20 percent; by 2050 it will more than double.²⁴ What do these changes mean for you and for businesses in the future? Think of the products and services that middle-aged and older people will need—medicine, nursing homes, assisted-living facilities, adult day care, home health care, transportation, recreation, and the like—and you'll see opportunities for successful businesses of the 21st century. Don't rule out computer games and online services. Businesses that cater to older consumers will have the opportunity for exceptional growth in the near future. The market is huge.



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The United States boasts enormous ethnic and racial diversity. Its workforce is also widely diverse in terms of age, which means that managers must adapt to the generational demographics of the workplace. What are some challenges of working with someone much younger or much older than you?

On the other hand, retired people will be draining the economy of wealth. Social Security has become a major issue.²⁵ The pay-as-you-go system (in which workers today pay the retirement benefits for today's retirees) operated just fine in 1940, when 42 workers supported each retiree; but by 1960, there were only 5 workers per retiree, and today, as members of the Baby-Boom generation (born between 1946 and 1964) retire, that number is 2.8 and is projected to drop to 2.2 by 2036.²⁶ In addition, the government has been spending some of the accumulated Social Security money instead of leaving it all in the Social Security account.

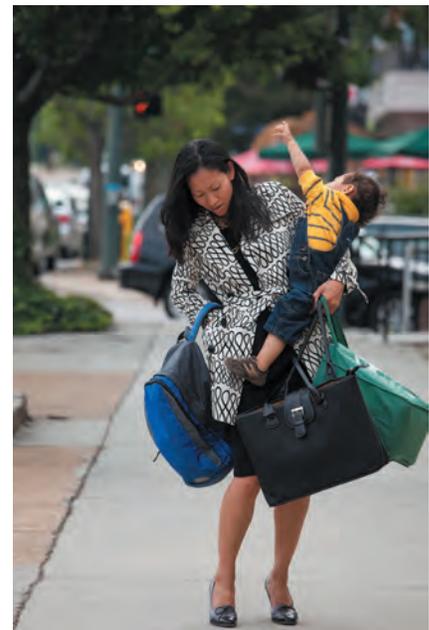
Soon, less money will be coming into Social Security than will be going out. The government will have to do something to make up for the shortfall: raise taxes, reduce Social Security benefits (e.g., raise the retirement age at which people qualify for payments), reduce spending elsewhere (e.g., in other social programs like Medicare or Medicaid), or borrow on the world market.

In short, paying Social Security to older citizens in the future will draw huge amounts of money from the working population. That is why there is so much discussion in the media today about what to do to save Social Security.

The Increase in the Number of Single-Parent Families It

is a tremendous task to work full-time and raise a family. Thus, the growth of single-parent households has also had a major effect on businesses. Whereas only 7 percent of parents were single in 1950, today a third of the children in the United States live with a single parent.²⁷ Single parents, including those forced by welfare rules to return to work after a certain benefit period, have encouraged businesses to implement programs such as family leave (giving workers time off to attend to a sick child or elder relative) and flextime (allowing workers to arrive or leave at selected times). You will read about such programs in more detail in Chapter 11.

The Rise of Gen Z's Economic Influence Generation Z (those born after the mid-1990s) will soon be the largest group of consumers in the world, accounting for as much as \$143 billion in spending power in the United States alone. Designing products and services to meet the broad tastes of this demographic is critical to the success of many companies. In order to reach these consumers, marketers have to use a variety of tools to capture their attention and engage them. The Connecting through Social Media box discusses how a few companies are using social media to connect with Gen Zers.



Ariel Skelley/Getty Images

More and more working families consist of single parents who must juggle the demands of a job and the responsibilities of raising children. What can managers do to try to retain valued employees who face such challenges?



CONNECTING THROUGH **SOCIAL MEDIA**

The Lucrative Challenge of Connecting with Gen Z Online

The Internet has always existed for Generation Z. As a result, this tech-savvy generation spends a ton of time on social media, especially platforms like Instagram, YouTube, and TikTok. Although reaching young people online can be a challenge for companies, the potential rewards for doing so are too significant to ignore given the size of this demographic group. And while social media will play a major role in this group's future purchasing decisions, they may not use it in the ways that some would expect.

For instance, while it might seem logical to assume that Gen Zers do all their shopping online, studies show that they love the experience of brick-and-mortar stores and malls. While they're out shopping, they are constantly on their smartphones seeking deals on social media.

As the social network of choice for many influencers,



Paul Bradbury/Getty Images

Facebook-owned Instagram has become an incredibly powerful force in branding. Experts expect it will stay that way since the platform has more than 1 billion active users. In fact, social networks like Instagram and

YouTube have grown so big that tech developers have largely stopped trying to create new apps to compete with them. Instead, many of today's social media start-ups focus on creating tools that can then be used on major platforms. For example, John Barnett worked as a developer at Snapchat and Instagram before founding his own company called Chroma Stories, an app that helps users make visual "stories" on social media. "We're focused on helping people create for whatever platform they're on, if it's Facebook, Instagram, Snap, WhatsApp, Pinterest, Twitter," said Barnett. Like the members of Generation Z themselves, modern companies will need to be similarly versatile in order to appeal to young consumers.

Sources: Craig Giammona and Tiffany Kary, "What Gen Z Wants," *Bloomberg Businessweek*, April 29, 2019; Jordyn Holman, Tiffany Kary, and Kim Bhasin, "A New Crop of Mall Rats," *Bloomberg Businessweek*, April 29, 2019; Katherine Bindley, "Catching Gen Z Requires a Big Fish: Instagram," *The Wall Street Journal*, September 28, 2019; Kathryn Lundstrom, "How to Reach Gen Z in 2020—Beyond Authenticity," *Adweek*, adweek.com, January 2, 2020.

LO 1-7

Identify what businesses must do to meet global challenges, including war and terrorism.

The Global Environment

The global environment of business is so important that we show it as surrounding all other environmental influences (see again Figure 1.3). Two important issues here are the growth of global competition and the negotiation of trade agreements among nations.

World trade, or *globalization*, has grown due to the development of efficient distribution systems (we'll talk about these in Chapter 15) and technological advances such as online communication systems. Globalization has greatly improved living standards around the world. China and India have become major U.S. competitors. Shop at Walmart and most other U.S. retail stores, and you can't help but notice the number of "Made in China" stickers you see. Call for computer help, and you are as likely to be talking with someone in India as someone in the United States.

World trade has its benefits and costs. You'll read much more about its importance in Chapter 3 and in the Reaching beyond Our Borders boxes throughout the text. This chapter's Reaching beyond Our Borders box on the next page discusses how Coca-Cola adapted its products to meet the needs of its global markets.

War and Terrorism War and terrorism have drained trillions of dollars a year from the U.S. economy.²⁸ Some companies—like those that make bullets, tanks, and uniforms—have benefited greatly. Others, however, lost workers to the armed forces, and still others have grown more slowly as money was diverted to the war effort. The threat of more wars and terrorism leads the government to spend even more money on spying and the military. Such expenditures are subject to much debate. The increased unrest in the world adds great uncertainty. This uncertainty is considered by some to be the biggest risk in business. It is difficult to plan when there are so many unknown factors such as how changes in military policy will affect the economy.²⁹

How Global Changes Affect You As businesses expand to serve global markets, new jobs will be created in both manufacturing and service industries. Global trade also means global competition. The students who will prosper will be those prepared for the markets of tomorrow. Rapid changes create a need for continuous learning, so be prepared to continue your education throughout your career. You'll have every reason to be optimistic about job opportunities in the future if you prepare yourself well.

The Ecological Environment Few issues have captured the attention of the international business community more than climate change. **Climate change** is the movement of the temperature of the planet up or down over time. There are some who remain unconvinced of the dangers of global warming.³⁰ However, most scientists and many of the world's largest firms—including General Electric, Coca-Cola, Shell, Nestlé, DuPont, Johnson & Johnson, British Airways, and Shanghai Electric—say the evidence for climate change is overwhelming. Saving energy and producing products that cause less harm to the environment, such as solar energy, is called **greening**.

climate change

The movement of the temperature of the planet up or down over time.

greening

The trend toward saving energy and producing products that cause less harm to the environment.

TESTPREP

- What are four ways the government can foster entrepreneurship?
- What are the differences among effectiveness, efficiency, and productivity?
- What is *empowerment*?
- What are some of the major issues affecting the economy today?

LO 1–8

Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.

The Evolution of U.S. Business

Businesses in the United States have become so productive that they need fewer workers than ever before to produce goods. If global competition and improved technology are



REACHING BEYOND OUR BORDERS

Coca-Cola's Global Offerings Expand Far beyond Soda

coca-colacompany.com

For more than a century, Coca-Cola's immense branding power has centered on its signature soft drink. But the company's namesake is far from the only beverage in its enormous roster of products. In fact, Coca-Cola owns hundreds of drink brands that cater to the diverse needs of markets around the world. The company carefully researches local tastes and incorporates these flavors into beverages that appeal to a variety of global consumers.

One such drink is Mazza Chunky, an Indian fruit juice that includes chunks of mango. Coca-Cola researchers thought of the idea when they noticed that many people in the country liked to drink mango pulp straight from the fruit. Keeping an eye on local trends also led to products like a sesame-and-walnut drink in China, as well as a Brazilian line of whey shakes. Some flavors that perform well in global markets are eventually introduced to American consumers. For instance, in 2019

the company launched Coca-Cola Energy in countries like Germany, the United Kingdom, Spain, and many others. The drink was such a success that Coca-Cola introduced it to the United States less than a year later.

Quickly bringing new products to market has become a top priority for the company as it continues to expand its global offerings. In the past, Coca-Cola spent at least a year developing a drink before it launched. These days, though,

the company can finish the process in as little as four months. By dedicating so many resources to new-product development, Coca-Cola has built a worldwide empire of soft drinks that should only grow larger in the years to come.

Sources: Eric Bellman and Jennifer Maloney, "Coca-Cola Launched 500 Drinks Last Year. Most Taste Nothing Like Coke," *The Wall Street Journal*, August 23, 2018; Jasmine Wu, "Coca-Cola to Launch Coke-Branded Energy Drink in US, in a Bid for More Growth," *CNBC*, cnbc.com, October 1, 2019; Coca-Cola Company, coca-colacompany.com, accessed January 2020.



Koktaro/Shutterstock

putting skilled people out of work, should we be concerned about the prospect of high unemployment rates and low incomes? Where will the jobs be when you graduate? These important questions force us all to look briefly at the U.S. economy and its future.

Progress in the Agricultural and Manufacturing Industries

The United States has experienced strong economic development since the 1800s. The agricultural industry led the way, providing food for the United States and much of the world. Cyrus McCormick's invention of the harvester in 1834, other inventions such as Eli Whitney's cotton gin, and modern improvements on such equipment did much to make large-scale farming successful. Technology has made modern farming so efficient that the number of farmers has dropped from about 33 percent of the population to less than 1 percent today. However, average farm size is now about 430 acres versus 150 acres in the past.³¹

Agriculture is still a major industry in the United States. What has changed is that the millions of small farms that existed previously have been replaced by some huge farms, some

merely large farms, and some small but highly specialized farms. The loss of farmworkers over the past century is not a negative sign. It is instead an indication that U.S. agricultural workers are the most productive in the world.

Most farmers who lost their jobs during the 19th and 20th centuries went to work in factories springing up around the country. Manufacturers, like farms, began using new technology, new tools, and machines to become more productive. Eventually the consequence in manufacturing, as in farming, was the elimination of many jobs.

Again, the loss to society is minimized if the wealth created by increased productivity and efficiency creates new jobs elsewhere—and that’s exactly what has happened over the past 50 years. Many workers in the industrial sector found jobs in the growing service sector. Most of those who can’t find work today are people who need retraining and education to become qualified for jobs that now exist or will exist in the near future, such as building wind farms or making electric automobiles. We’ll discuss the manufacturing sector and production in more detail in Chapter 9.



baranozdemir/Getty Images

Agriculture is one of the largest and most important industries in the United States. Technology has increased productivity and made farmers more efficient, allowing for larger farms. This trend has helped reduce the increase in price of some foods for consumers, but has also reduced the number of small, family-run farms. Does the new technology also help smaller farms compete? If so, how?

Progress in Service Industries

In the past, the fastest-growing industries in the United States produced goods like steel, automobiles, and machine tools. Today, the fastest-growing firms provide services in areas such as law, health, telecommunications, entertainment, and finance.

Since the mid-1980s, the service sector has generated almost all the increases in employment. Together, services employ about 85 percent of workers in the United States.³² Chances are very high that you’ll work in a service job at some point in your career. Figure 1.4 lists many service-sector jobs; look it over to see where the careers of the future are likely to be. Retailers like Nordstrom Rack are part of the service sector. Each new retail store can create managerial jobs for college graduates.

Another bit of good news is that there are *more* high-paying jobs in the service sector than in the goods-producing sector. High-paying service-sector jobs abound in health care, accounting, finance, entertainment, telecommunications, architecture, law, software engineering, and more.³³ Projections are that some areas of the service sector will grow rapidly, while others may have much slower growth. The strategy for college graduates is to remain flexible, find out where jobs are being created, and move when appropriate.

Progress in the Information Age

Despite the growth in the service sector we’ve described above, the service era is giving way to a new era. We’re in the midst of an information-based global and technical revolution that is altering all sectors of the economy: agricultural, industrial, and service. In the Information Age, a significant portion of a company’s value is based on its intellectual capital. *Intellectual capital* includes employee knowledge and skills that can be used to create new products, attract new customers, and increase profits.³⁴

The new or enhanced products and services created by intellectual expertise in areas such as the technical and scientific fields encourage innovation in the economy as a whole. For example, universities and companies engaging in research and development may develop new software and search engines that can be passed on to workers in more traditional fields. Doctors can use the new technology to offer improved treatments such as robot-assisted surgeries. Farmers can use the new software applications to manage their farm crops. Schools can provide students with digital study aids and online courses.³⁵

FIGURE 1.4 WHAT IS THE SERVICE SECTOR?

There's much talk about the service sector, but few discussions actually list what it includes. Here are examples of businesses in the service sector.

Examples of Businesses in the Service Sector							
Amusement and Recreation Services	Amusement parks	Ice skating rinks	Bowling alleys	Pool halls	Botanical gardens	Infotainment	Carnivals
	Race tracks	Circuses	Golf courses	Symphony orchestras	Restaurants	Fairs	Video rentals
Business Services	Collection agencies	Management services	Equipment rental	Trash collection	Computer programming	Exterminating	Research & development labs
	Window cleaning	Tax preparation	Web design	Commercial photography	Accounting	Commercial art	Ad agencies
	Public relations	Consulting	Detective agencies	Interior design	Stenographic services	Employment agencies	
Legal Services	Lawyers	Paralegals	Notary public				
Educational Services	Schools	Libraries	Online schools	Computer schools			
Health Services	Chiropractors	Nursery care	Dentists	Physicians	Medical labs	Dental labs	
Motion Picture Industry	Production	Distribution	Theaters	Drive-ins			
Social Services	Job training	Elder care	Family services	Child care			
Automotive Repair Services and Garages	Transmission repair	Tire retreading	Exhaust system shops	Truck rental	Auto rental	Paint shops	Parking lots
	Car washes						
Financial Services	Banking	Real estate agencies	Investment firms (brokers)	Insurance			
Personal Services	Photographic studios	Shoe repair	Tax preparation	Laundries	Funeral homes	Linen supply	
	Beauty shops	Child care	Health clubs	Diaper service	Carpet cleaning		
Lodging Services	Hotels, rooming houses, and other lodging places	Sporting and recreation camps	Trailer parks and campsites for transients				
Cultural Institutions	Noncommercial museums	Art galleries	Botanical and zoological gardens				
Selected Membership Organizations	Civic associations	Business associations					
Miscellaneous Services	Tele-communications	Architectural	Engineering	Utilities	Lawn care	Vending	Delivery
	Surveying	Septic tank cleaning	Radio and television	Sharpening	Reupholstery	Watch	Welding

Your Future in Business

It's exciting to think about the role you'll play in business. You may be a leader who will implement the changes and accept the challenges of world competition based on world

quality standards. This book will introduce you to some of the concepts that make such leadership possible, not just in business but also in government agencies and nonprofit organizations. Business can't prosper in the future without the cooperation of government and social leaders throughout the world.

TESTPREP

- What major factor caused people to move from farming to manufacturing and from manufacturing to the service sector?
- What does the future look like for tomorrow's college graduates?

SUMMARY

LO 1-1 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

- **What is the relationship of businesses' profit to risk assumption?**

Profit is money a business earns above and beyond the money that it spends for salaries and other expenses. Businesspeople make profits by taking risks. *Risk* is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable. A loss occurs when a business's costs and expenses are higher than its revenues.

- **Who are stakeholders, and which stakeholders are most important to a business?**

Stakeholders include customers, employees, stockholders, suppliers, dealers, bankers, the media, people in the local community, environmentalists, and elected government leaders. The goal of business leaders is to try to recognize and respond to the needs of these stakeholders and still make a profit.

LO 1-2 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

- **What are the advantages and disadvantages of entrepreneurship?**

Working for others means getting benefits like paid vacations and health insurance. Entrepreneurs take more risks and lose those benefits. They gain the freedom to make their own decisions, more opportunity, and possible wealth.

- **What are the five factors of production?**

The five factors of production are land, labor, capital, entrepreneurship, and knowledge. Of these, the most important are entrepreneurship and knowledge. Entrepreneurs are people who risk time and money to start and manage a business. What makes rich countries rich today is a combination of *entrepreneurship* and the effective use of *knowledge*.

LO 1-3 Analyze the effects of the economic environment and taxes on businesses.

- **What can governments in developing countries do to reduce the risk of starting businesses and thus help entrepreneurs?**

The government may allow private ownership of businesses, pass laws that enable businesspeople to write contracts that are enforceable in court, establish a currency that's tradable in world markets, help lessen corruption in business and government, and keep taxes and regulations to a minimum. From a business perspective, lower taxes mean lower risks, more growth, and thus more money for workers and the government.

LO 1-4 Describe the effects of technology on businesses.

- **How has technology benefited workers, businesses, and consumers?**

Technology enables workers to be more effective, efficient, and productive. *Effectiveness* means doing the right thing in the right way. *Efficiency* means producing items using the least amount of resources. *Productivity* is the amount of output you generate given the amount of input (e.g., hours worked).

LO 1-5 Demonstrate how businesses can meet and beat competition.

- **What are some ways in which businesses meet and beat competition?**

Some companies have found a competitive edge by focusing on making high-quality products, all the way to zero defects. Companies also aim to exceed customer expectations. Often that means *empowering* frontline workers by giving them more training and more responsibility and authority.

LO 1-6 Analyze the social changes affecting businesses.

- **How have social changes affected businesses?**

Diversity has come to mean much more than recruiting and keeping minority and female employees. Diversity efforts now include older adults, people with disabilities, people with different sexual orientations, atheists, religious people, extroverts, introverts, married people, and single people. Managing diversity means dealing sensitively with workers and cultures around the world. Providing Social Security benefits to older citizens in the future will draw huge amounts of money from the working population. That is why there is so much discussion about Social Security in the media today.

LO 1-7 Identify what businesses must do to meet global challenges, including war and terrorism.

- **Which countries are creating the greatest competitive challenges?**

China and India are two major competitors.

- **What will be the impacts of future wars and terrorism?**

Some businesses, such as those in the defense industry, may prosper. Others, such as tourism, may suffer. One way to minimize world tensions is to help less-developed countries become more prosperous.

LO 1-8 Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.

- **What is the history of our economic development in the United States, and what does it tell us about the future?**

Agricultural workers displaced by improved farm technology went to work in factories. Improved manufacturing productivity and increased competition from foreign firms

contributed to the development of a service economy in the United States. The service era is now giving way to an information-based global revolution that will affect all sectors of the economy. The secret to long-term success in such an economy is flexibility and continuing education to be prepared for the opportunities that are sure to arise.

■ **What job opportunities for college graduates exist in the service sector?**

Check over Figure 1.4, which outlines the service sector. That is where you are most likely to find the fast-growing firms of the future.

business 4	factors of production 8	profit 4
business environment 9	goods 4	quality of life 5
climate change 17	greening 17	revenue 4
database 13	identity theft 13	risk 5
demography 14	loss 4	services 4
e-commerce 12	nonprofit organization 7	stakeholders 6
empowerment 14	outsourcing 6	standard of living 5
entrepreneur 4	productivity 12	technology 11

KEY TERMS

Imagine you are thinking of starting a restaurant in your community. Answer the following questions:

1. Who will be the various stakeholders of your business?
2. What are some of the things you can do to benefit your community other than providing jobs and tax revenue?
3. How will you establish good relationships with your suppliers? With your employees?
4. Do you see any conflict between your desire to be as profitable as possible and your desire to pay employees a living wage?
5. Which of the environmental factors outlined in this chapter might have the biggest impact on your business? How?

CRITICAL THINKING

PURPOSE

To learn what changes are occurring in the business environment today and how those changes are affecting businesses.

EXERCISE

1. Go to the National Taxpayers Union website (ntu.org). Search for “Who Pays Income Taxes?” Study the tables showing what percentage of taxes the various income groups pay. Do you think that everyone pays their fair share? What percentage of taxes does the top 1 percent of earners pay? What about the top 5 percent? The lowest 50 percent? How do such tax rates affect incentives to become a successful entrepreneur?
2. Go to the Census Bureau’s website (census.gov) and learn what the population of the United States is at this moment. While at the site, you may want to look up the population in your town or city. Explore what other data is available at this site. What trends seem most important to you and to businesspeople in general?
3. Do a Google search for “business blogs” and check out some of the available results. Go to one of the blogs that seems interesting to you and write a brief paragraph about it—including such things as who sponsors it, who contributes the posts, and what other features it has—and how it may help a student in an introductory business course.

PUTTING PRINCIPLES TO WORK

DEVELOPING CAREER SKILLS

KEY: ● Team ★ Analytic ▲ Communication □ Technology

- ▲ ★ 1. Poll the class and determine which students believe that climate change is primarily caused by humans and which believe that other factors, such as climate cycles or sun spots, are the primary cause. Discuss what students can do to minimize human effects on the environment regardless of the primary causes of climate change. Are there any negative consequences to trying to minimize humans' impact on the environment?
- ★ 2. Imagine you are a local businessperson who has to deal with the issue of outsourcing. You want to begin with the facts. How many, if any, jobs have been lost to outsourcing in your area? Are there any foreign firms in your area that are creating jobs (insourcing)? You will need to go online to find the data you need.
- ★ 3. What indicates that you and other people in the United States have a high standard of living? What are some signs that maintaining such a high standard of living may have a negative impact on quality of life? Does everyone in the United States enjoy a high standard of living? If not, how does this impact their quality of life?
- □ ▲ ★ 4. Use Yelp to find five businesses that provide services in your area. List those businesses and, for each, describe how social trends, such as building a diverse workforce, might affect them. Be prepared to explain your descriptions to your team or the whole class, as your instructor directs.
- □ ▲ 5. Form into teams of four or five and discuss the technological and e-commerce revolutions. How often do students shop for goods and services online? What have been their experiences? What other technology do they use (smartphones, tablets, laptops, etc.)? Discuss what life, school, and work would be like without these devices.

CAREER EXPLORATION

At the end of each chapter, we offer a brief list of potential careers that deal with the concepts present in the chapter. Since this first chapter is an overview of all the different fields of business, we thought we'd concentrate on identifying a few careers in the sector with the most jobs: services. Find out about the tasks performed, skills needed, pay, and opportunity outlook in these careers in the *Occupational Outlook Handbook (OOH)* at bls.gov.

- **Lodging manager**—ensures that guests on vacation or business travel have a pleasant experience at a hotel, motel, or other type of establishment with accommodations and that the business is run efficiently and profitably.
- **Meeting and event planner**—coordinates all aspects of events and professional meetings, including arranging meeting locations, transportation, and other details.
- **Interior designer**—selects and specifies colors, furniture, and other materials to create useful and stylish interiors for buildings.
- **Network and computer systems administrator**—responsible for the day-to-day operation of computer networks.

VIDEO CASE

Building a Shopping Community of People



If you have the inspiration and tenacity to become an entrepreneur, the service industry offers great possibilities. Services are now the largest area of growth in the United States. A great idea and hard work can lead to great success. In 2007, Manish Chandra realized that the move to

environmental sustainability and advances in technology could shift the fashion industry away from its traditional focus of selling new products toward providing a service centered on exchanging gently used clothing. He knew that people all across America often ask the same question:

“What do I do with clothing I no longer wear?” Chandra developed and founded Poshmark, a social commerce platform that boasts 60 million users who list 38 million products daily.

Like other successful entrepreneurs, Chandra was able to start Poshmark and expand it rapidly thanks to the business environment in the United States. To be successful, businesses must navigate factors that impact the five key business environments in the U.S. economy: the social environment, the technological environment, the economic and legal environment, the competitive environment, and the global environment. Even though businesses cannot control these environments, they must be quick to adapt to changes in key environments that affect them.

For instance, changes in the social environment in the United States had a significant impact on Poshmark since its launch in 2010. Building a community-centric organization was a key shift in online retailing. Changing demographics and values of Millennials and Gen Z consumers fit perfectly with Poshmark’s business model. The advent of mobile technology vastly expanded the market opportunities for the company, and the growth of the circular economy also provided a major benefit. The circular economy encourages reusing and recycling products rather than discarding them in a landfill. This shift in social perspective assisted Poshmark in being at the forefront of the movement away from fast fashion toward a sustainable method of consumption.

The expanding technological environment, especially mobile technology, contributed heavily to the success of Poshmark. Without the tremendous growth of technology, Poshmark would not be feasible. Chandra credits the introduction of iPhone 4 in 2010 as a turning point in Poshmark’s growth. The iPhone 4 was introduced with a great camera that expanded the ease of use and viability of Poshmark’s business plan. Shoppers could now take photos in real time, then merchandise and market their items to others. The vibrant mobile platform developed by Poshmark allowed customers to place orders instantly. Packaging assistance offered by the company simplified the delivery of clothing items.

The economic and legal environment in the United States is very favorable for businesses like Poshmark. The government supports private ownership of businesses by providing a stable currency and a legal system that enforces

contracts, keeps regulations to a minimum, and avoids bureaucratic roadblocks that hinder businesses. Transportation and distribution in the United States make shipment of products easy and efficient. However, companies like Poshmark must make sure to follow any laws and regulations that apply to their industry.

When the company first entered the market, competition was limited. That’s not the case today. With competitors such as thredUP, Etsy, the RealReal, and others offering stiff competition, Poshmark knows it faces daily challenges to its community of “poshers.” That’s a key reason why the company moved from operating purely online to establishing a presence in the real world. Poshmark hosts a number of real-life community programs such as “Posh Parties” where poshers can exchange their experiences and offer marketing tips to fellow sellers. The company’s two-day conference called “Posh Fest” has grown every year and sells out. Even though Poshmark holds the advantage of being in business the longest, the company must still work hard every day to keep its 60 million users happy and loyal.

In business today, every company needs to consider the global environment. Poshmark has not made major efforts to expand its business beyond the United States and Canada. Still, Poshmark’s ease of operation and openness of its app makes global expansion in the future very possible. Clearly, advances in communication and the Internet make it possible for the company to build a presence overseas.

In the years since its founding, Poshmark has had a tremendous impact on the fashion industry and has been very profitable. Going forward, the company must remain committed to connecting people through its app as well as socially with its events. By responding to the challenges of the business environment and improving the experience for shoppers, Poshmark plans to be part of the U.S. business landscape for the long term.

THINKING IT OVER

1. Which of the five environmental factors are most critical to Poshmark’s continued success and stability?
2. How did iPhone 4 provide the boost Poshmark needed to expand its business model in the online market?
3. How do “Posh Parties” and “Posh Fest” help expand Poshmark’s business and build the loyalty of Poshmark customers?

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3

Doing Business in Global Markets

LEARNING OBJECTIVES »

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

- LO 3-1** Discuss the importance of the global market and the roles of comparative advantage and absolute advantage in global trade.
- LO 3-2** Explain the importance of importing and exporting, and understand key terms used in global business.
- LO 3-3** Illustrate the strategies used in reaching global markets, and explain the role of multinational corporations.
- LO 3-4** Evaluate the forces that affect trading in global markets.
- LO 3-5** Debate the advantages and disadvantages of trade protectionism.
- LO 3-6** Discuss the changing landscape of the global market and the issue of offshore outsourcing.

GETTING TO KNOW

Tim Cook, CEO of Apple Computer

As the maker of such landmark products as the iPhone and iPad, Apple ranks as one of the most successful companies in world history. But a few years before it began earning tens of billions from smartphones and tablets, Apple nearly folded under the pressure of an increasingly competitive tech sector. Thanks to the efforts of globally minded managers like Tim Cook, though, Apple bounced back and grew into the giant that we all know today.

Tim Cook's personal road to success started in the small town of Robertsdale, Alabama, where his mother worked at a pharmacy and his father served as foreperson of a shipyard. Along with his two brothers, Cook got a job as soon as he was old enough to do so. He delivered newspapers, worked at a restaurant, and even joined his mother at the drugstore. Cook applied this strong work ethic to his education as well. An all-star student, he graduated second in his high school class and was voted "most studious" by his classmates. From there Cook went on to Auburn University where he earned a bachelor's degree in engineering. He continued his education at Duke University's Fuqua School of Business and graduated in the top 10 percent of his class.

After earning his MBA, Cook accepted a job at IBM and embarked on his career in computer technology. He rose through the ranks over the years and eventually advanced to the position of North American fulfillment director, where he managed manufacturing and distribution of personal computers in both North and Latin America. Cook left IBM after 12 years to become chief operating officer (COO) at a computer retailer before moving on to Compaq, a major computer maker. Soon after taking this new position, however, Apple cofounder and CEO Steve Jobs reached out to Cook and offered him a job. Although it may seem strange today, choosing between the two companies was a tough decision in 1998. After all, Apple had not earned a profit in years while analysts predicted Compaq would soon become a major force in tech. (HP bought Compaq in 2002 for \$25 billion.) But Cook was sold once he spoke with Jobs in person. "No more than five minutes into my initial interview with Steve, I wanted to throw caution and logic to the wind and join Apple," said Cook.

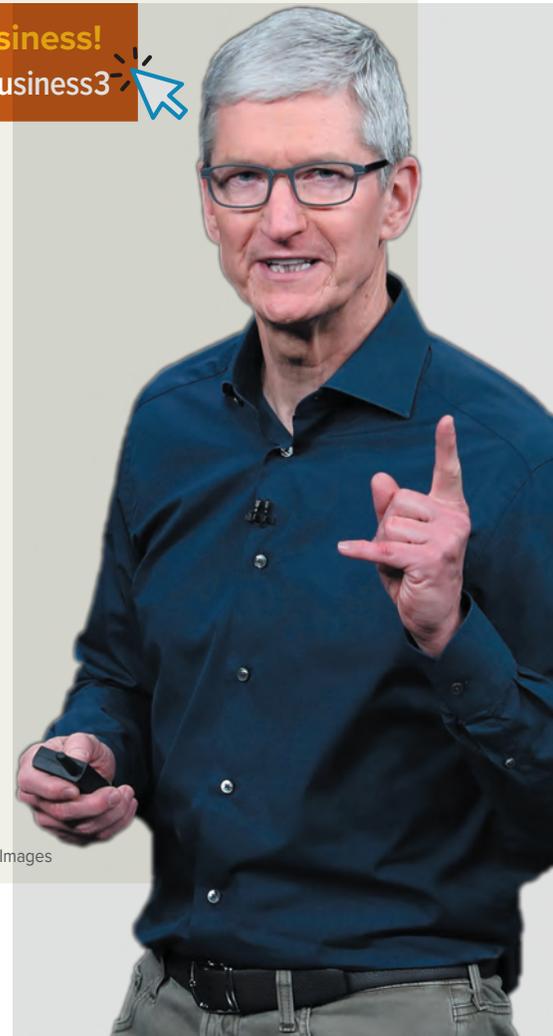
He certainly had his work cut out for him. Almost immediately after taking the position of senior vice president for worldwide operations, Cook began closing Apple factories and distribution centers around the globe. He replaced these expensive facilities with contract manufacturers that both cost less and increased the efficiency of the company's supply chain. In fact, many experts say that Cook's streamlining of the supply chain was just as important for Apple as the innovative designs of the iPod or iPhone. In 2007 he received a promotion to COO where he managed worldwide sales and operations. Following the death of Jobs in 2011, Cook took over as chief executive officer (CEO).

Apple has grown substantially under Cook's leadership. Along with launching the Apple Watch in 2015, he also oversaw the company's purchase of Beats Electronics for \$3 billion. By 2018, Apple became the first American public company to earn a trillion-dollar valuation. Still, Cook will face many challenges as he works to keep Apple on top in the long term. Perhaps most importantly, the company needs to make a greater impact on consumers in global markets like China and India. If the past is any indication, though, Cook should be up to the task.

Tim Cook is an example of a successful global businessperson who's proven it doesn't matter who you are or where you came from if you have the will and determination to succeed. He understands cultural and economic differences, and knows how to adapt Apple to global changes successfully. This chapter explains the opportunities and challenges businesspeople like Tim Cook face every day in dealing with the dynamic environment of global business.

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Let's talk business!
bit.ly/LetsTalkBusiness3



Justin Sullivan/Getty Images



THE WORLD'S SECOND-LARGEST ATHLETIC GEAR MAKER decided to close its footwear factories in Ansbach, Germany, and suburban Atlanta, Georgia, and move to a high-tech “speedfactory” in Vietnam where it will invest in automated production technology for footwear. Name that company. (Find the answer in the chapter.)

LO 3-1

Discuss the importance of the global market and the roles of comparative advantage and absolute advantage in global trade.

The Dynamic Global Market

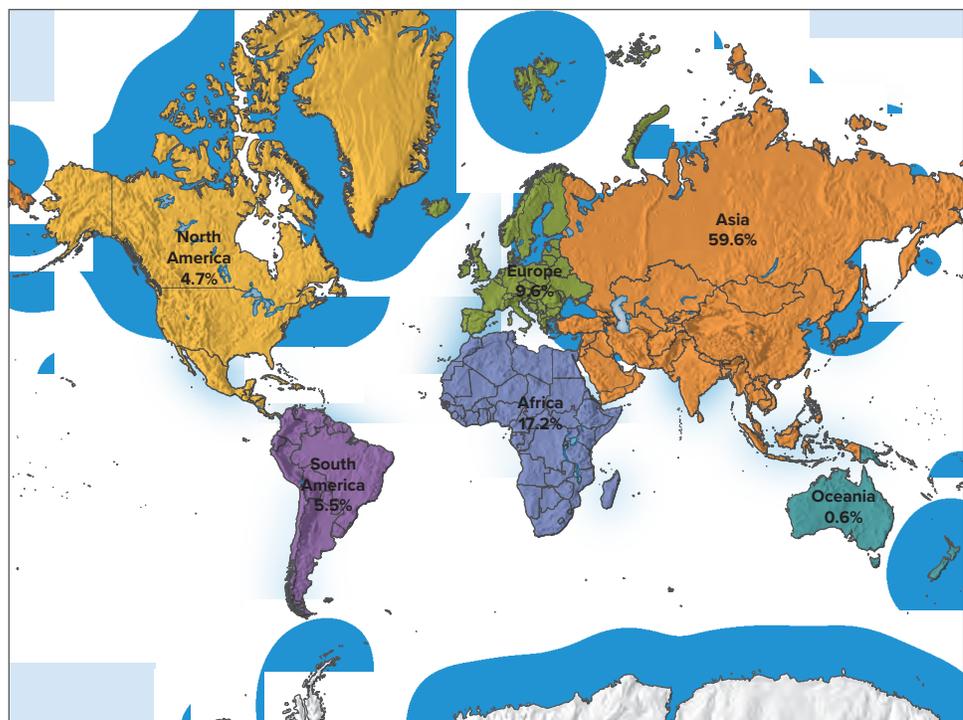
Have you dreamed of traveling to cities like Paris, London, Rio de Janeiro, or Tokyo? Today, most companies doing business globally believe it is important for their employees to have experience working in other countries. The reason is not surprising—although the United States is a market of over 328 *million* people, there are over 7.7 *billion* potential customers in the 195 countries that make up the global market.¹ That’s too many people to ignore! (See Figure 3.1 for a map of the world and important statistics about world population.)

Today, U.S. consumers buy hundreds of billions of dollars’ worth of goods from Canada, Mexico, and China.² Costco opened its first store in Shanghai and was greeted by such huge numbers of Chinese shoppers that traffic needed to be shut down.³ Walmart and PepsiCo have expanded and built up business in South Africa.⁴ Major League Baseball is broadcast in 189 countries in 17 languages.⁵ The National Basketball Association (NBA)

FIGURE 3.1 WORLD POPULATION BY CONTINENT

As shown on this map, 59.64 percent of the world’s population lives in Asia while only 4.73 percent lives in North America.

Source: “Continent and Region Populations 2020,” World Population Review, worldpopulationreview.com, accessed February 2020.





Martin Leitch/Icon Sportswire/Getty Images

It may not be what the rest of the world calls “football,” but American football is attracting an audience outside the United States. London’s Wembley Stadium has been home to the NFL’s International Series since 2007, and the league recently signed an agreement for 10 more years. What cultural factors must U.S. sports franchises overcome in order to increase popularity abroad?

and the National Football League (NFL) played regular season games in London and Mexico in 2019.⁶ NBC paid \$1 billion to telecast England’s Barclays Premier Soccer League in the United States through 2022.⁷ U.S. film stars Robert Downey Jr., Tom Hanks, and Meryl Streep draw crowds to movie theaters around the globe.

Because the global market is so large, it is important to understand the language used in global trade. For example, **importing** is buying products from another country. **Exporting** is selling products to another country. As you might suspect, competition among exporting nations is intense. The United States is the largest importing nation in the world and is the second-largest exporting nation, behind China.

This chapter will familiarize you with global business and its many challenges. As competition in global markets intensifies, the demand for students with training in global business is almost certain to keep growing.

Why Trade with Other Nations?

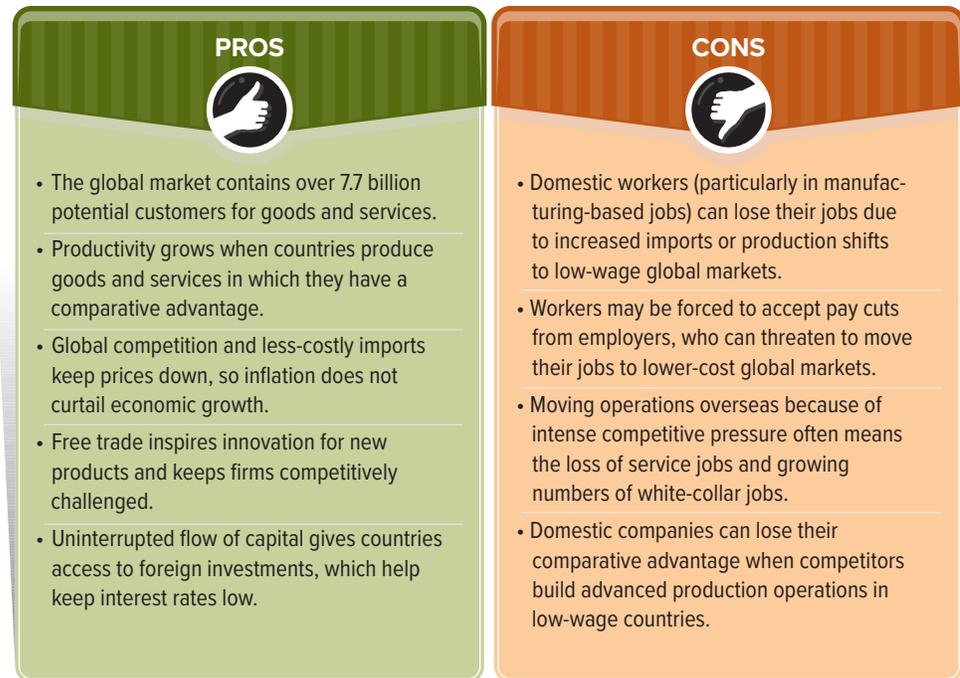
No nation, not even a technologically advanced one like the United States, can produce all the products its people want and need. Even if a country did become self-sufficient, other nations would seek to trade with it to meet the needs of their own people. Some nations, like Venezuela and the Democratic Republic of the Congo, have an abundance of natural resources but limited technological know-how. Other countries, such as Japan and Switzerland, have sophisticated technology but few natural resources. Global trade enables a nation to produce what it is most capable of producing and buy what it needs from others in a mutually beneficial exchange

importing

Buying products from another country.

exporting

Selling products to another country.

FIGURE 3.2 THE PROS AND CONS OF FREE TRADE**free trade**

The movement of goods and services among nations without political or economic barriers.

comparative advantage theory

Theory that states that a country should sell to other countries those products that it produces most effectively and efficiently, and buy from other countries those products that it cannot produce as effectively or efficiently.

absolute advantage

The advantage that exists when a country has a monopoly on producing a specific product or is able to produce it more efficiently than all other countries.

relationship. This happens through the process called free trade. **Free trade** is the movement of goods and services among nations without political or economic barriers. It has become a hotly debated concept.⁸ Figure 3.2 offers some of the pros and cons of free trade.

The Theories of Comparative and Absolute Advantage

Countries exchange more than goods and services, however. They also exchange art, sports, cultural events, medical advances, space exploration, and labor. Comparative advantage theory, suggested in the early 19th century by English economist David Ricardo, was the guiding principle that supported the idea of free economic exchange.⁹ **Comparative advantage theory** states that a country should sell to other countries those products it produces most effectively and efficiently, and buy from other countries those products it cannot produce as effectively or efficiently. The United States has a comparative advantage in producing goods and services, such as software development and engineering services. In contrast, it lacks a comparative advantage in growing coffee or making shoes; thus, we import most of the shoes and coffee we consume. By specializing and trading, the United States and its trading partners can realize mutually beneficial exchanges.

A country has an **absolute advantage** if it can produce a specific product more efficiently than all other countries. Absolute advantage does not last forever; global competition causes absolute advantages to fade. Today there are very few instances of absolute advantage in global markets.

LO 3-2

Explain the importance of importing and exporting, and understand key terms used in global business.

Getting Involved in Global Trade

Job seekers interested in working in global business often think they are limited to major companies like Boeing, Caterpillar, or IBM, which have large multinational accounts. However, real global job potential may be with small businesses. In the United States, only 1 percent of the 30 million small businesses export, yet they account for about one-third of the total U.S. exports.¹⁰ With the support of the U.S. Department of Commerce, U.S. small-business exporting has increased significantly in the past decade, but not quite to the level many would like.

Getting started globally is often a matter of observing, being determined, and taking risks. In a classic story, several years ago a U.S. traveler in an African country noticed there was no ice available for drinks or for keeping foods fresh. Research showed there was no ice factory for hundreds of miles, yet the market seemed huge. The man returned to the United States, found some investors, and returned to Africa to build an ice-making plant. The job was tough; much negotiation was necessary with local authorities (much of which was done by local citizens and businesspeople who knew the system). But the plant was eventually built, and this forward-thinking entrepreneur gained a considerable return on his idea, while the people gained a needed product.

Importing Goods and Services

Students attending colleges and universities abroad often notice that some products widely available in their countries are unavailable or more expensive elsewhere. By working with producers in their native countries, finding some start-up financing, and putting in long hours of hard work, many have become major importers while still in school.

Howard Schultz, chair emeritus of Starbucks, found his opportunity while traveling in Milan, Italy.¹¹ Schultz was enthralled with the ambience, the aroma, and especially the sense of community in the Italian neighborhood coffee and espresso bars that stretched across the country. He felt such gathering places would be great in the United States. Schultz bought the original Starbucks coffee shop in Seattle and transformed it according to his vision. Americans soon became aware of what a grande latte was all about. In 2018, 35 years after his trip to Italy, Schultz saw his dream of opening Starbucks in Italy happen. The company opened its first store in Milan.¹²

Exporting Goods and Services

Who would think U.S. firms could sell beer in Germany, home of the first state “beer purity” law (called the *Reinheitsgebot*) and maker of so many classic beers? Well, some of Munich’s most famous beer halls and store shelves offer U.S. beers like Samuel Adams Boston Lager. U.S. brewer Sierra Nevada is collaborating with Germany’s Bitburger Brewery to produce its Oktoberfest beer.¹³ If this surprises you, imagine selling sand in the Middle East. Pool owners in Abu Dhabi purchase a special kind of sand used in swimming pool filters that sells well there.

The fact is, you can sell just about any good or service used in the United States to other countries—and sometimes the competition is not nearly so intense as it is at home. For example, you can sell snowplows to Saudi Arabians, who use them to clear sand off their driveways. Airbnb started in San Francisco as a community marketplace for people looking to book and list accommodations in the Bay Area. The company has since grown to a \$31 billion company that serves 500 million guests by expanding booking listings in over 100,000 cities worldwide.¹⁴ Company cofounder Brian Chesky believed that people wanted to connect with the people and the culture where they were staying, not just have a room to sleep in. Chesky’s philosophy and creative social media strategy were significant in helping Airbnb transform the hospitality industry. The Connecting through Social Media box highlights how social media strategy in global business is vital to companies, global success.

Exporting also provides a terrific boost to the U.S. economy. C. Fred Bergsten, director emeritus of the Peterson Institute for International Economics, states that the U.S. economy was \$1 trillion a year richer because of its integration with the world economy.¹⁵ He also estimates that every \$1 billion in additional U.S. exports generates over 7,000 jobs at home. Overall, exports represent about 12 percent of U.S. GDP and account for 11.5 million jobs. But selling in global markets and adapting products to global customers are by no means easy tasks. We discuss key forces that affect global trading later in this chapter.

If you are interested in learning more about exporting, go to the International Trade Administration (export.gov) and click on “Learn How to Export.” More advice is available



Sean P. Aune/Shutterstock

Although Funko’s Pop! line of toys aren’t very lifelike, that hasn’t stopped these big-headed figurines from becoming a global sensation. Funko’s toys usually take on the appearance of famous fictional characters or pop culture icons, giving them widespread appeal to collectors around the world. As a result, each year Funko earns tens of millions from sales of its Pop! toys. Does a career in the global collectibles market seem appealing to you?



CONNECTING THROUGH SOCIAL MEDIA

Global Consumers Increasingly Listen to Influencers

To stay competitive in today's global business environment, companies of all sizes are looking to improve the effectiveness of their social media marketing. Experts estimate that more than 3 billion people around the world spend at least two hours per day on social networks like Instagram, YouTube, and Facebook. These digital platforms allow consumers to discover and share information about brands by word of mouth, which can influence between 20 and 50 percent of all purchasing decisions. But in the ever-evolving world of social media networking, word of mouth needs to extend beyond the recommendations of friends and family.

That's where online influencers come in. These powerful personalities have social media followings that number in the millions, giving them enormous power over their legions of fans.



Lancton/Camera Press/Redux

In fact, recent research indicates that half of consumers turn to influencers for purchasing guidance while almost 40 percent

bought a product as a direct result of an influencer. To reach these enormous audiences, savvy brands are paying billions to promote their products on the feeds of famous social media figures. Some influencers become so powerful that they launch their own branded products. For example, the YouTuber Zoe Sugg markets her line of candles, lotions, and accessories to an audience of nearly 12 million subscribers. Influencers like these will likely continue to have a major impact on both marketing and product development in the years to come.

Sources: "How Do Social Media Influencers Impact Global Business?," *Aperian Global*, aperianglobal.com, accessed February 2020; Joanna Carter, "Social Media Marketing Trends 2020," *Smart Insights*, smartinsights.com, accessed February 2020; Ortenca Aliaj, "Social Media Influencers Named as Stock Market Listing Factor," *Financial Times*, January 11, 2020; Deepa Prahalad and Ananthanarayanan V, "4 Questions to Boost Your Social Media Marketing," *Harvard Business Review*, January 17, 2020.

balance of trade

The total value of a nation's exports compared to its imports over a particular period.

trade surplus

A favorable balance of trade; occurs when the value of a country's exports exceeds that of its imports.

trade deficit

An unfavorable balance of trade; occurs when the value of a country's imports exceeds that of its exports.

balance of payments

The difference between money coming into a country (from exports) and money leaving the country (for imports) plus money flows from other factors such as tourism, foreign aid, military expenditures, and foreign investment.

at websites such as those sponsored by the U.S. Department of Commerce (doc.gov), the Bureau of Export Administration (bea.gov), the Small Business Administration (sba.gov), and the Small Business Exporters Association (sbea.org).

Measuring Global Trade

In measuring global trade, nations rely on two key indicators: balance of trade and balance of payments. The **balance of trade** is the total value of a nation's exports compared to its imports measured over a particular period. A *favorable* balance of trade, or **trade surplus**, occurs when the value of a country's exports exceeds that of its imports. An *unfavorable* balance of trade, or **trade deficit**, occurs when the value of a country's exports is less than its imports. It's easy to understand why countries prefer to export more than they import. If I sell you \$200 worth of goods and buy only \$100 worth, I have an extra \$100 available to buy other things. However, I'm in an unfavorable position if I buy \$200 worth of goods from you and sell you only \$100.

The **balance of payments** is the difference between money coming into a country (from exports) and money leaving the country (for imports) plus money flows coming into or leaving a country from other factors such as tourism, foreign aid, military expenditures, and foreign investment. The goal is to have more money flowing into the country than out—a *favorable* balance of payments. Conversely, an *unfavorable* balance of payments exists when more money is flowing out of a country than coming in.

In the past, the United States exported more goods and services than it imported. However, since 1975 it has bought more goods from other nations than it has sold and thus

has a trade deficit. Today, the United States runs its highest trade deficit with China.¹⁶ Nonetheless, the United States remains one of the world's largest *exporting* nations even though it exports a much lower *percentage* of its products than other countries, such as China, Germany, and Japan. (Figure 3.3 lists the major trading countries in the world and the leading U.S. trading partners.)

In supporting free trade, the United States, like other nations, wants to make certain global trade is conducted fairly. To ensure a level playing field, countries prohibit unfair trade practices such as dumping. **Dumping** is selling products in a foreign country at lower prices than those charged in the producing country. This predatory pricing tactic is sometimes used to reduce surplus products in foreign markets or to gain a foothold in a new market. Some governments may even offer financial incentives to certain industries to sell goods in global markets for less than they sell them at home. China and Brazil, for example, have been penalized for dumping steel in the United States.¹⁷ U.S. laws against dumping are specific and require foreign firms to price their products to include 10 percent overhead costs plus an 8 percent profit margin.

Now that you understand some of the basic terms used in global business, we can look at different strategies for entering global markets. First, let's assess your understanding so far by doing the Test Prep.

McGraw Hill **connect**



iSeeIt! Need help understanding balance of trade? Visit your Connect eBook to view a video for a brief animated explanation.

dumping

Selling products in a foreign country at lower prices than those charged in the producing country.

TESTPREP

- What are two of the main arguments favoring the expansion of U.S. businesses into global markets?
- What is comparative advantage, and what are some examples of this concept at work in the United States?
- How are a nation's balance of trade and balance of payments determined?
- What is meant by the term *dumping* in global trade?

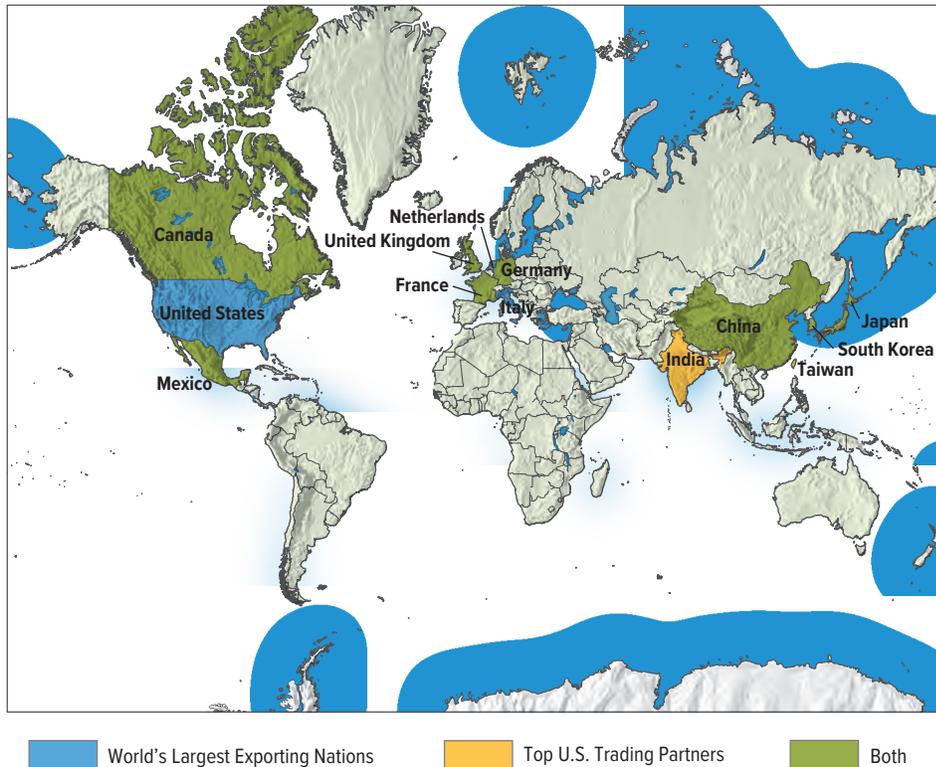


FIGURE 3.3 THE LARGEST EXPORTING NATIONS IN THE WORLD AND THE LARGEST U.S. TRADE PARTNERS

LO 3-3

Illustrate the strategies used in reaching global markets, and explain the role of multinational corporations.

Strategies for Reaching Global Markets

Businesses use different strategies to compete in global markets. The key strategies include licensing, exporting, franchising, contract manufacturing, international joint ventures and strategic alliances, foreign subsidiaries, and foreign direct investment. Each provides different economic opportunities, along with specific commitments and risks. Figure 3.4 places the strategies on a continuum showing the amount of commitment, control, risk, and profit potential associated with each strategy. Take some time to look over the information in Figure 3.4 before you continue.

Licensing

licensing

A global strategy in which a firm (the licensor) allows a foreign company (the licensee) to produce its product in exchange for a fee (a royalty).

A firm (the licensor) may decide to compete in a global market by **licensing** the right to manufacture its product or use its trademark to a foreign company (the licensee) for a fee (a royalty). A company with an interest in licensing generally sends company representatives to the foreign company to help set up operations. The licensor may also assist or work with a licensee in such areas as distribution, promotion, and consulting.

A licensing agreement can benefit a firm in several ways. First, the firm can gain revenues it would not otherwise have generated in its home market. Also, foreign licensees often must purchase start-up supplies, materials, and consulting services from the licensing firm. Coca-Cola has entered into global licensing agreements with over 225 licensees that have extended into long-term service contracts that sell over 1.9 billion servings of the company's products each day.¹⁸ Service-based companies are also active in licensing. For example, Tokyo Disneyland, the first Disney theme park opened outside the United States, is operated by Oriental Land Company under a licensing agreement with the Walt Disney Company. In fact, Disney is the largest licensor of consumer products globally, with almost \$55 billion of licensed products.¹⁹

A final advantage of licensing is that licensors spend little or no money to produce and market their products. These costs come from the licensee's pocket. Therefore, licensees generally work hard to succeed. However, licensors may also experience problems. Often a firm must grant licensing rights to its product for an extended period, 20 years or longer. If a product experiences remarkable growth in the foreign market, the bulk of the revenues belong to the licensee. Perhaps even more threatening is that the licensing firm is actually selling its expertise. If a foreign licensee learns the company's technology or product

FIGURE 3.4 STRATEGIES FOR REACHING GLOBAL MARKETS





Naumova Ekaterina/Shutterstock

Marvel has licensed many companies to make products related to successful film franchises like The Avengers. Do you think Marvel-licensed products will maintain their global popularity with new generations of viewers?

secrets, it may violate the agreement and begin to produce a similar product on its own. If legal remedies are not available, the licensing firm may lose its trade secrets, not to mention promised royalties.

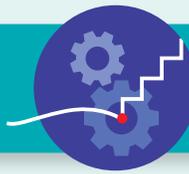
Exporting

To meet increasing global competition, the U.S. Department of Commerce created Export Assistance Centers (EACs). EACs provide hands-on exporting assistance and trade-finance support for small and medium-sized businesses that wish to directly export goods and services.²⁰

U.S. firms that are still hesitant can engage in *indirect* exporting through specialists called export-trading companies (or export-management companies) that assist in negotiating and establishing trading relationships. An export-trading company not only matches buyers and sellers from different countries but also deals with foreign customs offices, documentation, and even weights and measures conversions to ease the process of entering global markets. It also can assist exporters with warehousing, billing, and insuring. If you are considering a career in global business, export-trading companies often provide internships or part-time opportunities for students.

Franchising

Franchising is a contractual agreement whereby someone with a good idea for a business sells others the rights to use the business name and sell a product or service in a given territory in a specified manner. Franchising is popular domestically and globally. (We discuss it in depth in Chapter 5.) Major U.S. franchisors such as Subway, Holiday Inn, and KFC have many global units operated by foreign franchisees, but global franchising isn't limited to large franchisors. For example, Snap Fitness, of Chanhassen, Minnesota, has a chain of gym and fitness center franchises in over 2,500 locations in 26 countries.²¹ Physique 57, a small, emerging high-end female-centric boutique fitness center in New York, has opened franchises in Abu Dhabi, Bangkok, Manila, and Riyadh.²² Rocky Mountain Chocolate Factory, a Colorado-based producer of premium chocolates, has franchisees in Canada, Japan, South Korea, and the Philippines as well as the United Arab Emirates where chocolate is considered a gourmet luxury.²³ Foreign franchisors have also experienced success in the



ADAPTING TO CHANGE

A World of Options under the Arches

mcdonalds.com

For decades, McDonald's has been the undisputed king of global food franchising. Every day the fast-food chain serves tens of millions of customers at more than 36,000 restaurants located in over 100 countries.

So how did McDonald's become such a global powerhouse? It certainly didn't get there through hamburgers alone. Since it first began expanding overseas, McDonald's has been careful to include regional tastes on its menus along with the usual Big Mac and fries. For instance, during the winter, Japanese customers can order the Gracoro Burger, a sandwich that features a fried shrimp and macaroni patty topped with beef sauce. German locations offer the McNurnburger, which consists of three bratwurst sausages served on a bun with mustard and onions. Customers in the Philippines can even order a fried chicken leg with a side of McSpaghetti, one of the country's most popular McDonald's combos.



Danny Ye/Shutterstock

Other global items cater to a nation's specific customs and dietary restrictions. In India, McDonald's pays respect to religious sentiments by not including any beef or pork on its menu. This has led to popular items like the Maharaja Mac, which switches out the Big Mac's beef patties for chicken, as well as the McSpicy Paneer, a fried cheese sandwich that has become a major hit with Indian customers.

But not every move that McDonald's makes on the global

stage is a success. In 2019, a European Union court ruled that the company lost the trademark rights to "Big Mac" after McDonald's tried to stop an Irish fast-food chain from selling a similar sandwich. The company could

face more challenges like this in the future as it continues adapting and expanding further into the global market.

Sources: "McDonald's Loses 'Big Mac' Trademark Case to Irish Chain Supermac's," Reuters, reuters.com, January 15, 2019; M. Paramita Lin, "The Fried Paneer Sandwich Has Become a Cult Fast-Food Hit," *The Takeout*, thetakeout.com, January 16, 2019; Kenzie Osborne, "Top 25 International McDonald's Menu Items We Want in North America, Ranked," *TheRecipe*, therecipe.com, January 25, 2019; Anay Katyal and Meredith Cash, "15 McDonald's Fast-Food Items Everyone Should Try from around the World," *Insider*, insider.com, February 28, 2019; McDonald's, mcdonalds.com, accessed February 2020.

U.S. market. Japan's Kumon Math & Reading Centers and Australia's Cartridge World have found long-term success with American consumers.

Franchisors have to be careful to adapt their product or service to the countries they serve. Domino's Pizza makes an average of 3 million pizzas a day and has over 16,500 stores in 85 countries outside the United States.²⁴ Unfortunately, the toppings on those pizzas vary from country to country. In India, where the company operates over 1,200 stores, curry is a must. Japanese customers often prefer seafood and fish on their pizza, with squid and sweet mayonnaise pizza a favorite. Dunkin' Brands's donut holes might look the same in its 11,300 stores in 36 countries across the globe, but local taste preferences are anything but the same.²⁵ For example, in the company's donut shops in China, the donut of choice is dry pork and seaweed. Read the Adapting to Change box that highlights another global franchise champion, McDonald's.

contract manufacturing

A foreign company's production of private-label goods to which a domestic company then attaches its brand name or trademark; part of the broad category of outsourcing.

Contract Manufacturing

In **contract manufacturing** a foreign company produces private-label goods to which a domestic company then attaches its own brand name or trademark. For example, contract manufacturers make circuit boards and components used in computers, printers, smartphones, medical products,

airplanes, and consumer electronics for companies such as Dell, Apple, and IBM. Foxconn is the world's largest contract manufacturer and makes such well-known products as the iPhone and Microsoft's Xbox One. Nike has 525 contract factories around the world that manufacture all its footwear and apparel. The medical devices industry also makes heavy use of contract manufacturing. Medical device contract manufacturing grew to a \$96 billion market in 2018 and is expected to grow to \$208 billion by 2026.²⁶ Worldwide contract manufacturing is estimated to be an almost \$300 billion industry.

Contract manufacturing enables a company to experiment in a new market without incurring heavy start-up costs such as building a manufacturing plant. If the brand name becomes a success, the company has penetrated a new market with relatively low risk. A firm can also use contract manufacturing temporarily to meet an unexpected increase in orders, and, of course, labor costs are often very low. Contract manufacturing falls under the broad category of *outsourcing*, which we will discuss in depth later in this chapter.



Jukov studio/Shutterstock

Tired of studying and want a quick snack? How about a piping hot pizza topped with eel, mussels, cream cheese, and olives like this one? International chains serve pies like these around the globe in order to appeal to different tastes. How can franchises ensure their products are appropriate for global markets?

International Joint Ventures and Strategic Alliances

A **joint venture** is a partnership in which two or more companies (often from different countries) join to undertake a major project. Joint ventures are often mandated by governments such as China as a condition of doing business in their country. For example, Disney and state-owned Shanghai Shendi Group's \$5.5 billion joint venture created the first Disneyland theme park in Mainland China (Disney has operated in Hong Kong since 2005), which opened in 2016.²⁷

Joint ventures are developed for many different reasons. Marriott International and AC Hotels in Spain entered a joint venture over 10 years ago to create AC Hotels by Marriott to increase their global footprint and future growth. Joint ventures can also be truly unique. A joint venture called Verb Surgical involves pharmaceutical giant Johnson & Johnson and Alphabet (parent company of Google) to develop robotic surgery technology.²⁸ A classic joint venture 20 years ago between the University of Pittsburgh's Medical Center and the Italian government brought a new medical transplant center to Sicily.²⁹ Joint ventures can even involve two competing companies joining forces. German auto giant BMW and Japanese carmaker Toyota teamed together to create the new 2020 Toyota Supra and the BMW Z4 sports cars.³⁰ The benefits of international joint ventures are clear:

1. Shared technology and risk.
2. Shared marketing and management expertise.
3. Entry into markets where foreign companies are often not allowed unless goods are produced locally.

The drawbacks of joint ventures are not so obvious but are important. One partner can learn the other's technology and business practices and then use what it has learned to its own advantage. Also, a shared technology may become obsolete, or the joint venture may become too large to be as flexible as needed. Sometimes partners may choose to break ties for various reasons. For example, Fuji/Xerox, a joint venture between Fujifilm and Xerox that existed for 57 years, ended in 2019 after attempts for a full merger failed.³¹

The global market has also fueled the growth of strategic alliances. A **strategic alliance** is a long-term partnership between two or more companies established to help each company build competitive market advantages. Unlike joint ventures, strategic alliances don't share costs, risks, management, or even profits. Such alliances provide broad

joint venture

A partnership in which two or more companies (often from different countries) join to undertake a major project.

strategic alliance

A long-term partnership between two or more companies established to help each company build competitive market advantages.



Friso Gentsch/picture alliance/Getty Images

The United States has been and remains a popular spot for foreign direct investment. Global automobile manufacturers like Volkswagen, Toyota, and Honda have spent millions of dollars building facilities in the United States. Would you consider a Volkswagen made at the company's plant in Chattanooga, Tennessee, to be an American car or a German car?

foreign direct investment (FDI)

The buying of permanent property and businesses in foreign nations.

foreign subsidiary

A company owned in a foreign country by another company, called the *parent company*.

multinational corporation

An organization that manufactures and markets products in many different countries and has multinational stock ownership and multinational management.

sovereign wealth funds (SWFs)

Investment funds controlled by governments holding large stakes in foreign companies.

access to markets, capital, and technical expertise. Thanks to their flexibility, strategic alliances can effectively link firms from different countries and firms of vastly different sizes. U.S. retail giant Walmart and Japanese e-commerce services firm Rakuten formed a strategic alliance to open Walmart's first e-commerce store in Japan, the Walmart Rakuten Ichiba Store. The alliance combines Walmart's expertise in delivering high-quality products with Rakuten's strength in online commerce and its knowledge of Japanese consumers.³²

Foreign Direct Investment

Foreign direct investment (FDI) is the buying of permanent property and businesses in foreign nations. The most common form of FDI is a **foreign subsidiary**, a company owned in a foreign country by another company, called the *parent company*. The subsidiary operates like a domestic firm, with production, distribution, promotion, pricing, and other business functions under the control of the subsidiary's management. The subsidiary also must observe the legal requirements of both the country where the parent firm is located (called the *home country*) and the foreign country where the subsidiary is located (called the *host country*).

The primary advantage of a subsidiary is that the company maintains complete control over any technology or expertise it may possess. The major shortcoming is the need to commit funds and technology within foreign boundaries. Should relationships with a host country falter, the firm's assets could be *expropriated* (taken over by the foreign government). Swiss-based Nestlé has many foreign subsidiaries and over 2,000 brands it markets. The consumer-products giant spent billions of dollars acquiring foreign subsidiaries such as Gerber Baby Foods, Ralston Purina, Chef America (maker of Hot Pockets), Libby Foods, and Dreyer's and Häagen-Dazs Ice Cream (which it sold in 2020) in the United States as well as Perrier in France. Nestlé employs over 308,000 people in 86 countries and has operations in almost every country in the world.³³

Nestlé is a **multinational corporation**, one that manufactures and markets products in many different countries and has multinational stock ownership and management. Multinational corporations are typically extremely large corporations like Nestlé, but not all large global businesses are multinationals. For example, a corporation could export everything it produces, deriving 100 percent of its sales and profits globally, and still not be a multinational corporation. Only firms that have *manufacturing capacity* or some other physical presence in different nations can truly be called multinational. Figure 3.5 lists the 10 largest multinational corporations in the world.

A growing form of foreign direct investment is the use of **sovereign wealth funds (SWFs)**, investment funds controlled by governments holding investment stakes in foreign companies. SWFs from the United Arab Emirates, Singapore, and China have purchased interests in many U.S. companies. Norway, with a population of 5 million people, is the world's richest SWF, with assets of over \$1 trillion.³⁴ The size of SWFs (\$7 trillion globally) and government ownership made some fear they might be used for achieving geopolitical objectives, by gaining control of strategic natural resources, or obtaining sensitive technologies. Thus far this has not been a problem. In fact during the Great Recession in 2008, SWFs injected billions of dollars into struggling U.S. companies such as Citigroup and Morgan Stanley.

Entering global business requires selecting an entry strategy that best fits your business goals. The different strategies we've discussed reflect different levels of ownership, financial commitment, and risk. However, this is just the beginning. You should also be aware of market forces that affect a business's ability to thrive in global markets. After the Test Prep, we'll discuss them.

	COMPANY	REVENUE (in billions)	COUNTRY
1	Walmart	\$500	 U.S.
2	State Grid	\$349	 China
3	Sinopec Group	\$327	 China
4	China National Petroleum	\$326	 China
5	Royal Dutch Shell	\$312	 Netherlands
6	Toyota Motor	\$265	 Japan
7	Volkswagen	\$260	 Germany
8	BP	\$245	 Great Britain
9	Exxon Mobil	\$244	 U.S.
10	Berkshire Hathaway	\$242	 U.S.

FIGURE 3.5 THE LARGEST MULTINATIONAL CORPORATIONS IN THE WORLD

Source: *Fortune*, fortune.com, accessed January 2020.



TESTPREP

- What are the advantages to a firm of using licensing as a method of entry in global markets? What are the disadvantages?
- What services are usually provided by an export-trading company?
- What is the key difference between a joint venture and a strategic alliance?
- What makes a company a multinational corporation?

LO 3-4

Evaluate the forces that affect trading in global markets.

Forces Affecting Trading in Global Markets

The hurdles to success are higher and more complex in global markets than in domestic markets. Such hurdles include dealing with differences in sociocultural forces, economic and financial forces, legal and regulatory forces, and physical and environmental forces. Let's analyze each of these market forces to see how they challenge even the most established and experienced global businesses.

Sociocultural Forces

The word *culture* refers to the set of values, beliefs, rules, and institutions held by a specific group of people. Culture can include social structures, religion, manners and customs, values and attitudes, language, and personal communication. If you hope to get involved in global trade, it's critical to be aware of the cultural differences among nations. Unfortunately, while the United States is a multicultural nation, U.S. businesspeople are often accused of *ethnocentricity*, an attitude that your own culture is superior to other cultures.

In contrast, many foreign companies are very good at adapting to U.S. culture. Think how effectively German, Japanese, and Korean carmakers have adapted to U.S. drivers' wants and needs. In 2019, 6 of the top-10-selling cars and trucks in the United States were from Japan. German discount grocery chain Aldi continues expanding in the United States and now has over 1,900 locations with plans to expand to 2,500 by 2022.³⁵ Lidl, another German discount grocery chain, entered the U.S. market two years ago and has approximately

100 U.S. locations.³⁶ Despite worldwide acceptance, the United States has not conformed to the metric system of measurement. Liberia and Myanmar are the only other nations that do not use the metric system. Let's look at other hurdles U.S. businesses face in adapting to social and cultural differences in global markets.

Religion is an important part of any society's culture and globally can have a significant impact on business operations. In order to be successful, it's imperative global companies are aware of religious implications in making business decisions. For example, Islam prohibits eating pork and Hindus do not consume beef. Such religious restrictions are very important for companies like Domino's and Pizza Hut to follow, especially in countries such as Saudi Arabia and India. McDonald's learned the importance of respecting religious beliefs over 25 years ago at the World Cup. The company reprinted the flag of Saudi Arabia on its food bags. Muslims were offended with the flag on its packaging because the flag's design contained the Muslim Shahada (the Muslim declaration of faith). Offended Muslims believed their holy writ should never be wadded up and thrown away. The company learned a valuable lesson from this experience that understanding religious implications in the global market is critical.

In a similar classic story, a U.S. manager in Islamic Pakistan toured a new plant under his control. While the plant was in full operation, he went to his office to make some preliminary production forecasts. Suddenly all the machinery in the plant stopped. The manager rushed out, suspecting a power failure, only to find his production workers on their prayer rugs. Upon learning that Muslims are required to pray five times a day, he returned to his office and lowered his production estimates.

Understanding sociocultural differences is also important in managing employees. In some Latin American countries, workers believe managers are in positions of authority to make decisions concerning the well-being of the workers under their control. Consider the U.S. manager working in Peru who was unaware of this cultural characteristic and believed workers should participate in managerial functions. He was convinced he could motivate his workers to higher levels of productivity by instituting a more democratic decision-making style. Workers began quitting in droves. When asked why, they said the new manager did not know his job and was asking the workers what to do. All stated they wanted to find new jobs, since this company was doomed due to its incompetent management.

Even today, many U.S. companies still fail to think globally, not understanding that something like the color used in packaging can have different meanings in different cultures. A sound philosophy is: *Never assume what works in one country will work in another.* Intel, Nike, IBM, Apple, KFC, and Walmart have developed brand names with widespread global appeal and recognition, but even they often face difficulties. To get an idea of problems companies have faced with translations of advertising globally, take a look at Figure 3.6.

Economic and Financial Forces

Economic differences can muddy the water in global markets. In Qatar, annual per capita income is over \$130,000, the highest in the world. In the economically strapped Central African Republic, per capita income is barely over \$700, the lowest in the world.³⁷ It's difficult for us to imagine buying chewing gum by the stick. Yet this behavior is commonplace in economically depressed nations like Haiti, where customers can afford only small quantities. You might suspect with over 1.3 billion potential customers, India would be one of the world's largest markets for Coca-Cola. Unfortunately, Indians consume only 5 percent of what the United States consumes due to low per capita income. The same is true in the booming beauty and personal care market in India. Since Indians are accustomed to buying in very small quantities, cosmetic giants Estée Lauder and L'Oréal sell primarily small, sample sizes of shampoo, skin treatments, and hair color due to low incomes.³⁸

Financially, Mexicans shop with pesos, Chinese with yuan (also known as renminbi), South Koreans with won, Japanese with yen, and U.S. consumers with dollars. Among currencies, globally the U.S. dollar is considered a dominant and stable currency. However, it

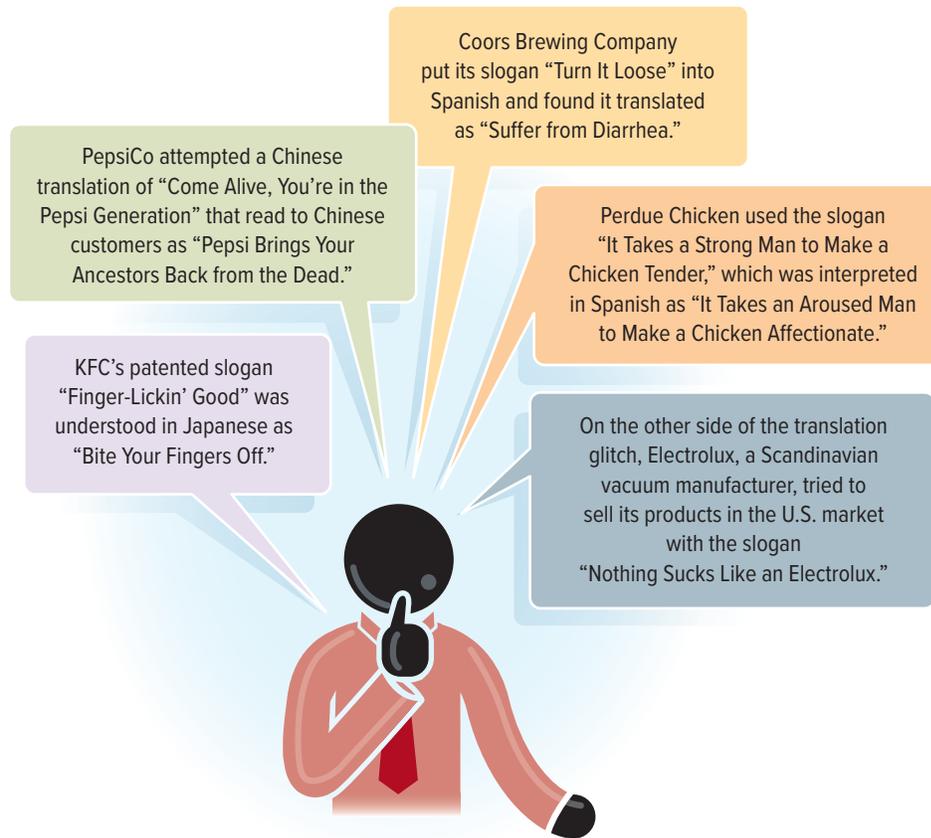


FIGURE 3.6 OOPS, DID WE SAY THAT?

A global marketing strategy can be very difficult to implement. Look at the problems these well-known companies encountered in global markets.

doesn't always retain the same market value. In a global transaction today, a dollar may be exchanged for eight pesos; tomorrow you may get seven. The **exchange rate** is the value of one nation's currency relative to the currencies of other countries. Changes in a nation's exchange rates have effects in global markets. A *high value of the dollar* means a dollar is trading for more foreign currency than previously. Therefore, foreign products become cheaper because it takes fewer dollars to buy them. However, U.S.-produced goods become more expensive because of the dollar's high value. Conversely, a *low value of the dollar* means a dollar is traded for less foreign currency—foreign goods become more expensive because it takes more dollars to buy them, but U.S. goods become cheaper to foreign buyers because it takes less foreign currency to buy them.

Global financial markets operate under a system called *floating exchange rates*, which means that currencies “float” in value according to the supply and demand for them in the global market for currency. This supply and demand is created by global currency traders who develop a market for a nation's currency based on the country's perceived trade and investment potential.

Changes in currency values can cause many problems globally. For instance, labor costs for multinational corporations like Unilever, General Electric, Nestlé, and Nike can vary considerably as currency values shift, causing them to sometimes juggle production from one country to another. The same is true for medium-sized companies like H.B. Fuller, a global industrial adhesives provider from St. Paul, Minnesota, which has 4,600 employees in 43 countries. Like its larger counterparts, H.B. Fuller uses currency fluctuations to its advantage in dealing with its global markets.

Currency valuation problems can be especially harsh on developing economies. At times a nation's government will intervene and readjust the value of its currency, often to increase the export potential of its products. **Devaluation** lowers the value of a nation's currency relative to others. Venezuela devalued its currency in 2014 to try to alleviate mounting economic problems. Unfortunately, the move did little to solve the country's problems.

exchange rate

The value of one nation's currency relative to the currencies of other countries.

devaluation

Lowering the value of a nation's currency relative to other currencies.

When the dollar is “up,” foreign goods and travel are a bargain for U.S. consumers. When the dollar trades for less foreign currency, however, foreign tourists often flock to U.S. cities to enjoy relatively cheaper vacations and shopping trips. Do U.S. exporters profit more when the dollar is up or when it is down?



Marc Dozier/The Image Bank Unreleased/Getty Images

Inflation in Venezuela hit 1.37 million percent in 2018 (see Chapter 2).³⁹ Even though the government continues to raise the minimum wage, a month’s worth of work still can’t buy two pounds of beef.⁴⁰ Sometimes, due to a nation’s weak currency, the only way to trade is *bartering*, the exchange of merchandise for merchandise or service for service with no money traded.

countertrading

A complex form of bartering in which several countries may be involved, each trading goods for goods or services for services.

Countertrading is a complex form of bartering in which several countries each trade goods or services for other goods or services. Let’s say a developing country such as Jamaica wants to buy vehicles from Ford Motor Company in exchange for bauxite, a mineral compound that is a source of aluminum ore. Ford does not need Jamaican bauxite, but it does need compressors. In a countertrade, Ford may trade vehicles to Jamaica, which trades bauxite to another country, say India, which exchanges compressors with Ford. All three parties benefit and avoid some of the financial problems and currency constraints in global markets. Estimates are that countertrading accounts for over 20 percent of all global exchanges, especially with developing countries.⁴¹

Legal and Regulatory Forces

In any economy, the conduct and the direction of business are firmly tied to the legal and regulatory environment. In global markets, no central system of law exists, so different systems of laws and regulations may apply in different places. This makes conducting global business difficult as businesspeople navigate a sea of laws and regulations that are often inconsistent. Antitrust rules, labor relations, patents, copyrights, trade practices, taxes, product liability, child labor, prison labor, and other issues are governed differently country by country. The Making Ethical Decisions box raises ethical questions about selling products in a global market with a different legal system.



MAKING ETHICAL DECISIONS

Sweet Dreams or Nightmares

As the top manager of Sweet Dreams, a maker of children's sleepwear, you received notification from the U.S. Consumer Product Safety Commission

(CPSC) that the fabric you use in your girls' nightgowns has been deemed unsafe. The commission conducted a study of the product after a child was seriously burned while wearing a nightgown that burst into flames when she ventured too close to a gas stove. The CPSC ruled the material used did not have sufficient flame-retardant capabilities to meet U.S.



kdshutterstockman/Getty Images

standards. Your company was instructed to immediately remove the product from store shelves and issue a product recall.

This is a tough blow for the company since the nightgowns are popular and sell well in the market. Plus, you have a large supply of the product in your warehouse that now is just taking up space. A big financial loss for the company is likely.

Your sales manager reminds you that many countries do not have such strict product laws as the United States. He suggests the product could be exported to a country with

less stringent product safety rules. Exporting the product to another country would solve your inventory and profit concerns, but you wonder about sending a product deemed unsafe in the United States to children in another market. What are the consequences of each alternative? What will you do?

U.S. businesses must follow U.S. laws and regulations in conducting business globally, although legislation such as the Foreign Corrupt Practices Act of 1978 can create competitive disadvantages. This law prohibits "questionable" or "dubious" payments to foreign officials to secure business contracts.⁴² That runs contrary to practices in some countries (generally developing countries), where corporate or government bribery is not merely acceptable but perhaps the only way to secure a lucrative contract. The Organization for Economic Cooperation and Development (OECD) and Transparency International have led a global effort to fight corruption and bribery in global business, with limited success.⁴³ Figure 3.7 shows a partial list of countries where bribery or other unethical business practices are most common.

The cooperation and sponsorship of local businesspeople in a foreign market can help a company penetrate the market and deal with laws, regulations, and bureaucratic barriers in their country.

Physical and Environmental Forces

Physical and environmental forces certainly affect a company's ability to conduct global business. Some developing countries have such primitive transportation and storage systems that international distribution is ineffective, if not impossible, especially for perishable food. Add unclean water, the lack of effective sewer systems, and unacceptable air pollution levels, and you can see the intensity of the problem.

Technological differences also influence the features and feasibility of exportable products. For example, residential electrical systems in many developing countries do not match those of U.S. homes, in kind or capacity. Computer and Internet use in many developing countries has improved due to the adoption of cloud services but still lags behind developed nations due to consumers' inability to afford even low-priced laptops. Facts like these make for a tough environment for business in general and for e-commerce in particular. Economic development is also severely impacted. After the Test Prep, we'll explore how another force, trade protectionism, affects global business.

FIGURE 3.7 COUNTRIES RATED HIGHEST ON CORRUPT BUSINESS

1. Somalia
2. Syria
3. South Sudan
4. Yemen
5. North Korea
6. Sudan
7. Guinea-Bissau
8. Equatorial Guinea
9. Afghanistan
10. Libya

Source: Transparency International, 2019.

TESTPREP

- What are four major hurdles to successful global trade?
- What does *ethnocentricity* mean, and how can it affect global success?
- How would a low value of the dollar affect U.S. exports?
- What does the Foreign Corrupt Practices Act prohibit?

LO 3–5

Debate the advantages and disadvantages of trade protectionism.

trade protectionism

The use of government regulations to limit the import of goods and services.

tariff

A tax imposed on imports.

import quota

A limit on the number of products in certain categories that a nation can import.

embargo

A complete ban on the import or export of a certain product, or the stopping of all trade with a particular country.

Some workers believe that too many U.S. jobs have been lost due to the growing number of imported products. Should governments protect their industries by placing tariffs on imported products? Why or why not?

Trade Protectionism

As we discussed in the previous section, sociocultural, economic and financial, legal and regulatory, and physical and environmental forces are all challenges to global trade. What is often a much greater barrier to global trade, however, is trade protectionism. **Trade protectionism** is the use of government regulations to limit the import of goods and services. Advocates of protectionism believe it allows domestic producers to survive and grow, producing more jobs. Other countries use protectionist measures because they are wary of foreign competition in general. To understand how protectionism affects global business, let's briefly review a little bit of global economic history.

Business, economics, and politics have always been closely linked. Economics was once referred to as *political economy*, indicating the close ties between politics (government) and economics. In the 17th and 18th centuries, businesspeople and government leaders endorsed an economic policy called *mercantilism*. The idea was for a nation to sell more goods to other nations than it bought from them; that is, to have a favorable balance of trade. According to mercantilists, this resulted in a flow of money to the country that sold the most globally. The philosophy led governments to implement **tariffs**, taxes on imports, making imported goods more expensive to buy.

There are two kinds of tariffs: protective and revenue. *Protective tariffs* (import taxes) raise the retail price of imported products so that domestic goods are more competitively priced. These tariffs are meant to save jobs for domestic workers and keep industries—especially infant industries that have companies in the early stages of growth—from closing down because of foreign competition. *Revenue tariffs* are designed to raise money for the government. For example, tariffs on imports coming into the United States are collected by the Customs and Border Protection on behalf of the U.S. Commerce Department. Keep in mind that this tax is paid by the *importer*. This means that if the United States imposes a tariff on foreign goods, it is the U.S. companies that buy the foreign goods that must pay the tariff bill.⁴⁴

An **import quota** limits the number of products in certain categories a nation can import.⁴⁵ The United States has import quotas on a number of products, including sugar and beef, to protect U.S. companies and preserve jobs. The United States also prohibits the export of specific products. Antiterrorism laws and the U.S. Export Administration Act of 1979 prohibit exporting goods such as high-tech weapons that could endanger national security. An **embargo** is a complete ban on the import or export of a certain product, or the stopping of all trade with a particular country. In 2019, the United States imposed an embargo against Venezuela. This action places them on par with



Jeff Swensen/Getty Images

Iran, Syria, North Korea, and Cuba as countries that are subjects of a U.S. embargo.⁴⁶ The embargo against Cuba has existed since 1962. In 2016, some trade restrictions were lifted and diplomatic relations restored. However, in 2017, diplomatic relations again soured making it unclear what the future holds for the U.S. embargo against Cuba.⁴⁷

Some *nontariff barriers* are not as specific or formal as tariffs, import quotas, and embargoes but can be just as detrimental to free trade. For example, India imposes a number of restrictive standards like import licensing, burdensome product testing requirements, and lengthy customs procedures that inhibit the sale of imported products. China omits many American-made products from its government catalogs that specify what products may be purchased by its huge government sector. Other trade barriers detail exactly how a product must be sold in a country or may insist on local content requirements that require that some part of a product be produced domestically.

Would-be exporters might view such trade barriers as good reasons to avoid global trade, but overcoming constraints creates business opportunities. Next, we'll look at organizations and agreements that attempt to eliminate these trade barriers.

The World Trade Organization

In 1948, government leaders from 23 nations formed the **General Agreement on Tariffs and Trade (GATT)**, a global forum for reducing trade restrictions on goods, services, ideas, and cultural programs. In 1986, the Uruguay Round of the GATT convened to renegotiate trade agreements. After eight years of meetings, 124 nations voted to lower tariffs an average of 38 percent worldwide and to expand new trade rules to areas such as agriculture, services, and the protection of patents.

The Uruguay Round also established the **World Trade Organization (WTO)** to mediate trade disputes among nations. The WTO, headquartered in Geneva, is an independent entity of 164 member nations whose purpose is to oversee cross-border trade issues and global business practices.⁴⁸ Trade disputes are presented by member nations, with decisions made within a year, rather than languishing for years as in the past; member nations can appeal a decision.

The WTO has not solved all global trade problems. In fact, the WTO has not reached any significant trade accord since the Doha Round of negotiations ended in 2015. Recently, the organization has come under heavy criticism from the United States. The United States has even blocked appointing new members to the WTO's appellate body that is the ultimate authority on trade disputes.⁴⁹ Without its ability to intervene in trade wars, it is possible the organization may cease to exist. Since its inception, a wide gap has persisted between developing nations (80 percent of the WTO membership) and industrialized nations like the United States.

Common Markets

A **common market** (also called a *trading bloc*) is a regional group of countries with a common external tariff, no internal tariffs, and coordinated laws to facilitate exchange among members. The European Union (EU), Mercosur, the Association of Southeast Asian Nations (ASEAN) Economic Community, and the Common Market for Eastern and Southern Africa (COMESA) are common markets.

The EU began in the late 1950s as an alliance of six trading partners (then known as the Common Market and later the European Economic Community). Today it is a group of 27 nations (see Figure 3.8) with a combined population of over 477 million and a GDP of \$18.4 trillion.⁵⁰ Though the EU is represented as a unified body in the WTO, the economies of five members (Germany, France, Italy, Spain, and the Netherlands) account for the majority of the EU's GDP.

In 1999, the EU took a significant step by adopting the euro as a common currency. The euro helped EU businesses save billions by eliminating currency conversions. Nineteen member nations now use the euro as their common currency. In 2016, the UK voted to leave the EU (an action called Brexit, a combination of the words *Britain* and *exit*). The UK became

General Agreement on Tariffs and Trade (GATT)

A 1948 agreement that established an international forum for negotiating mutual reductions in trade restrictions.

World Trade Organization (WTO)

The international organization that replaced the General Agreement on Tariffs and Trade, and was assigned the duty to mediate trade disputes among nations.

common market

A regional group of countries that have a common external tariff, no internal tariffs, and a coordination of laws to facilitate exchange; also called a *trading bloc*. An example is the European Union.

FIGURE 3.8 MEMBERS OF THE EUROPEAN UNION

Current EU members are highlighted in yellow. Countries that have applied for membership are in orange. Exited the European Union in 2020 are highlighted in blue.



On January 31, 2020, the United Kingdom officially left the European Union after voting to withdraw from the economic bloc four years earlier. This monumental departure ended more than forty years of economic and political cooperation between the UK and the Continent. Do you think it was a good decision for the UK to leave the EU?

the first nation to withdraw from the EU when it formally left in 2020.⁵¹ This isn't the first problem the EU has confronted. Financial difficulties in member nations Italy, Portugal, Spain, and especially Greece required financial bailout assistance. Going forward, the EU faces many challenges. Still, leading members consider economic integration among member nations as the best strategy to compete globally against major global competitors like the United States and China.

Mercosur unites Brazil, Argentina, Paraguay, Uruguay, and associate members Bolivia, Chile, Colombia, Ecuador, Peru, and Suriname in a trading bloc that encompasses almost 307 million people. Venezuela was a former member but was suspended from the Mercosur in 2016. The EU and Mercosur finalized a trade agreement in 2019 that, if ratified by the EU, would create the largest free-trade agreement in the world.⁵²

The ASEAN Economic Community was established in 1967 in Thailand to create economic cooperation among its five original members (Indonesia, Malaysia, the Philippines, Singapore, and Thailand). ASEAN has expanded to include Brunei, Cambodia, the Lao People's Democratic Republic, Myanmar, and Vietnam, creating a trade association with a population of approximately 650 million and a GDP of almost \$2.9 trillion.⁵³ The African Continental Free Trade Area (AfCFTA) is the largest free-trade area in the world in terms of member nations. The AfCFTA brings together all 55 member states of the African Union with a market of over 1.2 billion people, a growing middle class, and a combined GDP of \$3.4 trillion. The addition of Africa's largest economy, Nigeria, in 2019 promises to spark economic expansion for the continent in 2020.⁵⁴



Olivier Hoslet/Pool/AFP/Getty Images

NAFTA and United States–Mexico–Canada Agreement (USMCA)

The **North American Free Trade Agreement (NAFTA)** created a free-trade area among the United States, Canada, and Mexico. The agreement was widely controversial and often criticized since its passage in 1993. Opponents warned of the loss of U.S. jobs and capital. Supporters predicted NAFTA would open a vast new market for U.S. exports and create jobs and market opportunities in the long term.

NAFTA's key objectives were to (1) eliminate trade barriers and facilitate cross-border movement of goods and services, (2) promote conditions of fair competition, (3) increase investment opportunities, (4) provide effective protection and enforcement of intellectual property rights (patents and copyrights), (5) establish a framework for further regional trade cooperation, and (6) improve working conditions in North America, particularly in Mexico.

In 2018, leaders from the United States, Mexico, and Canada signed a new trade deal that revised NAFTA known as the **United States–Mexico–Canada Agreement (USMCA)**. The new agreement was ratified in 2020.⁵⁵ At the time of this writing, the three countries still needed to meet a list of requirements before the agreement could go into effect.

Under NAFTA, attempts to boost job growth, fight poverty, improve environmental controls, and close the wage gap between Mexico and the United States largely failed. Illegal immigration also remained a major problem between the two nations.⁵⁶ The USMCA attempts to remedy these past shortcomings and create more balanced and reciprocal trade in the following areas: (1) creating a more level playing field for U.S. workers including improved rules for automobiles, trucks, and other products; (2) providing benefits to American farmers, ranchers, and other agribusiness by modernizing and strengthening food and agricultural trade in North America; (3) supporting a modern economy through new protections for U.S. intellectual property and opportunities for trade in U.S. services, and (4) introducing new rules covering digital trade, anticorruption, and good regulatory practices. It also includes a chapter devoted to ensuring that small and medium-sized enterprises benefit from the agreement.⁵⁷ Time will tell if USMCA achieves these lofty goals.

North American Free Trade Agreement (NAFTA)

Agreement that created a free-trade area among the United States, Canada, and Mexico.

United States–Mexico–Canada Agreement (USMCA)

Free-trade agreement among the United States, Mexico, and Canada that replaced NAFTA in an effort to create more balanced and reciprocal trade.

Central American Free-Trade Agreements

The United States has remained committed to free trade. For example, CAFTA, the Central American Free Trade Agreement, created a free-trade zone with Costa Rica, the Dominican Republic, El Salvador, Guatemala, Nicaragua, and Honduras that has worked well since being signed in 2006. The United States also has free-trade agreements with 12 other nations including South Korea and Australia.⁵⁸

Common markets and free-trade areas will be debated far into the future. While some economists resoundingly praise such efforts, others are concerned the world could divide into major trading blocs that will exclude poor and developing nations. There is also a fear that protectionist policies are growing. After the Test Prep, we'll look at the future of global trade and address the issue of outsourcing.



- What are the advantages and disadvantages of trade protectionism and of tariffs?
- What is the primary purpose of the WTO?
- What is the key objective of a common market like the European Union?

LO 3-6

Discuss the changing landscape of the global market and the issue of offshore outsourcing.

The Future of Global Trade

Global trade opportunities grow more interesting and more challenging each day. After all, over 7.7 billion potential customers are attractive. However, terrorism, nuclear proliferation, rogue states, income inequality, trade wars, and other issues cast a dark shadow on global markets. Let's conclude this chapter by looking at issues certain to influence global markets, and perhaps your business career.

With more than 1.4 billion people and incredible exporting prowess, China has transformed the world economic map. China is the world's largest exporter and the second-largest economy. Not long ago, foreign direct investment in China was considered risky and not worth the risk. In 2018, China attracted \$136 billion in foreign direct investment. Today, over 400 of the *Fortune* 500 companies (the world's largest companies) have invested in China. China has been the largest motor vehicle market in the world since 2009.⁵⁹ Walmart began operations in China in 1996 and now has over 400 stores, with plans to open more. Some economists even predict China will overtake the United States as the world's largest economy within the 2020s.⁶⁰

Many view China as a free trader's dream, where global investment and entrepreneurship will lead to wealth. However, concerns remain about China's one-party political system, human rights abuses, currency issues, increasing urban population growth, trade restrictions, and aging population. China's underground economy still generates significant product piracy and counterfeiting, although the country has been more responsive to these problems since its admission to the WTO. With the global economy continuing to grow, China will be a key driver of the world economy along with the United States, the EU, and Japan.

While China attracts most of the attention in Asia, India's population of over 1.36 billion presents a tremendous opportunity. With nearly 50 percent of its population under the age of 25, India's working-age population will continue to grow while the United States, China, and the EU face declining and aging populations in the 2020s. In fact, India is expected to surpass China as the world's most populated country in 2024. India has seen strong growth in information technology and biotechnology, and its pharmaceutical business is expected

China's economy is booming, and a highly educated middle class with money to spend is emerging, especially in the cities. Many observers believe China will continue its growth and play a major role in the global economy. Are U.S. firms prepared to compete?



Tuul & Bruno Morandi/Getty Images

to grow to \$55 billion in 2020. The government is trying to transform the country's image as a difficult place to do business, but difficult trade laws and an inflexible bureaucracy are continuing challenges.⁶¹ Many economists hope for better times for India.

Russia and Brazil were projected to be wealthy global economies by 2025. Unfortunately, Russia's economy slowed when world oil prices declined and the government admitted that growth prospects for its economy were not strong for the next two decades. To complicate matters, Russia is plagued by political, currency, and social problems and is considered by Transparency International as the world's most corrupt major economy. Brazil is the largest economy in South America and the seventh-largest economy in the world, with well-developed agriculture, mining, manufacturing, and service sectors. Along with Russia, Brazil was expected to dominate the global market as a supplier of raw materials. Unfortunately, the past few years have been tough times for Brazil's economy, with widespread political corruption, inflation, and slow growth.⁶² Still, its growing consumer market of over 200 million people is a prime target for major exporters like the United States and China.

Other areas of opportunity include the developing nations of Asia. Today, South Korea and Vietnam rank fifth and sixth in terms of exports to the United States. Trade with both countries increased significantly due to U.S. trade conflicts with China.⁶³ The potential of both nations has not gone unnoticed among competing global producers. German giant Adidas, the second-largest athletic gear maker in the world, decided to close its footwear facilities in Ansbach, Germany, and suburban Atlanta, Georgia, and move facilities to a high-tech "speedfactory" in Vietnam where it will test automated production technology for footwear.

Africa has only begun to emerge as a center for global economic growth, with East Africa expected to be the major center of growth. As you can see, business today is truly global, and your role in it is up to you.

The Challenge of Offshore Outsourcing

Outsourcing is the process whereby one firm contracts with other companies, often in other countries, to do some or all of its functions. In the United States, companies have outsourced payroll functions, accounting, and some manufacturing operations for many years. However, the shift to primarily low-wage global markets, called *offshore outsourcing*, remains a major issue in the United States. Take a look at the pros and cons of offshore outsourcing in Figure 3.9.

As lower-level manufacturing became more simplified, U.S. companies such as Levi Strauss and Nike outsourced manufacturing offshore. Today, we have moved beyond the outsourcing of manufactured goods to what economists call the "second wave" of offshore outsourcing, shifting from strict product assembly to design and architecture. Increasing numbers of skilled, educated, middle-income workers in service-sector jobs that require

outsourcing

Contracting with other companies (often in other countries) to do some or all of the functions of a firm, like its production or accounting tasks.



FIGURE 3.9 THE PROS AND CONS OF OFFSHORE OUTSOURCING

specific training such as accounting, law, finance, risk management, health care, and information technology are seeing their jobs outsourced offshore.

Loss of jobs through offshore outsourcing has been a major concern. Today, IBM has more employees in India than in the United States. However, it's not the only concern. Nations such as China have a spotty safety record in manufacturing toys, food, pet food, and drugs. Boeing experienced problems with batteries and electrical systems on its 787 Dreamliner due to poor-quality components outsourced from its supply chain. Some medical providers are shifting surgical procedures to nations such as India to save costs. Eastern Europe, India, China, and other emerging Asian nations are the most popular locations for offshore outsourcing.

As technical talent grows around the globe, offshore outsourcing will likely increase and be challenged. To stay competitive, education and training will be critical for U.S. workers to preserve the skill premium they possess today and to stay ahead in the future.

Globalization and Your Future

Whether you aspire to be an entrepreneur, a manager, or some other type of business leader, think globally in planning your career. By studying foreign languages, learning about foreign cultures, and taking business courses (including a global business course), you can develop a global perspective on your future. As you progress through this text, keep two things in mind: globalization is real, and economic competition promises to intensify.

Also keep in mind that global market potential does not belong only to large, multinational corporations. Small and medium-sized businesses have a world of opportunity in front of them. In fact, these firms are often better prepared to leap into global markets and react quickly to opportunities than are large businesses. Finally, don't forget the potential of franchising, which we examine in more detail in Chapter 5.



- What are the major threats to doing business in global markets?
- What key challenges must China face before becoming the major global economic leader?
- What are the two primary concerns associated with offshore outsourcing?

SUMMARY

LO 3-1

Discuss the importance of the global market and the roles of comparative advantage and absolute advantage in global trade.

- **Why should nations trade with other nations?**

(1) No country is self-sufficient, (2) other countries need products that prosperous countries produce, and (3) natural resources and technological skills are not distributed evenly around the world.

- **What is the theory of comparative advantage?**

The theory of comparative advantage contends that a country should make and then sell those products it produces most efficiently but buy those it cannot produce as efficiently.

- **What is absolute advantage?**

Absolute advantage exists if a country produces a specific product more efficiently than any other country. There are few examples of absolute advantage in the global market today.

LO 3-2 Explain the importance of importing and exporting, and understand key terms used in global business.

- What kinds of products can be imported and exported?**
 Though it is not necessarily easy, just about any product can be imported or exported.
- What terms are important in understanding world trade?**
Exporting is selling products to other countries. *Importing* is buying products from other countries. The *balance of trade* is the relationship of exports to imports. The *balance of payments* is the balance of trade plus other money flows such as tourism and foreign aid. *Dumping* is selling products for less in a foreign country than in your own country. See the Key Terms list after this Summary to be sure you know the other important terms.

LO 3-3 Illustrate the strategies used in reaching global markets, and explain the role of multinational corporations.

- What are some ways in which a company can engage in global business?**
 Ways of entering global trade include licensing, exporting, franchising, contract manufacturing, joint ventures and strategic alliances, and direct foreign investment.
- How do multinational corporations differ from other companies that participate in global business?**
 Unlike companies that only export or import, multinational corporations also have manufacturing facilities or other physical presence in global markets.

LO 3-4 Evaluate the forces that affect trading in global markets.

- What are some of the forces that can discourage participation in global business?**
 Potential stumbling blocks to global trade include sociocultural forces, economic and financial forces, legal and regulatory forces, and physical and environmental forces.

LO 3-5 Debate the advantages and disadvantages of trade protectionism.

- What is trade protectionism?**
 Trade protectionism is the use of government regulations to limit the import of goods and services. Advocates believe it allows domestic producers to grow, producing more jobs. The key tools of protectionism are tariffs, import quotas, and embargoes.
- What are tariffs?**
 Tariffs are taxes on foreign products. Protective tariffs raise the price of foreign products and protect domestic industries; revenue tariffs raise money for the government.
- What is an embargo?**
 An embargo prohibits the importing or exporting of certain products to a particular country.
- Is trade protectionism good for domestic producers?**
 That is debatable. Trade protectionism offers pluses and minuses.
- Why do governments continue such practices?**
 The theory of mercantilism started the practice of trade protectionism and it has persisted, though in a weaker form, ever since.

LO 3-6 Discuss the changing landscape of the global market and the issue of offshore outsourcing.

- What is offshore outsourcing? Why is it a major concern for the future?**
 Outsourcing is the purchase of goods and services from outside a firm rather than providing them from inside the company. Today, many businesses are outsourcing manufacturing and services offshore. Many fear that growing numbers of jobs in the United States will be lost due to offshore outsourcing and that the quality of products produced could be inferior.

KEY TERMS

absolute advantage 60	foreign direct investment (FDI) 68	outsourcing 79
balance of payments 62	foreign subsidiary 68	sovereign wealth funds (SWFs) 68
balance of trade 62	free trade 60	strategic alliance 67
common market 75	General Agreement on Tariffs and Trade (GATT) 75	tariff 74
comparative advantage theory 60	importing 59	trade deficit 62
contract manufacturing 66	import quota 74	trade protectionism 74
countertrading 72	joint venture 67	trade surplus 62
devaluation 71	licensing 64	United States–Mexico–Canada Agreement (USMCA) 77
dumping 63	multinational corporation 68	World Trade Organization (WTO) 75
embargo 74	North American Free Trade Agreement (NAFTA) 77	
exchange rate 71		
exporting 59		

CRITICAL THINKING

1. About 95 percent of the world's population lives outside the United States, but many U.S. companies, especially small businesses, still do not engage in global trade. Why not? Do you think more small businesses will participate in global trade in the future? Why or why not?
2. Countries like the United States that have a high standard of living are referred to as *industrialized nations*. Countries with a lower standard of living and quality of life are called *developing countries* (or sometimes *underdeveloped* or *less-developed countries*). What factors often prevent developing nations from becoming industrialized nations?
3. What can businesses do to prevent unexpected problems in dealing with sociocultural, economic and financial, legal and regulatory, and physical and environmental forces in global markets?
4. How would you justify the use of revenue or protective tariffs in today's global market?

PUTTING PRINCIPLES TO WORK

PURPOSE

To compare the shifting exchange rates of various countries and to predict the effects of such exchange shifts on global trade.

EXERCISE

One of the difficulties of engaging in global trade is the constant shift in exchange rates. How much do exchange rates change over a 30-day period? Research this by choosing five currencies (say, the euro, the British pound, the Japanese yen, the Mexican peso, the Saudi Arabian riyal) and looking at their exchange rates relative to the U.S. dollar for the past month. The rates are available online at Yahoo! Finance (finance.yahoo.com/currency-converter). Choose a company and describe what effects the currency shifts you noted might have on this company's trade with each of the countries or areas whose currency you chose.

KEY: ● Team ★ Analytic ▲ Communication □ Technology

DEVELOPING CAREER SKILLS

1. Find out firsthand the global impact on your life. How many different countries' names appear on the labels in your clothes? How many languages do your classmates speak? List the ethnic restaurants in your community. Are they family-owned or corporate chains? ▲
2. Call, e-mail, or visit a local business that imports foreign goods (perhaps a wine or specialty foods importer). Ask the owner or manager about the business's participation in global trade, and compile a list of the advantages and disadvantages he or she cites. Compare notes with your classmates about their research. ▲ ★
3. Visit four or five public locations in your community such as schools, hospitals, city/county buildings, or airports. See how many signs are posted in different languages (don't forget the restrooms) and look for other multilingual information, such as brochures or handouts. Do any of the locations fly flags from different nations? In what other ways do they recognize the diversity of employees or students? What does your search tell you about your community? ★
4. Suppose Representative I. M. Wright delivers a passionate speech at your college on tariffs. He argues tariffs are needed to
 - a. Protect our young and struggling industries.
 - b. Encourage consumers to buy U.S.-made products because it's patriotic.
 - c. Protect U.S. jobs and wages.
 - d. Achieve a favorable balance of trade and balance of payments.

Do you agree with Representative Wright? Evaluate each of his major points and decide whether you consider it valid. Be sure to justify your position.

5. Form an imaginary joint venture with three classmates and select a product, service, or idea to market to a specific country. Have each team member select a key global market force in that country (sociocultural, economic and financial, legal and regulatory, or physical and environmental) to research. Have each report his or her findings. Then, as a group, prepare a short explanation of whether the market is worth pursuing or avoiding. ● ▲ ★

CAREER EXPLORATION

If you are interested in pursuing a career in international business, here are a few to consider. Find out about the tasks performed, skills needed, pay, and opportunity outlook in these fields in the *Occupational Outlook Handbook (OOH)* at bls.gov.

- **Customs broker**—acts as a liaison between the federal government and import/export firms; handles the logistics of moving products across borders.
- **Translator**—converts information from one language into another language.
- **Wholesale and manufacturing sales representative**—sells goods for wholesalers or manufacturers to businesses, government agencies, and other organizations in global markets.
- **Buyer and purchasing agent**—buys products and services for organizations to use or resell; evaluates suppliers, negotiates contracts, and reviews the quality of products.



Domino's Wild World of Pizza

VIDEO CASE

Mention the word *Domino's* and you probably think of pizza delivery. The company that started in a small store in Ypsilanti, Michigan, built its business by promising a tasty, hot

pizza delivered directly to your location. Today, Domino's is the largest pizza delivery chain in the world with locations in over 80 global markets. While you might think pizza is

the same throughout the world, regional tastes and customs can be very different. Domino's success has been based on its ability to spread its offerings to many varied customers.

Brian Trier, vice president of the Americas and International Marketing, explains the strategy Domino's uses when it enters a new market. "So, the first thing we do when we go into a new market is try to answer important questions such as: What's the local regional tastes? What do they enjoy eating? How exactly do they eat? Do they eat in groups? Do they eat by themselves? What time of the day do folks eat?" These are the questions and challenges that must be accommodated and addressed if Domino's expects to succeed in global markets.

Another major issue Domino's must address in targeting global markets is the availability of an acceptable supply chain. In fact, according to Trier, it's the company's number-one challenge. "We must make sure there is availability and acceptable quality in the local regional markets. If the right products are not available, or of the quality that's acceptable, the company must limit the products they can offer. It's also critical that the quantity of the product that's needed is available."

A good example of a global opportunity that required careful adaptation was the company's move into India. Traditionally, the Indian diet was primarily vegetarian, but meat consumption was becoming more common. In accepting the meat challenge, Domino's began offering both pork and chicken pepperoni with its pizza. It was very careful, however, to make sure consumers could easily identify the pizza ingredients. The company also found that India had very significant regional differences between the north and south related to spices as well as vegan and nonvegan. The company found that it was important to have stickers on the front of the pizza boxes, red for a nonvegan product and green for a vegan product, to make sure a customer opens the right box.

Tailoring menu items to fit the needs of specific geographic locations and cultures was fairly straightforward. However, tailoring the company's marketing approach

was a bit more challenging. For example, Domino's produced a soap-opera series in South Korea to introduce customers to the journey into Domino's. A couple met along the way, found the path to Domino's, got married, and continued their life together at Domino's Pizza. Asian cultures like South Korea's were difficult for Domino's since most Asians are not consumers of bread and cheese products. Knowing that fact, the company took its time to educate customers concerning pizza and its great taste. Domino's did this by first introducing a number of chicken and rib products, along with lasagna and salad to supplement pizza.

The country of Turkey presented another challenge. Turkish consumers wanted a good deal of meat on their pizza and fewer vegetables. The meat was also expected to be high quality. Therefore, pizza in Turkey is served with a heavy layer of meat cut in a way consumers see it as a high-quality product they would grill at their own homes.

Pizza is a surprisingly translatable meal served around the globe. Domino's recognizes it is first and foremost a pizza company built on high-quality products and an established delivery system. However, the company clearly understands the need to be flexible in dealing with the wide variances that exist in markets around the world. According to Trier, "adapting a product to local markets is perhaps the most critical factor to any business hoping to build a market in the global marketplace." Domino's practices this principle very well.

THINKING IT OVER

1. What major factors affect Domino's or any other major company in dealing in global markets?
2. Why does Domino's carefully research supply chain potential before it decides to enter a global market?
3. What delivery problems could Domino's face in dealing with various global markets?

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