



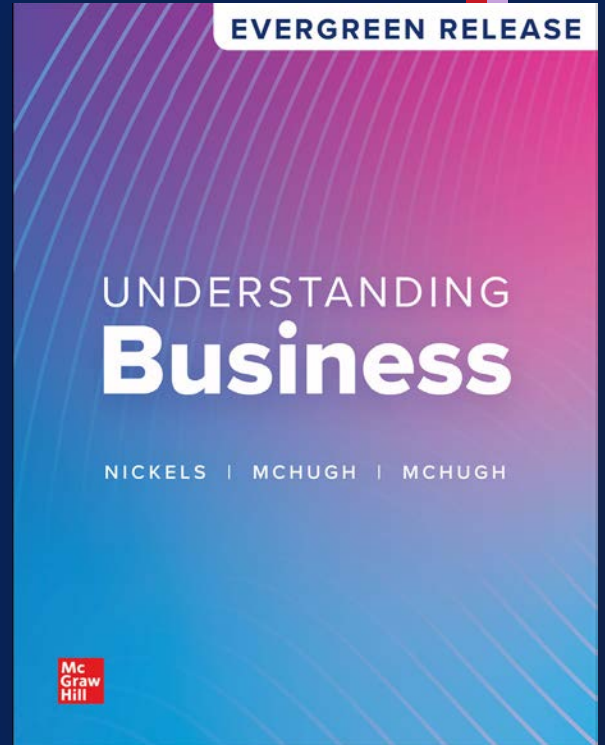
connect<sup>®</sup>



# Understanding Business

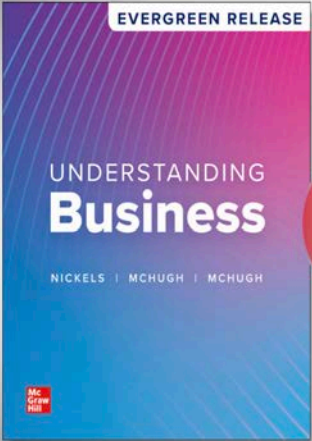
2024 Release

Nickels | McHugh | McHugh



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EVERGREEN RELEASE

UNDERSTANDING  
**Business**

NICKELS | MCHUGH | MCHUGH

Mc  
Graw  
Hill

Hear from our Authors for  
**Understanding Business**



Jim McHugh

Mc  
Graw  
Hill

**Click below to watch a video from the author:**  
[Understanding Business](#)

# LETTER FROM THE AUTHOR

As authors, it is thrilling to see the results of the work we love embraced by our 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 Understanding Business 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. We 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 the changes we've made in the way we work and interact with each other and the impact innovations such as AI will have in business. The 2024 release 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 globe, UB brings the world of business to students.

## **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. The 2024 Release is no exception! All of our supplements are thoroughly reviewed and vetted by the author team as well as by 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 release, we've developed a package of over one hundred short-form concept overview videos, new 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 numbers of examples from companies of all sizes and industries in the United States and around the world. We continue our mission of keeping our content as current as possible with updated and fresh profiles, boxes, and examples within the text. One of the best ways to keep your classroom discussions as current as possible is to use our continuously updated 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 release 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 2024 Release 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**

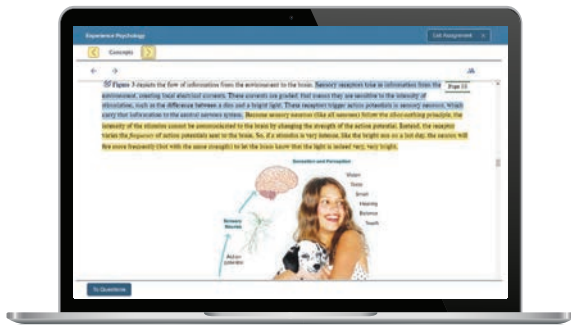


# connect<sup>®</sup>

## A complete course platform

Connect enables you to build deeper connections with your students through cohesive digital content and tools, creating engaging learning experiences. We are committed to providing you with the right resources and tools to support all your students along their personal learning journeys.

**65%**  
Less Time  
Grading



Laptop: Getty Images; Woman/dog: George Doyle/Getty Images

## Every learner is unique

In Connect, instructors can assign an adaptive reading experience with SmartBook<sup>®</sup> 2.0. Rooted in advanced learning science principles, SmartBook<sup>®</sup> 2.0 delivers each student a personalized experience, focusing students on their learning gaps, ensuring that the time they spend studying is time well spent. [mheducation.com/highered/connect/smartbook](http://mheducation.com/highered/connect/smartbook)

## Study anytime, anywhere

Encourage your students to download the free ReadAnywhere<sup>®</sup> app so they can access their online eBook, SmartBook<sup>®</sup> 2.0, or Adaptive Learning Assignments when it's convenient, even when they're offline. And since the app automatically syncs with their Connect account, all of their work is available every time they open it. Find out more at [mheducation.com/readanywhere](http://mheducation.com/readanywhere)

***"I really liked this app—  
it made it easy to study  
when you don't have your  
textbook in front of you."***

Jordan Cunningham, a student at  
Eastern Washington University

## Effective tools for efficient studying

Connect is designed to help students be more productive with simple, flexible, intuitive tools that maximize study time and meet students' individual learning needs. Get learning that works for everyone with Connect.





## Education for all

McGraw Hill works directly with Accessibility Services departments and faculty to meet the learning needs of all students. Please contact your Accessibility Services Office, and ask them to email [accessibility@mheducation.com](mailto:accessibility@mheducation.com), or visit [mheducation.com/about/accessibility](http://mheducation.com/about/accessibility) for more information.

### Affordable solutions, added value

Make technology work for you with LMS integration for single sign-on access, mobile access to the digital textbook, and reports to quickly show you how each of your students is doing. And with our Inclusive Access program, you can provide all these tools at the lowest available market price to your students. Ask your McGraw Hill representative for more information.

### Solutions for your challenges

A product isn't a solution. Real solutions are affordable, reliable, and come with training and ongoing support when you need it and how you want it. Visit [supportateverystep.com](http://supportateverystep.com) for videos and resources both you and your students can use throughout the term.



## Updated and relevant content

Our new Evergreen delivery model provides the most current and relevant content for your course, hassle-free. Content, tools, and technology updates are delivered directly to your existing McGraw Hill Connect® course. Engage students and freshen up assignments with up-to-date coverage of select topics and assessments, all without having to switch editions or build a new course.

Course Challenges

Student Preparedness



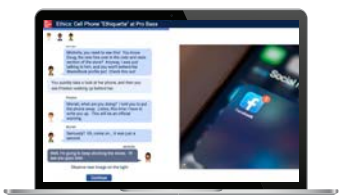
Student Engagement



Development of Analytical Skills



Critical Thinking & Decision-Making Skills



Connect Solutions

**SmartBook® 2.0** provides personalized learning to individual student needs, continually adapting to pinpoint knowledge gaps, and focusing learning on concepts requiring additional review. **The result? Students are highly engaged in the content and better prepared for lectures.**

**ReadAnywhere® App** is a free, downloadable app that allows your students to read their eBook anytime, anywhere. Any notes or highlights they make in the eBook will sync across platforms. **The result? Students are more engaged and better prepared for class.**

**iSeeit! Videos** provide brief, contemporary, and engaging videos with dynamic, student-centered introductions, illustrations, and animations to guide students through challenging concepts. Effective before class as an introduction, during class to launch or clarify a topic, or after class for formative assessment. **The result? Students gain insight from a different, engaging media.**

**Video Cases** feature real-world scenarios designed to challenge students' abilities to apply business concepts to everyday situations and real products and companies helping develop their workplace readiness skills. **The result? Students get a taste of applying their knowledge in a real-world scenario and analyzing how current companies are operating.**

**Business Plan Prep Exercises** use guided activities and examples to help students understand and differentiate the various elements of a business plan. **The result? Students gain real-world experience in a classroom setting.**

**Manager's Hot Seat Videos** enable students to see how managers in realistic situations deal with employees and complex issues. Students will use their critical thinking skills to apply, analyze, and evaluate these managerial challenges, while learning from the manager's mistakes. **The results? Students become better prepared for a variety of real workplace scenarios.**

**Application-Based Activities (ABA)** are highly interactive, assignable exercises that boost engagement and provide a safe space to apply concepts learned to real-world, course-specific problems. **The result? Students gain more practical experience before entering the work force.**



**Course Challenges**

Written Communication  
in Business



**Connect Solutions**

**Writing Assignments** integrate writing skill development into your course with ease and help your students gain the critical writing skills they need for success now and beyond. **The result? You can assign, monitor, mark, and provide feedback all in one place.**

**Asset Alignment with Bloom's Taxonomy Introduction to Business**

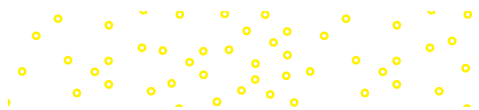
	SmartBook® 2.0	iSeeit! Videos	Video Cases/ Case Analysis	Manager's Hot Seat Videos	Application- Based Activities	Business Plan Prep	Writing Assignment
Create							✓
Evaluate						✓	✓
Analyze				✓	✓	✓	✓
Apply			✓	✓	✓	✓	✓
Understand	✓	✓	✓	✓	✓	✓	✓
Remember	✓	✓	✓	✓	✓	✓	✓

**What Instructors Are Saying...**

“You do not have to change the way you teach! Connect can help you ADD to your course through better quality, meaningful homework assignments that will benefit your students.”

Dr. Tim Rogers, Ozarks Technical Community College





## DEDICATION

To our families—Marsha, Joel, Carrie, Claire, Casey, Dan, Molly, Michael, Lindsay, Patrick, and Quinn. Thank you for making everything worth doing and giving us the support to do it well!

***AND***

To the team that made this edition possible, especially the instructors and students who gave us such valuable guidance as we developed the text and package.



# ABOUT THE AUTHORS



McGraw Hill

**Bill Nickels** is emeritus professor of business at the University of Maryland, College Park. He has over 30 years' experience teaching graduate and undergraduate business courses, including introduction to business, marketing, and promotion. He has won the Outstanding Teacher on Campus Award four times and was nominated for the award many other times. He received his MBA degree from Western Reserve University and his PhD from Ohio State University. Bill has written a marketing communications text and two marketing principles texts in addition to many articles in business publications. He has taught many seminars to businesspeople on subjects such as power communications, marketing, nonbusiness marketing, and stress and life management. His son, Joel, is a professor of English at the University of Miami (Florida).



McGraw Hill

**Jim McHugh** holds an MBA degree from Lindenwood University and has had broad experience in education, business, and government. As chair of the Business and Economics Department of St. Louis Community College-Forest Park, Jim coordinated and directed the development of the business curriculum. In addition to teaching several sections of Introduction to Business each semester for nearly 30 years, Jim also taught marketing and management at both the undergraduate and graduate levels. Jim enjoys conducting business seminars and consulting with small and large businesses. He was actively involved in the public-service sector and served as chief of staff to the St. Louis County Executive.



McGraw Hill

**Susan McHugh** is a learning specialist with extensive training and experience in adult learning and curriculum development. She holds an MEd degree from the University of Missouri and completed her coursework for a PhD in education administration with a specialty in adult learning theory. As a professional curriculum developer, she has directed numerous curriculum projects and educator training programs. She has worked in the public and private sectors as a consultant in training and employee development. While Jim and Susan treasure their participation in writing projects, their greatest accomplishment is their collaboration on their three children. Casey is carrying on the family's teaching tradition as an adjunct professor at Washington University. Molly and Michael are carrying on the family writing tradition by contributing to the development of this text.



# THE GOLD ★★★★★ STANDARD

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## in Preparing Future-Ready Learners

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Congratulations. You've made an excellent selection. Welcome to the preeminent teaching and learning experience ever created for Introduction to Business classes.

Our experienced authors and long-tenured editorial team have created a 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 and enhance retention, making instructors of all experience levels Grade-A rock stars. And unparalleled support from our digital faculty consultants helps ensure you and your students benefit from the full experience of what is now the gold standard in Introduction to Business classes. Nickels/McHugh/McHugh, *Understanding Business*, 2024 Release does more than teach—it prepares students to create real impact on the world.

### 1. The Gold Standard in Relevancy and Currency

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 the *From the News to the Classroom* blog, you can enrich the learning experience with content that is updated multiple times each week and includes 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.

### 2. The Gold Standard in Results-Driven Technology

Interactive learning tools increase teaching effectiveness and learning efficiency by facilitating a stronger connection between the course material and the modern student.

**Where the Science of Learning Meets the Art of Teaching** *Connect* is the leading online assignment and assessment solution that connects students with the tools and resources they need to achieve success. It also allows instructors to quickly and easily choose the content and assignments that will best emphasize the learning objectives they prefer to cover. The result is a customized course, rich with engaging presentations and activities that prepare students for the business world.





**Personalized and Dynamic Adaptive Reading Experience** *SmartBook 2.0* creates a dynamic reading experience and personalizes content for each student, helping students master and retain foundational concepts. Tracking each student's progress, it automatically assesses comprehension levels and delivers the content required to reinforce topics needing more attention. This continuously adaptive learning path is proven to accelerate learning and strengthen memory recall, all while providing instructors a turnkey tool that ensures students stay on track.

**Bridging the Gap between Concept and Application** Having knowledge is the first step—and understanding how to apply that knowledge is what determines a person's success in the working world. That's why we provide an array of application exercises that are as educational as they are engaging. *Chapter exercises* reinforce key models and processes and demonstrate application-level knowledge. *Video cases* allow students to observe and analyze key concepts as they are utilized by companies and organizations they know and recognize. *Case analyses* expose students to real-world scenarios and engage their critical-thinking and analysis skills. *Application-Based Activities* put students in the role of business professionals, allowing them to make decisions and learn from the results.

### 3. The Gold Standard in Teaching Resources

Whether it's your first or fortieth 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** personalizes learning to individual student needs, continually adapting to pinpoint knowledge gaps and focus learning on topics that need the most attention. With SmartBook 2.0, learning is more productive and the guesswork is taken out of what to study in a no-fail environment. As a result, students are better prepared for class and coursework.
- **Application-Based Activities** are highly interactive, assignable exercises that provide students a safe space in which to apply the concepts they have learned to real-world, course-specific problems. Each Application-Based Activity involves the application of multiple concepts, allowing students to synthesize information and use critical-thinking skills to solve realistic scenarios.
- **Business Plan Prep Activities** guide students in creating a basic business plan.
- **Test bank** that is by far the largest and most accurate collection of questions on the market, including over 300 questions per chapter, makes testing student knowledge a simple and efficient process.
- **Chapter exercises** challenge students to demonstrate their knowledge of key concepts and terms by applying them to a variety of business-world scenarios.
- **Video assignments** help explain difficult concepts and show business concepts in action in companies large and small.
- **Concept overview videos** provide engaging, animated explanations of key chapter concepts. Available and assignable at the learning objective level, these videos are perfect for launching lectures or checking for understanding.







	SmartBook 2.0	iSeeit! Videos	Video Cases	Case Analyses	Chapter Exercises	Manager's Hot Seat Videos	Application-Based Activities	Business Plan Prep
Higher Order Thinking Skills								
CREATE								✓
EVALUATE							✓	✓
ANALYZE				✓	✓	✓	✓	✓
APPLY			✓	✓	✓	✓	✓	✓
UNDERSTAND	✓	✓	✓	✓	✓	✓	✓	✓
Lower Order Thinking Skills	REMEMBER	✓	✓	✓	✓	✓	✓	✓

Additional Resources:


- **Instructor's Manual** includes tools to improve retention and engagement, while helping save the instructor's time.
- **From the News to the Classroom** blog is updated multiple times each week, featuring abstracts of relevant news stories, video tied to chapter topics, and critical-thinking questions that streamline your prep time and help create an ultra-current course.
- **PowerPoint presentations** include discussion questions that improve student engagement.
- **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.
  - **iSeeit! animated video explanations** clarify some of the most important topics and can be accessed within the eBook.
  - **Current video clips** on the *From the News to the Classroom* blog tie to chapter topics and keep your classroom current.

## 4. The Gold Standard in Support, Service, and Solutions

We want you to get the most out of our products, and we do everything possible to help provide your students an exceptional learning experience. From the first to the last day of the semester, we support you with:

- Learning technology representatives
- Digital faculty consultants
- Student ambassadors
- Customer success consultants



- 
- Technical support
  - Integration with your learning management system
  - Content your way/customizable content/a robust library of cross-disciplinary content
  - Student progress-tracking
  - Accreditation and assurance of learning ready courses

Our extensive toolbox of support programs ensures you receive the full value of all this product has to offer.

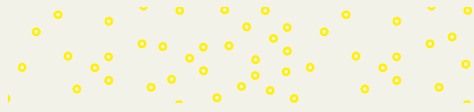
## The Bottom Line

The business world is constantly changing, and your classroom needs to keep up. With Nickels/McHugh/McHugh, *Understanding Business*, 2024 Release, both you and your students can experience *the Gold Standard* in Introduction to Business classes.

## Changes to the New Edition

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 (e.g., service, manufacturing, nonprofit, and for-profit) in the United States and around the world. A glance at the chapter notes will show you that almost all of them are from 2022 or 2023. Accordingly, the latest business practices and other developments affecting business include:

- Effects of the COVID-19 pandemic on the global economy and all facets of business (discussion integrated throughout the text)
- Economic effects of the war in Ukraine
- Global sanctions on Russia in response to the invasion of Ukraine
- Payroll Protection Program (PPP)
- Collaborative robots (cobots)
- Cyber-bullying
- Triple bottom line (profit, people, and planet)
- Great Resignation
- 2022 MLB lockout
- Digital out-of-home advertising
- ESP investing controversy
- Collapse of FTX
- SVB failure
- ChatGPT
- RADAR test
- Metaverse
- And much, much more



## McGraw Hill Customer Experience Group Contact Information

At McGraw Hill Education, we understand that getting the most from new technology can be challenging. That's why our services don't stop after you purchase our products. You can email our Product Specialists 24 hours a day to get product training online. Or you can search our knowledge bank of Frequently Asked Questions on our support website. For Customer Support, call **800-331-5094** or visit [www.mhhe.com/support](http://www.mhhe.com/support). One of our Technical Support Analysts will be able to assist you in a timely fashion.



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Our portfolio manager Jessica Dimitrijevic led the talented team at McGraw Hill Education. We appreciate her dedication to the success of the project and her responsiveness to the demands of the market. Anne Leung served as our senior product developer and kept everyone on task and on schedule. Molly and Michael McHugh helped revise the text and contributed many of the new boxes and profiles. Michael Limmer provided invaluable research assistance. Beth Cray and Charlotte Goldman carried out extensive research for photos that was necessary to reflect the concepts presented in the text effectively. Lead project manager Christine Vaughan did a splendid job of keeping the production of the text on schedule. Bruce Gin expertly supervised Connect production.

Many dedicated educators and content experts made extraordinary contributions to the quality and utility of this teaching and learning package. For this edition, Diana Murphy and her team at Editors Inc. did a superb job of creating a useful and current Instructor's Manual, Test Bank, and PPTs as well as reviewed and perfected the SmartBook probes and feedback and responded to student queries. We also recognize the efforts of Stacy Martin and Tim Rogers, who contributed to the creation of Connect materials. Thank you to Kelly Luchtman and team at Lightfellow for

the fabulous new videos they produced. Thank you to the Digital Faculty Consultants who have helped train and support so many of their fellow instructors in the Introduction to Business course, as well as assist them in successfully implementing Connect into their courses: Chris Finnin, Drexel University; Stacy Martin, Southwestern Illinois College; Tim Rogers, Ozarks Technical Community College; and Allison Smith, West Kentucky Community and Technical College. We would like to give special thanks to Tim Rogers for his dedication to this project, including the hard work he did revising the student study guide.

Our outstanding marketing manager Michelle Sweeden and marketing director Natalie King were up to the challenge of guiding the text to continued market leadership. With the assistance of the market's finest sales professionals, they led the text to record highs. We want to thank the many instructors who contributed to the development of *Understanding Business*.

## Reviewers

We would like to thank the following instructors for sharing with us their opinions, input, and advice.

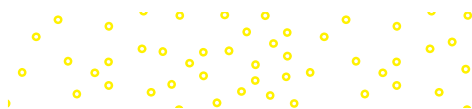
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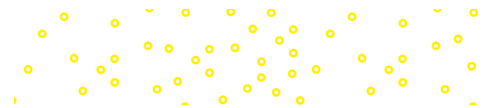
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This release continues to be the market's gold standard due to the involvement of these committed instructors and students. We thank them all for their help, support, and friendship.

**Bill Nickels**

**Jim McHugh**

**Susan McHugh**



# DIGITAL PRODUCTS

## Proctorio



### Remote Proctoring & Browser-Locking Capabilities

Remote proctoring and browser-locking capabilities, hosted by Proctorio within Connect, provide control of the assessment environment by enabling security options and verifying the identity of the student.

Seamlessly integrated within Connect, these services allow instructors to control the assessment experience by verifying identification, restricting browser activity, and monitoring student actions.

Instant and detailed reporting gives instructors an at-a-glance view of potential academic integrity concerns, thereby avoiding personal bias and supporting evidence-based claims.



### ReadAnywhere® App

Read or study when it's convenient with McGraw Hill's free ReadAnywhere® app. Available for iOS and Android smartphones or tablets, give users access to McGraw Hill tools including the eBook and Smart-Book® or Adaptive Learning Assignments in McGraw Hill Connect®. Students can take notes, highlight, and complete assignments offline—all their work will sync when connected to Wi-Fi. Students log in with their Connect username and password to start learning—anytime, anywhere!

## OLC-Aligned Courses

### Implementing High-Quality Instruction and Assessment through Preconfigured Courseware

In consultation with the Online Learning Consortium (OLC) and our certified Faculty Consultants, McGraw Hill has created preconfigured courseware using OLC's quality scorecard to align with best practices in online course delivery. This turnkey courseware contains a combination of formative assessments, summative assessments, homework, and application activities, and can easily be customized to meet an individual instructor's needs and desired course outcomes. For more information, visit <https://www.mheducation.com/highered/olc>.

## Test Builder in Connect

Available within McGraw Hill Connect®, Test Builder is a cloud-based tool that enables instructors to format tests that can be printed, administered within a Learning Management System, or exported as a Word document. Test Builder offers a modern, streamlined interface for easy content configuration that matches course needs, without requiring a download.

Test Builder allows you to:

- access all test bank content from a particular title.
- easily pinpoint the most relevant content through robust filtering options.
- manipulate the order of questions or scramble questions and/or answers.
- pin questions to a specific location within a test.
- determine your preferred treatment of algorithmic questions.
- choose the layout and spacing.
- add instructions and configure default settings.

Test Builder provides a secure interface for better protection of content and allows for just-in-time updates to flow directly into assessments.

## Writing Assignment

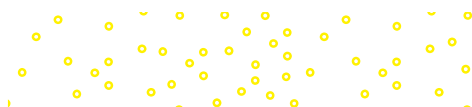
Available within McGraw Hill Connect®, the Writing Assignment tool delivers a learning experience to help students improve written communication skills and conceptual understanding. Assign, monitor, grade, and provide feedback on writing more efficiently and effectively.

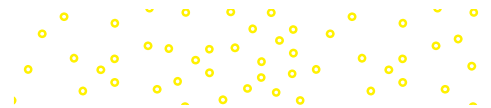
## Application-Based Activities in McGraw Hill Connect®

Prepare students for the real world with Application-Based Activities in Connect. These highly interactive, assignable exercises boost engagement and provide a safe space to apply concepts learned to real-world, course-specific problems. Each Application-Based Activity involves the application of multiple concepts, providing the ability to synthesize information and use critical thinking skills to solve realistic scenarios.

## Polling

Every learner has unique needs. Uncover where and when you're needed with the new Polling tool in





McGraw Hill Connect®! Polling allows you to discover where students are in real time. Engage students and help them create connections with your course content while gaining valuable insight during lectures. Leverage polling data to deliver personalized instruction when and where it is needed most.

### Evergreen

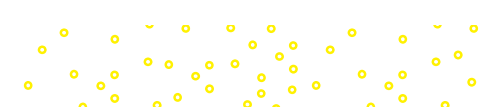
Content and technology are ever-changing, and it is important that you can keep your course up to date with the latest information and assessments. That's why we want to deliver the most current and relevant content for your course, hassle-free.

*Understanding Business* is moving to an Evergreen delivery model, which means it has content, tools, and technology that is updated and relevant, with updates delivered directly to your existing McGraw Hill Connect® course. Engage students and freshen up assignments with up-to-date coverage of select topics and assessments, all without having to switch editions or build a new course.

### Reflecting the Diverse World around Us

McGraw Hill believes in unlocking the potential of every learner at every stage of life. To accomplish

that, we are dedicated to creating products that reflect, and are accessible to, all the diverse, global customers we serve. Within McGraw Hill, we foster a culture of belonging, and we work with partners who share our commitment to equity, inclusion, and diversity in all forms. In McGraw Hill Higher Education, this includes, but is not limited to, the following:

- Refreshing and implementing inclusive content guidelines around topics including generalizations and stereotypes, gender, abilities/disabilities, race/ethnicity, sexual orientation, diversity of names, and age.
  - Enhancing best practices in assessment creation to eliminate cultural, cognitive, and affective bias.
  - Maintaining and continually updating a robust photo library of diverse images that reflect our student populations.
  - Including more diverse voices in the development and review of our content.
  - Strengthening art guidelines to improve accessibility by ensuring meaningful text and images are distinguishable and perceivable by users with limited color vision and moderately low vision.
- 

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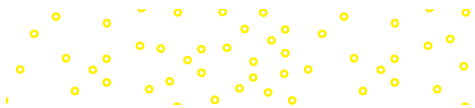
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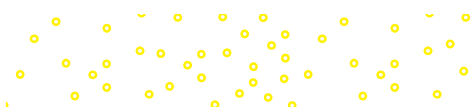
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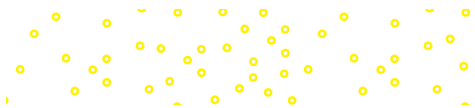
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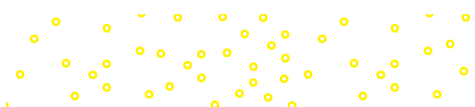
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# 1

## 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

# Daymond John, Founder and CEO of FUBU

Sometimes the best business ideas hide in plain sight, waiting to be discovered by the right entrepreneur with the drive to turn a great idea into reality. For FUBU founder and *Shark Tank* star Daymond John, his path to prosperity began in 1989 when he noticed a fashion trend developing in his neighborhood. Many young people in the New York City borough of Queens had started to wear short snowcaps with the tops cut off that were then cinched together with string, simple items that cost as much as \$20 at department stores.

Shocked by the high price people were willing to pay for a hat, John enlisted the help of a neighbor and soon sewed dozens of snowcaps. He sold the caps for \$10 apiece in Harlem, not far from the famous Apollo Theater. He was astounded when he ended up with \$800 after his first day. Knowing he had a great concept on his hands, John threw himself into his new apparel business. As a nod to the venture's do-it-yourself origins, he named the company FUBU—"For Us By Us."

To go along with his distinctive brand name, John designed a graffiti-inspired logo and sewed it onto sweatshirts, tees, and other sportswear. Despite a strong start, though, he soon ran into problems as more than two dozen banks turned down his loan requests. John's mother took out a second mortgage on her house to provide her son with \$100,000. But even with this vital cash injection, he found it difficult to have enough time to run the company. After a day of calling distributors and sewing, John would then trudge off to his night job as a server at Red Lobster. FUBU ended up running out of money three times, which made him consider abandoning the idea altogether.

Then in 1992, John and his partners relaunched the company and pursued an innovative marketing strategy focused on getting their clothes into the hands of celebrities. After all, John knew he wasn't the only talented individual from Queens. The borough had also been home to hip-hop legends like Run-DMC, Salt-N-Pepa, and LL Cool J. John wanted to take advantage of the publicity that celebrity partnerships could bring to the company, but he had precious little stock that he could part with. "We took the same 10 shirts and placed them in videos," said John. "For two years, we'd take them to an artist and then take them back and put them on other artists and became known as a huge clothing company with 10 shirts."

The brand's biggest booster became LL Cool J, who made a point to support people from his neighborhood and wore FUBU clothes as often as he could. In fact, in 1999 the rapper wore a FUBU hat in a commercial for Gap, causing the retailer to pull the commercial a month later when executives realized they had unknowingly promoted another brand. By that point, though, the spot had done wonders to raise FUBU's profile. John soon brokered a distribution deal with Samsung's textile division that generated more than \$30 million in just a few months. After years of struggling, at last he established FUBU as one of the hottest fashion labels in the United States. According to John, the company has since rung up more than \$6 billion in worldwide sales.

John's massive success attracted the attention of the producers of *Shark Tank*, a television show about deep-pocketed investors who listen to pitches from hopeful entrepreneurs looking for guidance and cash. At first, John was skeptical about joining the show since it required him to put up his own money. Still, the idea of investing intrigued him after the years he spent hustling to build FUBU. "Why do I always have to be the one to do all the hard work?," said John. "Why don't I put my money to use to let my money work for me?" So far John has invested \$15 million of his own money in more than 100 start-ups, with his biggest returns coming from his stake in the sock brand Bombas. He also hosts a star-studded annual event called Black Entrepreneurs Day at the Apollo Theater, bringing his one-of-a-kind career full circle.

The business environment is constantly changing; 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 some of the people who thrive in it. Businesspeople like Daymond John contribute much to the communities they serve, and they also make a good living doing so. That's what business is all about.

Sources: Jair Hilburn, "Daymond John Is on a Mission," *Forbes*, forbes.com, January 17, 2022; Christian Massa, "How Daymond John Went from Selling T-Shirts on the Street to Running a \$350 Million Company," *Entrepreneur*, entrepreneur.com, March 23, 2022; Jeff Conway, "Shark Tank Investor Daymond John Is Creating Better Opportunities for Others with Black Entrepreneurs Day," *Forbes*, forbes.com, October 6, 2022; Daron Pressley, "'Learn How to Pitch': Daymond John Talks to *Black Enterprise* ahead of Black Entrepreneurs Day," *Black Enterprise*, October 22, 2022; Octavio Blanco, "Daymond John on Hip-Hop, His Mom and Making It Big," *CNN*, cnn.com, accessed February 2023.



Jim Bennett/WireImage/Getty Images



**THIS KOREA-BASED COMPANY** is building new EV and battery manufacturing facilities in Bryan County, Georgia. Name that company. (Find the answer in the chapter.)

**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.<sup>1</sup>

There are nearly 30 million millionaires in the United States.<sup>2</sup> 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 close, putting its employees out of work. Approximately 50 percent of small businesses close in the first five years.<sup>3</sup>

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. Think of all the changes businesses needed to make during the COVID-19 pandemic.<sup>4</sup> Starting a business may thus come with huge risks. But huge risks often result in huge profits. We'll explore that concept next.

### business

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



Alejandro\_Munoz/Shutterstock

*When Scott Seamans showed Lyndon "Duke" Hanson and George Boedecker a pair of foam boating clogs he helped design, his two friends initially reacted with skepticism toward their pal's taste in footwear. Once they set style aside, though, they were won over by the shoe's comfort, slip-resistance, and ability to float. The trio soon went into business together as Crocs, a company that now earns billions of dollars in annual sales. What risks and rewards did these three entrepreneurs face when starting their business?*

**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.

**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**

(1) The chance an entrepreneur takes of losing time and money on a business that may not prove profitable. (2) The chance of loss, the degree of probability of loss, and the amount of possible loss.

**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.

**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.

## 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. Just ask Elon Musk, the founder of Tesla, who is now one of the richest people in the world.<sup>5</sup>

## 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.<sup>6</sup>

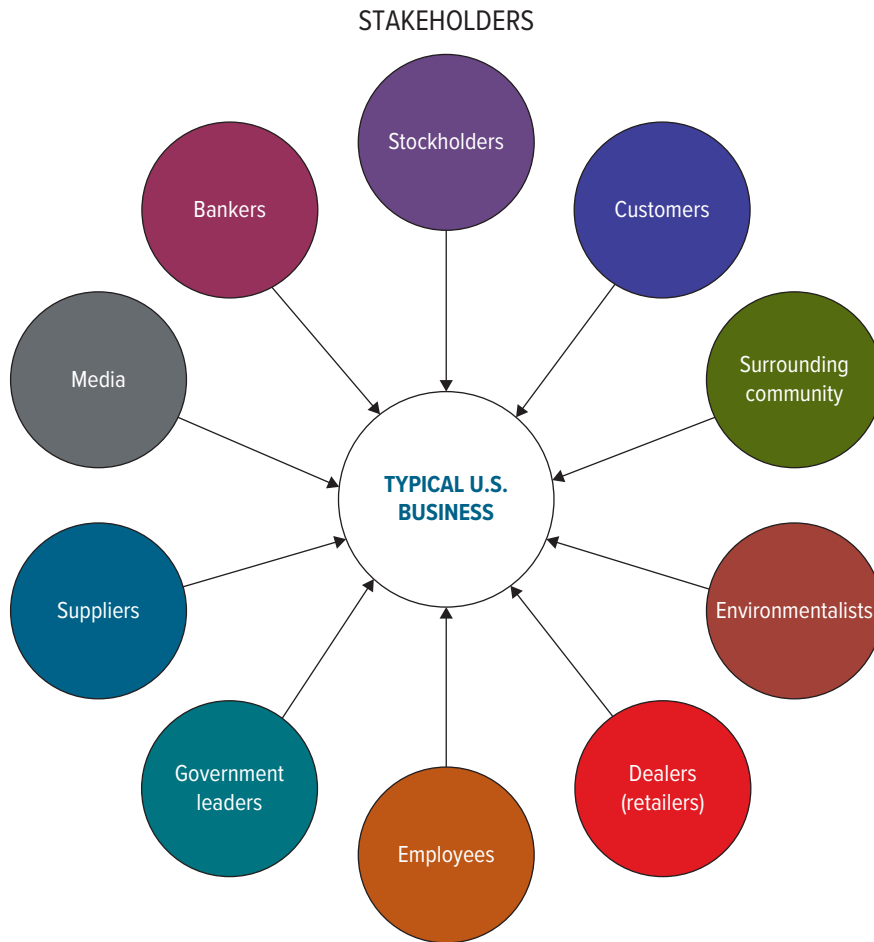
Businesses and their employees pay taxes that the federal government and local communities use to build hospitals, schools, libraries, playgrounds, roads, and other public facilities. Taxes also help keep the environment clean, support people in need, and provide police and fire protection. Thus, the 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 have 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.

## Responding to the Various Business Stakeholders

**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).<sup>7</sup>



**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.

A primary challenge for organizations of the 21st century will be to recognize and respond to the needs of their stakeholders.<sup>8</sup> 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 to do some or all of the functions of a firm, like its production or accounting tasks. Outsourcing tasks to companies in other countries has had serious consequences in some states where jobs have been lost to overseas competitors. We discuss offshore 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; produces cars in Montgomery, Alabama; and is building new electric vehicle (EV) and battery manufacturing facilities in Bryan County, Georgia.<sup>9</sup> Japanese automaker Honda has been producing cars in the United States for 45 years, and opened its 12th U.S. manufacturing plant in 2016.<sup>10</sup> 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.

### outsourcing

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



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**iSeeit!** Need help understanding the roles of stakeholders? Visit your Connect eBook to view a video for a brief animated explanation.



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



Andrew Theodorakis/Getty Images News/Getty Images

#### nonprofit organization

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

### 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.

## ? 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

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](http://sba.gov)).



Burke/Triolo Productions/The Image Bank/Getty Images

## 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):

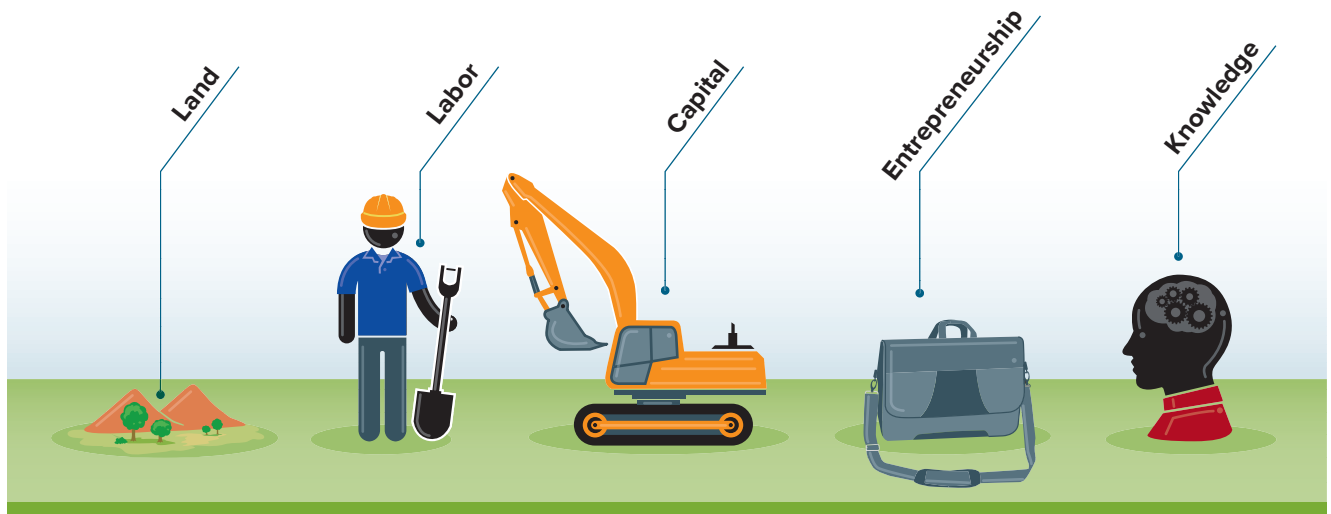
1. *Land* (or natural resources). Land and other natural resources are used to make homes, cars, and other products.
2. *Labor* (workers). People have always been an important resource in producing goods and services, but many people are now being replaced by technology.
3. *Capital*. This includes machines, 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.

*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.

**FIGURE 1.2** THE FIVE FACTORS OF PRODUCTION



Source: Drucker Institute, [druckerinstitute.com](http://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*.<sup>11</sup>

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. Therefore, land isn't the critical element for wealth creation.

Most poorer countries, such as Vietnam, 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.



- 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?

### business environment

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



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## 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.

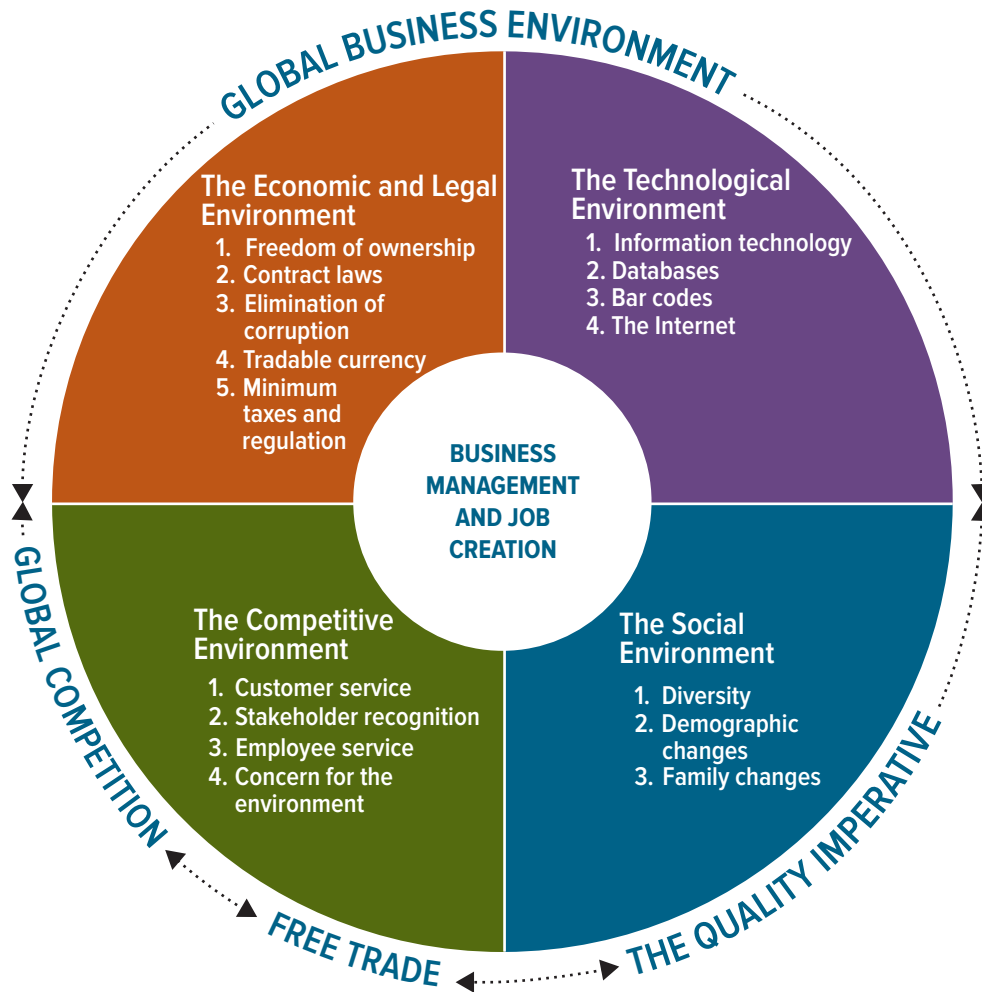
Businesses that create wealth and jobs grow and prosper in a healthy environment. Thus, creating the right business environment is the foundation for social benefits of all kinds, including good schools, clean air and water, good health care, and low rates of crime. Businesses normally can't control 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



**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 before elections is often 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 less developed 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 government did not want to trade its 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.)

*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 more than 1.4 billion people?*



TMI/Alamy Stock Photo

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 people who are economically disadvantaged by 2030.<sup>12</sup> The ultimate goal is to move toward prosperity by partnering governments, businesses, and nonprofits in order to solve problems at the ground level in less developed countries.

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

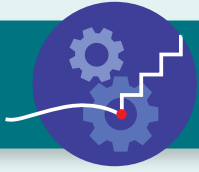
## The Technological Environment

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.<sup>13</sup> 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, artificial intelligence, social media, and the various software programs and apps that make business processes more effective, efficient, and productive.<sup>14</sup> *Effectiveness* means producing

### technology

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



## Maintaining Cycles of Sustainability with a Circular Economy

plantchicago.org

**T**here's no denying that people around the world create a lot of waste. Each year, more than 63 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 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 powered by solar panels help more than 20 companies thrive without creating unnecessary waste. The Plant's largest tenant is a brewery that produces tons of compost every month, providing plenty of fertilizer for the facility's farmers.

Other companies driven by the circular economy 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. During the COVID-19 pandemic, Earth Angel found a whole new calling as it began specializing in maintaining "clean and green" sets that kept productions running smoothly in sanitized environments with small crews. Circular enterprises like these certainly live up to a goal put forward by air quality



Zbigniew Bzdak/McClatchy-Tribune/Alamy Stock Photo

expert and former National Climate Advisor Gina McCarthy: "We can reframe climate solutions as opportunities to invest in public health, which will make our world healthier while we forge a future we can be proud to hand to our children."

Sources: Rachael Dottle and Jackie Gu, "The Global Glut of Clothing Is an Environmental Crisis," *Bloomberg*, bloomberg.com, February 23, 2022; Natalie Obiko Pearson, Ekow Dontoh, and Dhvani Pandya, "Fast-Fashion Waste Is Choking Developing Countries with Mountains of Trash," *Bloomberg*, bloomberg.com, November 2, 2022; Dale Buss, "The Bountiful Promise of Indoor Farming," *Food Technology Magazine*, ift.org, October 1, 2022; Jane Margolies, "Destined for the Dump, Construction Waste Gets New Life in the Garden," *The New York Times*, nytimes.com, November 29, 2022; Earth Angel, earthangelsets.com, accessed February 2023; Ellen McArthur Foundation, ellenmacarthurfoundation.org, accessed February 2023; The Plant, insidetheplant.com, accessed February 2023.

the desired result. *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** 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.<sup>15</sup>

Technology affects people in all industries. For example, a farmer can use a computer to compare data from the previous year's harvest with drone or satellite photos of the farm that show which crops are flourishing. The farmer can check the latest grain prices and use the website newAgTalk.com to converse with other farmers from all over the world. The farmer

### productivity

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



*Walt Disney World's MagicBand provides an all-in-one way for guests to connect with the various vacation choices they made online before their trip. Using RFID technology, the MagicBand serves as a park ticket, hotel room key, and payment system that also gives guests access to extras like Disney's PhotoPass. Do you think the MagicBand encourages visitors to make more purchases in the park?*



Jeff Gritchen/MediaNews Group/  
Orange County Register/Getty Images

### e-commerce

The buying and selling of goods over the Internet.

### 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.

can also save money on chemicals by bidding for bulk fertilizer on FarmTrade.com, an online agricultural exchange. High-tech equipment tells people how and where to spread fertilizer and seed, tracks yields yard by yard, and allows them to maintain high profit margins.<sup>16</sup> Of course, more tech often means fewer workers. Is that a good or bad thing for farmers?

**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). Nearly a quarter of all retail sales in the United States are expected to be made online in 2025.<sup>17</sup> 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 million to help people affected by the breach.<sup>18</sup>

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 multi-factor authentication, which is an additional layer of security, when possible.<sup>19</sup> 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.<sup>20</sup>

Many people are concerned about how technology might be used to invade the privacy of their phone or email conversations or even to track their movement through facial recognition technology used in stores, in casinos, on cruise ships, and in other public places.<sup>21</sup> 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.

**Competing by Restructuring and Empowerment** To meet the needs of customers, firms must give their frontline workers—for example, office employees, 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 ethnic or racial 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.<sup>22</sup> 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.<sup>23</sup>

Legal and undocumented immigrants have had a dramatic effect on many regions, and will continue to do so as the government debates immigration reform.<sup>24</sup> Businesses, schools, and hospitals have been especially affected.<sup>25</sup> 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.<sup>26</sup> Therefore, they represent a lucrative market for companies involved with food service, transportation, entertainment, education, lodging, health care, 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.<sup>27</sup> The older adult population will also become more ethnically diverse. The proportion of older non-Hispanic white adults is projected to decrease from 77 percent in 2017 to 55 percent by 2060.<sup>28</sup> 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,

#### 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.

*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?*



*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?*



AleksandarNakic/E+/Getty Images

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.

On the other hand, retired people will be draining the economy of wealth. Social Security has become a major issue.<sup>29</sup> 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 now, as members of the Baby-Boom generation (born between 1946 and 1964) retire, that number was 2.8 in 2021 and is projected to drop to 2.3 by 2038.<sup>30</sup> In addition, the government has been spending some of the accumulated Social Security money instead of leaving it all in the Social Security account.

Today, less money is coming into Social Security than is going out. The difference is covered by the Social Security cash reserves, but those are expected to be depleted by 2034. After that, annual taxes are expected to cover only about 78 percent of the benefits yearly.<sup>31</sup> 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.<sup>32</sup> 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 flex-time (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 between 1995 and 2009) will soon be the largest group of consumers in the world, accounting for as much as \$360 billion in spending power in the United States alone.<sup>33</sup> 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, also called Zoomers.





## CONNECTING THROUGH SOCIAL MEDIA

## Companies Compete for the Online Attention of Gen Z

As Generation Z moves into college and professional careers, companies are starting to realize the enormous purchasing power held by this up-and-coming age group. In fact, one report estimates that Gen Zers, or Zoomers, command \$360 billion in disposable income, a staggering sum that brands cannot afford to ignore. Still, reaching Zoomers is no easy task as these social media-savvy consumers have developed some unique online habits over a lifetime of Internet use.

For instance, an advertiser would not be surprised to hear that Zoomers are active on TikTok, accounting for one-third of the short video app's user base. What marketers might

not know, though, is how many Zoomers depend on TikTok for nearly everything online, using the service like Google to answer questions and find out general information. "We keep learning, over and over again, that new Internet users don't have the expectations and the mindset that we have become accustomed to," said Google executive Prabhakar Raghavan, responding to a study that showed young people preferred to use TikTok and Instagram to look for lunch recommendations. "The queries they ask are completely different."

So how can companies hope to stand out in the busy feeds of ever-scrolling Zoomers? One proven strategy is to enlist influencers to act as brand

ambassadors, providing instant access to engaged audiences that can number in the millions. Of course, selecting the right influencer for the right brand can be challenging, which is why many companies simply purchase space directly on TikTok, which sold \$12 billion worth of ads in 2022. That number is only expected to increase in the years to come as brands continue to fight for the lucrative attention of Generation Z.

Sources: Norah Mulinda and Amina Niasse, "Gen Z Uses TikTok Like Google, Upsetting the Old Internet Order," *Bloomberg*, bloomberg.com, July 29, 2022; Suzanne Vranica and Liza Lin, "TikTok Grabs More Ad Dollars, as Marketers Look to Attract Gen Z and Millennials," *The Wall Street Journal*, wsj.com, June 21, 2022; Jeff Fromm, "As Gen Z's Buying Power Grows, Businesses Must Adapt Their Marketing," *Forbes*, forbes.com, July 20, 2022; "70+ Statistics on Gen Z Spending Habits for 2023," Lexington Law, lexingtonlaw.com, March 7, 2023.

**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. Trading with other countries can greatly reduce the costs of parts and products, but it can also cause major disruptions if there are supply chain issues as there were during the COVID pandemic.<sup>34</sup> You'll read much more about the importance of world trade in Chapter 3 and in the Reaching beyond Our Borders boxes throughout the text. This chapter's Reaching beyond Our Borders box 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. As of this writing, the United States spent about \$113 billion to support Ukraine



## REACHING BEYOND OUR BORDERS

## KFC's Finger-Lickin' Good Global Offerings

kfc.com

With more than 22,000 restaurants in over 135 countries, KFC has grown beyond its humble Kentucky roots into a truly global powerhouse. And while much of the chain's success can be credited to its famous blend of 11 herbs and spices, fried chicken is far from the only offering on KFC's world-wide menus.

In Thailand, for instance, KFC customers can pick up a box of shrimp doughnuts, while Singapore locations sell authentic egg tarts and Mac 'N Cheese Zingers, chicken sandwiches with buns made of macaroni and cheese. The company's Zinger Chicken Sandwich originated in Trinidad and Tobago in the 1980s and has since become a global hit, with Australian KFCs selling more than 22 million Zingers annually. Other innovative items include the "Chizza," a pizza with a fried chicken crust sold in the Philippines, as well as Canada's "Chachos," which replaces the tortilla chips traditionally found in nachos with, you guessed it, fried chicken tenders.

KFC is constantly updating its offerings thanks to the company's 18 food innovation teams located throughout the world. These imaginative culinarians follow regional trends and develop dishes based on local tastes, which may not always appeal to everyone. For example, mint chocolate flavoring

became a fad recently in South Korea, with green-tinted sauce appearing on everything from burgers to rice cakes. KFC got in on the action with its own mint chocolate dipping sauce, a flavor that some compared to brushing your teeth while eating chicken. Still, KFC's Korean offices logged many requests from customers asking for the sauce to become a

permanent menu addition, showing just how many different tastes global companies like KFC can possibly appeal to.

Sources: Alicia Kelso, "A Look at the Menu Innovation Driving KFC Global's Sales Momentum," *Forbes*, forbes.com, July 22, 2019; Jiyoung Sohn, "Mint Chocolate on Fried Chicken? A Food Craze Has Everyone Taking Sides," *The Wall Street Journal*, wsj.com, October 5, 2022; Chris Heasman, "International KFC Menu Items You Won't Find in the U.S.," *Mashed*, mashed.com, February 2, 2023.



KFC Corporation

since Russia invaded in 2022 and more than \$849 billion in the 20-year war in Afghanistan.<sup>35</sup> The amount requested by the Department of Defense for 2023 was \$773 billion.<sup>36</sup> 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.<sup>37</sup>

**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.<sup>38</sup> 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 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. Inventions such as Cyrus McCormick's harvester in 1834 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 445 acres versus 150 acres in the past.<sup>39</sup>



Thomas Barwick/DigitalVision/Getty Images

*Agriculture is one of the largest and most important industries in the United States. Over the years technology has increased productivity and made farmers more efficient, allowing for larger farms. While this trend helps stabilize the prices of some foods for consumers, it has also greatly reduced the number of small, family-run farms. How do you think smaller farms could use agricultural technology to compete?*

Agriculture is still a major industry in the United States. What has changed is that the millions of previously existing small farms 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 who can't find work today 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.

## 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 78 percent of workers in the United States.<sup>40</sup> 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.<sup>41</sup> 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.<sup>42</sup>

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.<sup>43</sup>



**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 publics				
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 repair	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.



- **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 less developed 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 ethnic or racial 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.

## KEY TERMS

business 3	factors of production 7	profit 3
business environment 8	goods 3	quality of life 4
climate change 17	greening 17	revenue 3
database 12	identity theft 12	risk 4
demography 13	loss 3	services 3
e-commerce 12	nonprofit organization 6	stakeholders 4
empowerment 13	outsourcing 5	standard of living 4
entrepreneur 3	productivity 11	technology 10

## CRITICAL THINKING

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?

## PUTTING PRINCIPLES TO WORK

### 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](http://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](http://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.

**KEY:** ● Team ★ Analytic ▲ Communication □ Technology

## DEVELOPING CAREER SKILLS

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](http://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.



### TaskRabbit Keeps the Gig Economy Hopping

## VIDEO CASE

You probably have been in a class or movie where a “disruptor” causes a ruckus and ruins the class or movie for everyone. You might think then that a “disruptor” in business causes similar problems. Not true. Disruptors are companies that have the potential to change or, in some cases, entirely displace existing companies and industries. They create innovative technologies or operations that

force longstanding companies to rethink or retool their businesses. TaskRabbit was one of the early disruptors.

Disruptors helped establish the “Gig Economy.” The gig economy is economic activity that offers temporary or independent contractors to perform needed tasks generally in the service sector. TaskRabbit founder Leah Busque had an idea of an online marketplace one evening when

she couldn't leave her house to go out and buy dog food. She envisioned an opportunity to match "taskers," workers who would do odd jobs and chores, with customers who needed high-quality help. TaskRabbit created an online marketplace that provided a network of skilled independent contractors who offered services ranging from cleaning and minor home repairs, to furniture assembly and errands. After years of fast-paced growth, TaskRabbit was acquired by Ingka Group, the owner of IKEA.

The gig economy and TaskRabbit were bolstered by adoption of smartphones, which changed how we live our lives. Workers became more mobile and flexible and looked to work in a flexible work environment. TaskRabbit helped supplement their income and gave them the chance to work when and where they wanted.

The COVID-19 pandemic created huge problems for the overall economy, but not for TaskRabbit. Early in the pandemic, TaskRabbit shifted to contactless and virtual tasks in accordance with public health recommendations. With limited reopening of the economy, things started to ease a bit. The company used technology to reach customers during the limited human contact interaction period as customers looked for expert help with home projects. As the pandemic eased a bit more,

TaskRabbit saw the demand for home-based jobs pick up steadily, and home projects increased significantly. TaskRabbit experienced strong growth, primarily with demand growing for furniture assembly, mounting, and minor home repairs.

The gig economy has experienced year-after-year growth with almost half of all Millennials using online platforms to locate freelance workers. Although the future is difficult to predict, the gig economy is growing three times faster than the traditional workforce, and all signs point to a bright future. Platforms like TaskRabbit can be a lifeline for workers to make money during difficult times or to supplement their income. It also provides flexibility and economic freedom sought by many workers, and let's not forget its services fit the needs of many customers seeking help for jobs or services that don't fit their lifestyles.

### THINKING IT OVER

1. Do you think the gig economy and companies such as TaskRabbit will remain a permanent part of the U.S. economy? Why or why not?
2. What do you think is the most attractive feature of working for a company such as TaskRabbit?

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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

# Ramon L. Laguarta, CEO of PepsiCo

**M**ore than one billion times a day, consumers in over 200 countries across the globe either eat or drink a product made by PepsiCo. Although you might know the company best for its signature soft drink, PepsiCo also owns A-list food and beverage brands like Frito-Lay, Gatorade, Quaker, SodaStream, and many more. In fact, the conglomerate's wide portfolio includes 23 brands that each earns more than \$1 billion in annual retail sales.

As you might expect, it's not easy to run a multinational business that generates more than \$70 billion in revenue every year. That's why PepsiCo relies on chief executive officer Ramon Laguarta's expertise and experience to lead this major global operation. A 25-year veteran of the company, Laguarta was committed to PepsiCo's core mission to "create more smiles with every sip and every bite" long before he landed the CEO job in 2018.

Laguarta's story begins in Barcelona, Spain, where he grew up and eventually obtained his bachelor's and master's degrees in business administration from the prestigious Esade Business School. Eager to learn more, he then enrolled in the Thunderbird School of Global Management in Arizona and earned another master's in international management. Laguarta's impressive talent for languages further fueled his interest in global matters: He is fluent in English, Spanish, French, German, Greek, and Catalan.

These skills served him well in his first major job with Chupa Chups, a Spanish candy company famous for its colorful lollipops. He handled a wide range of global assignments that took him across Asia, Europe, the Middle East, and the United States. Laguarta's deep knowledge of global snack food markets soon attracted the interest of PepsiCo, which hired him in 1996. He served in various management positions before landing an important job as the head of PepsiCo's Europe and sub-Saharan Africa business.

But just because his new position came with a lot of power and covered a lot of territory did not mean that it was easy. In fact, the company considered this region to be its most complex and difficult market to break into. Under Laguarta's leadership, however, PepsiCo transformed its beverage portfolio by developing a number of juice brands while also advancing the company's sustainability goals. His overwhelming success under difficult circumstances earned Laguarta a promotion to president of PepsiCo, where he was in charge of the company's corporate strategy and global operations. Soon enough, the board appointed him to the top job of CEO.

Once again, though, Laguarta faced a major challenge a couple of years into his tenure as the COVID-19 pandemic upended the business world. Fortunately for him, PepsiCo fared rather well as many consumers stayed at home and bought more snacks for their extended stays on the couch. Nevertheless, COVID-19's impact on the world made a huge impression

on Laguarta and strengthened his commitment to create a more sustainable and resilient food system. "PepsiCo sources food products from over 7 million acres of farmland spanning 60 countries," said Laguarta. "We pledge to transform the way we create shared value by operating within planetary boundaries and inspiring positive change for the planet and its people."

Ramon Laguarta is an example of a successful global businessperson who has proven it doesn't matter who you are or where you come from if you have the will and determination to succeed. He understands cultural and economic differences and knows that PepsiCo has to adapt to global differences and global events that are sometimes beyond its control. For example, the company went from a double-digit product increase in Russia in 2021, to a double-digit loss in 2022 when the company suspended operations in Russia after its invasion of Ukraine. This chapter explains the challenges and opportunities businesspeople such as Ramon Laguarta face every day in dealing with the dynamic environment of global business.

Sources: "Global Perspective: Post-Pandemic Era Brings Volume Upside in Coca-Cola, PepsiCo Markets," *Beverage Digest*, September 22, 2022; Jennifer Maloney, Heather Haddon, and Emily Glazer, "Coca-Cola, PepsiCo Pull Back from Russia as Ukraine Crisis Deepens," *The Wall Street Journal*, March 8, 2022; PepsiCo, pepsico.com, accessed January 2023; Jennifer Maloney, "The PepsiCo Plan; Making It OK to Eat Chips," *The Wall Street Journal*, April 22, 2023.



Jason Alden/Bloomberg/Getty Images





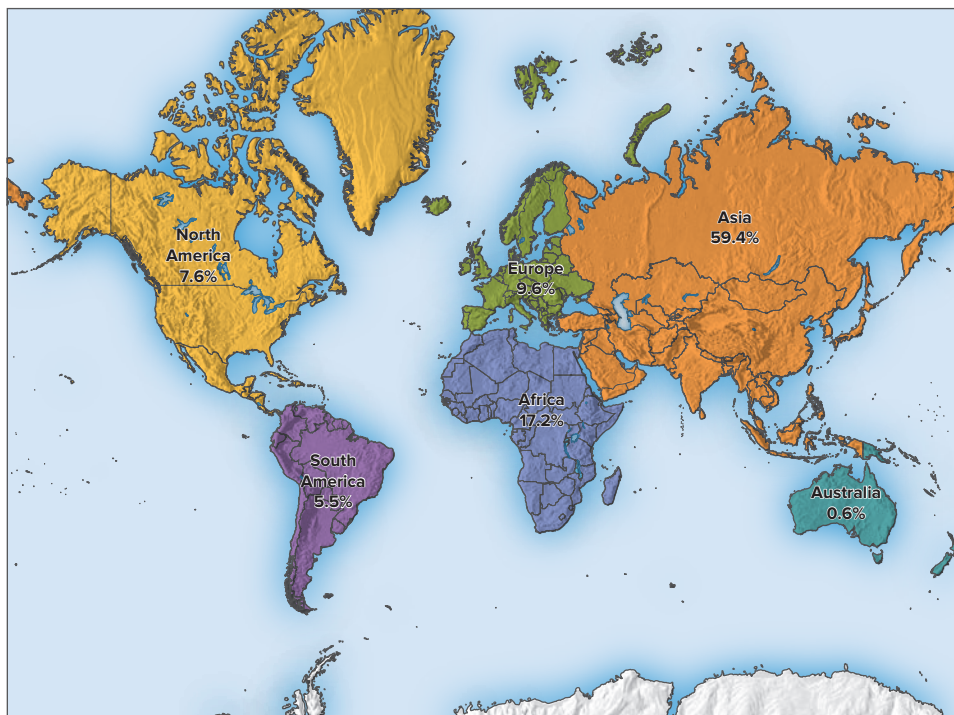
**LICENSING GIVES A COMPANY THE RIGHT** to manufacture products or use its trademarks for a fee or a royalty. This company is the largest licensor of consumer products in the world. By licensing its products to other companies, it earns a whopping \$56 billion a year. Name that company. (Find the answer 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, Hong Kong, or Tokyo? Today, most companies doing business globally believe it is important for their employees to experience working in other countries. The reason is not surprising—although the United States is a market of over 334 million people, there are over 8 billion potential customers in the 195 countries that make up the global market.<sup>1</sup> That’s too many people to ignore! (See Figure 3.1 for a map of the world and important world population statistics.)

Today, the United States trades almost \$1.9 trillion worth of goods with Canada, Mexico, and China.<sup>2</sup> Costco opened its first store in Shanghai in 2019 and was greeted by such huge numbers of Chinese shoppers that traffic was shut down. The company added seven more stores in 2022 and plans more openings in 2023.<sup>3</sup> Starbucks has more than 6,000 stores in China and plans to have 9,000 by 2025.<sup>4</sup> Walmart operates over 10,500 stores in



**FIGURE 3.1** WORLD POPULATION BY CONTINENT

As shown on this map, 59.4 percent of the world’s population lives in Asia while only 7.6 percent lives in North America.

Source: “Continent and Region Populations 2023,” World Population Review, worldpopulationreview.com, accessed January 2023.

*It may not be what the rest of the world calls “football,” but American football is attracting a wide audience outside the United States. London’s Wembley Stadium first played host to the NFL’s International Series in 2007, and since then the league has expanded the series to include games in Mexico and Germany. What cultural factors must U.S. sports franchises overcome in order to increase popularity abroad?*



Matt Dunham/AP Images

24 countries.<sup>5</sup> Major League Baseball is broadcast in 207 countries and 16 languages.<sup>6</sup> The National Basketball Association (NBA) has played regular season games in Japan, Mexico, England, and France.<sup>7</sup> The National Football League (NFL) has played regular season games in London, Mexico, and Germany.<sup>8</sup> NBC paid \$2.7 billion to telecast England’s Barclays Premier Soccer League in the United States through 2028.<sup>9</sup> U.S. film stars Tom Cruise, Dwayne Johnson, and Scarlett Johansson draw large 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 world’s largest importing nation and the second-largest exporting nation, behind China.<sup>10</sup>

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 certain to keep growing.

### importing

Buying products from another country.

### exporting

Selling products to another country.

### free trade

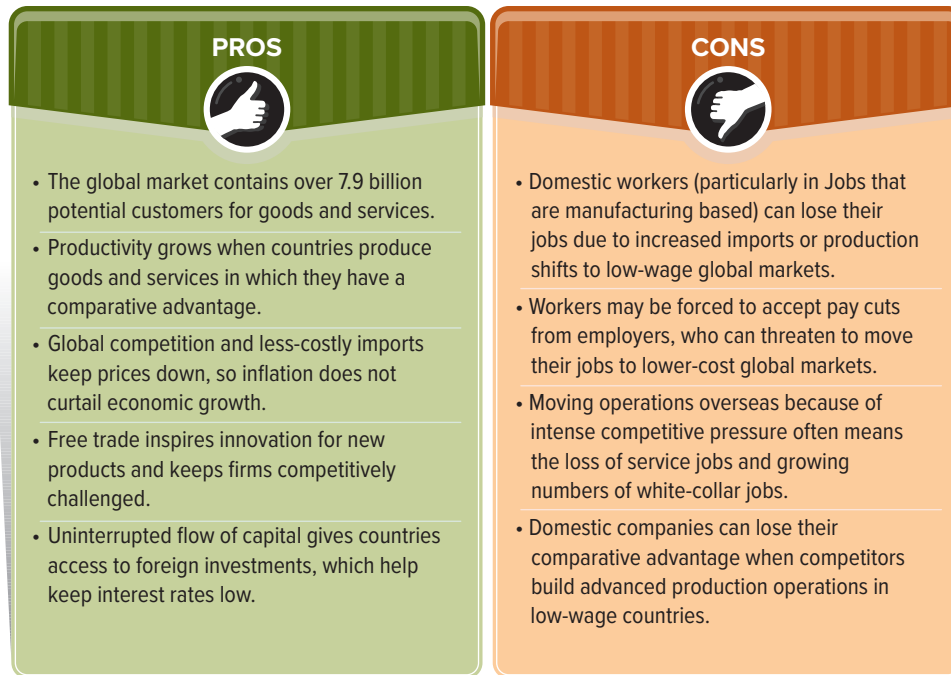
The movement of goods and services among nations without political or economic barriers.

## 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 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 continues to be a hotly debated concept. 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



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

the guiding principle that supported the idea of free economic exchange.<sup>11</sup> **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 is said to have 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, there is also global job potential in small businesses. In the United States, only about 3 percent of small businesses export, yet they account for about a quarter of the total U.S. exports.<sup>12</sup> With the support of the U.S. Department of Commerce, U.S. small-business exporting has increased significantly, but not quite to the participation level many would like.

Getting started globally is often a matter of observing, being determined, and taking risks. A classic story illustrates this point: 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 traveler 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 their idea, while the people gained a needed product. Today, ice factories exist throughout Africa.<sup>13</sup>

### 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.





Craig Russell/Alamy Stock Photo

*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, Funko earns more than \$1 billion in annual revenue. Does a career in the global collectibles market seem appealing to you?*

### 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.

## Importing Goods and Services

Students attending colleges and universities or traveling 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.<sup>14</sup> 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 realized his dream of opening a Starbucks in Italy when the company opened its first store in Milan.<sup>15</sup>

## Exporting Goods and Services

Who would think U.S. beers would be popular in Germany, home of the first state “beer purity” law (called the *Reinheitsgebot*) and maker of so many classic beers? Well, some of Germany's most famous beer halls and store shelves offer U.S. beers like Samuel Adams Boston Lager. Sierra Nevada even collaborated with Germany's Bitsberger Brewery to produce its Oktoberfest beer.<sup>16</sup> Anheuser-Busch In-Bev, brewer of Budweiser, has operations in nearly 50 countries and has breweries in Europe, Africa, Brazil, and China. 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 as intense as it is at home. For example, you can sell snowplows to Saudi Arabians, who use them to clear sand off their driveways. Social media has opened up tremendous opportunities in global markets. German-owned Adidas is the second-largest footwear company in the world. To expand its reach globally, Adidas uses social media platforms such as TikTok, Instagram, and Facebook to connect with consumers by utilizing celebrities such as pop star Selena Gomez and soccer superstar Lionel Messi to promote its products. The Connecting through Social Media box illustrates how this social media strategy is vital to companies' global success.

Exporting can provide a terrific boost to the U.S. economy. C. Fred Bergsten, director emeritus of the Peterson Institute for International Economics, has stated that the U.S. economy is \$1 trillion a year richer because of its integration with the world economy.<sup>17</sup> He also estimates that every \$1 billion in additional U.S. exports generates over 7,000 jobs at home. Overall, exports represent about 11 percent of U.S. GDP and account for 9 million jobs.<sup>18</sup> 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 ([trade.gov](http://trade.gov)) and click on “Learn How to Export.” More advice is available at websites such as those sponsored by the U.S. Department of Commerce ([doc.gov](http://doc.gov)), the Bureau of Export Analysis ([bea.gov](http://bea.gov)), the Small Business Administration ([sba.gov](http://sba.gov)), and the Small Business Exporters Association ([sbea.org](http://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



## CONNECTING THROUGH SOCIAL MEDIA

### *It Really Is a Small World After All*

It really is a small world after all thanks to social media. Customers almost anywhere in the world can log in to one of many apps, and your post can persuade them to check out your website. The result: Another potential customer is aware of your brand. Staying competitive in today's global business environment requires companies of all sizes to improve the effectiveness of their social media marketing. Statistics show that more than 4.5 billion Internet users around the world spend at least two and a half hours per day on social apps like TikTok, Instagram, YouTube, and Facebook. These platforms allow consumers to discover and share information about brands through word of mouth, which consulting firm McKinsey & Company claims can influence between 20 and 50 percent of all purchasing decisions. But in the ever-evolving world of social media, word of mouth needs to extend beyond just the one-on-one recommendations of friends and family. It often is used through the help of influencers and content creators.

Influencers and content creators are powerful personalities

that have social media followings that range from tens of thousands to millions, giving them enormous marketing power over their legions of followers. Research shows that half of Millennial consumers trust content creators for purchasing guidance. Gen Z consumers are even more likely than Millennials to follow product recommendations from content creators, with many trusting them more than their friends when it comes to shopping.

To reach the enormous number of Gen Z consumers and their more than \$360 billion in spending power, savvy brands are spending big to promote their products through famous influencers and content creators. One recent study found that almost three-quarters of



Emma McIntyre/Getty Images Entertainment/Getty Images

companies with 100 or more employees used social media marketing in 2022. Some content creators become so powerful that they alone drive up the demand for many products. For example, makeup artist Sandra Cires started posting makeup tutorials on YouTube while waiting for her U.S. citizenship following her immigration from Cuba. She now has over 16 million YouTube subscribers and can earn up to \$11,000 per sponsored Instagram post or nearly \$9,000 for a TikTok. When she promotes a product, it's quick to sell out on many consumer sites. Creators like these will likely continue to have a major impact on both marketing and product development in the years to come.

Sources: Kevin Johnson, "The Role of Social Media in International Branding," *SmallBusinessChron*, [smallbusiness.chron.com](https://smallbusiness.chron.com), accessed February 2023; David Chaffey, "Global Social Media Statistics Research Summary," *Smart Insights*, [smartinsights.com](https://smartinsights.com), January 30, 2023; Jeff Fromm, "As Gen Z's Buying Power Grows, Businesses Must Adapt Their Marketing," *Forbes*, July 20, 2022; Alessandro Carrara, "TikTok's Highest Earning Beauty Influencers Revealed," *Cosmetics Business*, June 16, 2022; Stephan Rabinov, "The 360-Degree Beauty: Consumer-Informed Cosmetics Trends," *Forbes*, February 13, 2023.

**trade deficit**, occurs when the value of a country's exports is less than that of 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.

Since 1975, the United States has bought more goods from other nations than it has sold and thus has a trade deficit. In 2022, the United States recorded its largest trade deficit ever. Today, the highest trade deficit is with China.<sup>19</sup> Nonetheless, the United States remains one of the world's largest *exporting* nations even though it exports a much lower *percentage* of

#### **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.



**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.

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.)

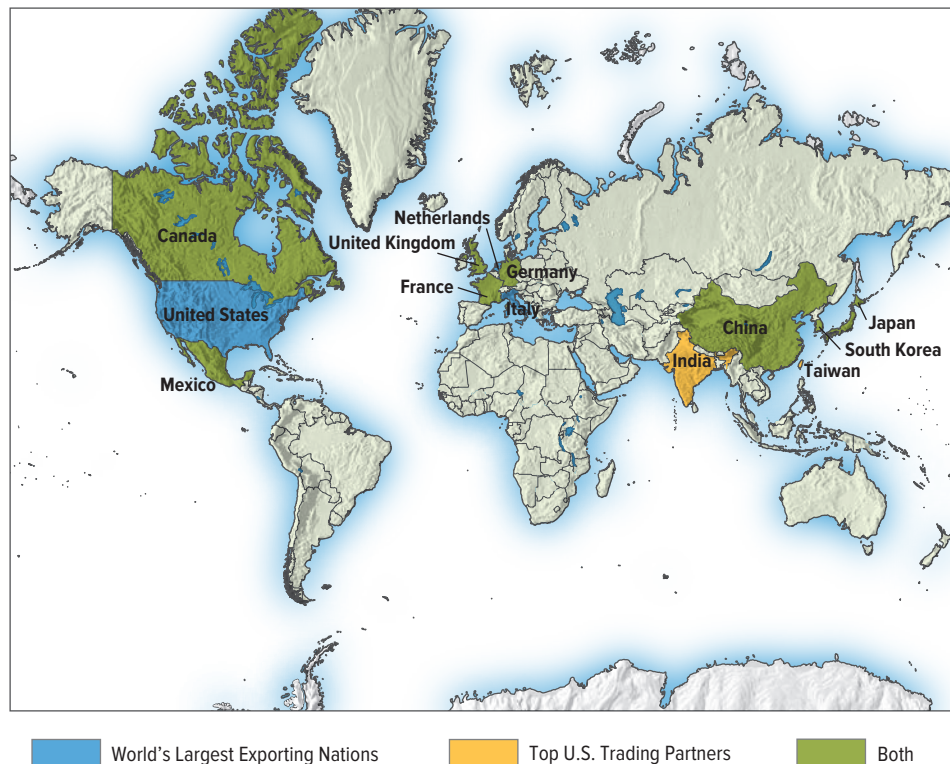
In supporting free trade, the United States, like other nations, wants to make certain global trade is conducted fairly. To ensure a level playing field, countries prohibit unfair trade practices such as dumping. **Dumping** is selling products in a foreign country at lower prices than those charged 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 Russia, for example, have been penalized for dumping steel and aluminum in the United States.<sup>20</sup> 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.

## 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. TRADING 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

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 bottling service contracts that sell over 1.9 billion servings of the company's products each day.<sup>21</sup> 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 over \$56 billion of licensed products.<sup>22</sup>

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, could be 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 secrets, it may violate the agreement and begin to produce a similar product on its

### 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).

**FIGURE 3.4** STRATEGIES FOR REACHING GLOBAL MARKETS



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?



8th.creator/Shutterstock

own. If legal remedies are not available, the licensing firm may lose its trade secrets, not to mention promised royalties.

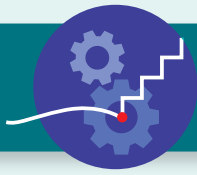
## Exporting

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.<sup>23</sup>

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, Dunkin', and KFC have many global units operated by foreign franchisees, but global franchising isn't limited to large franchisors. For example, Physique 57, a small, high-end boutique fitness center in New York, opened franchises in Abu Dhabi, Bangkok, Manila, and Mumbai.<sup>24</sup> Rocky Mountain Chocolate Factory, a Colorado-based producer of premium chocolates, has franchisees in South Korea, the Philippines, and the United Arab Emirates, where chocolate is considered a gourmet luxury.<sup>25</sup> Foreign franchisors have also experienced success in the U.S. market. Japan's Kumon Math & Reading Centers, Canada's Tim Hortons, and InterContinental Hotels and Resorts have found long-term success with American consumers.



## ADAPTING TO **CHANGE**

[mcdonalds.com](https://mcdonalds.com)

**F**or decades, McDonald's has faced the challenges in the global market and become the undisputed king of global food franchising. Every day the fast-food chain serves 68 million customers at more than 38,000 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, in Canada, McDonald's has elevated its classic fries by adding cheese curds and gravy to create poutines, a Canadian favorite. During winter months Japanese customers can order the Gracoro Burger, a sandwich that features a fried shrimp and macaroni patty topped with beef sauce. Brazilian locations offer a version of the traditional dish *pão de queijo*, a

## A World of Challenges under the Golden Arches



Stan Kujawa/Alamy Stock Photo

baked cheese roll that has been enjoyed in the South American nation for centuries. Customers in the Philippines can even order a fried chicken leg (Chicken McDo) with a side of McSpaghetti, one of the country's most popular McDonald's combos.

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 McDonald's makes on the global stage is a welcomed one. In 2022, after 32 years of operation, McDonald's closed its restaurants in Russia after the Russian invasion of Ukraine. For many Russians, McDonald's opening in 1990 was the first exposure they had experienced to capitalism and American culture. The company knows it will undoubtedly face more challenges in the future as it continues adapting and expanding into the global market.

Sources: Natasha Turak, "Goodbye American Soft Power: McDonald's Exiting Russia after 32 Years Is the End of an Era," *CNBC*, [cnbc.com](https://www.cnbc.com), accessed February 2023; Gitanjali Poonia, "Strange McDonald's Menu Items around the World," *DeseretNews*, February 18, 2023; "Special McDonald's Menu from around the World," *Love Food*, [lovefood.com](https://lovefood.com), accessed March 2023; McDonald's, [mcdonalds.com](https://mcdonalds.com), accessed March 2023.

Franchisors have to be careful to adapt their product or service to the countries they serve. Domino's Pizza makes one million pizzas a day for the over 19,500 stores it has in 90 countries outside the United States.<sup>26</sup> Unfortunately, the toppings on those pizzas vary from country to country. In India, where the company operates over 1,300 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 11,700 stores in 43 countries across the globe, but local taste preferences are anything but the same.<sup>27</sup> For example, in the company's donut shops in China, the donut of choice is dried pork and seaweed. South Koreans prefer red bean-glazed or black rice donuts. Read the Adapting to Change box that highlights another global franchise champion, McDonald's.

### 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,

#### 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.





Ryan Huang/Shutterstock

*Tired of studying and want a quick snack? How about a piping hot pizza topped with cuttlefish sausage 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?*

### 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.

Apple, and IBM. Foxconn is the world's largest contract manufacturer and makes such well-known products as the Apple iPhone and Microsoft's Xbox Series X. Nike has 600 contract factories across 46 countries that manufacture almost all its footwear and apparel. The medical services industry also makes heavy use of contract manufacturing and is expected to grow to over \$360 billion by 2029.<sup>28</sup> Contract manufacturing suffered material shortages and supply-chain problems because of the COVID pandemic. This caused many U.S. companies to question its reliability and consider "reshoring" production facilities back to America. General Motors, Intel, and U.S. Steel are companies that will open new factories in the United States.

Nonetheless, contract manufacturing is expected to continue being a major force in global business. Why? 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.

## 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, NBCUniversal opened its first theme park in Beijing, China, through a joint venture with state-owned Beijing Shouhuan Cultural Tourism Investment. Tickets for the park reportedly sold out within minutes for opening day. The park received the Best Park award from the Themed Entertainment Association.<sup>29</sup>

Joint ventures are developed for many different reasons and can even involve competing companies. General Motors, Volkswagen, and other major car producers have all invested heavily in joint-venture factories to ensure the supply of electric vehicle batteries.<sup>30</sup> Joint ventures can also be truly unique. A joint venture called Galvani Bioelectronics involves pharmaceutical giant GlaxoSmithKline (GSK) and Verily Life Sciences (formerly Google Life Sciences) to develop bioelectronic medicines to treat chronic diseases. The venture combines GSK's expertise in life sciences with Google's expertise in software and electronics for clinical applications.<sup>31</sup> A classic global joint venture over 20 years ago between the University of Pittsburgh Medical Center (UPMC) and the Italian government brought a new medical transplant center to Sicily. The UPMC recently began construction on a 256-bed hospital that will embody lessons learned from the COVID-19 pandemic.<sup>32</sup> 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 after attempts for a full merger failed.<sup>33</sup>

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 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.

## 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), Lean Cuisine, Dreyer's Ice Cream, and Seattle's Best Coffee in the United States as well as Perrier in France. Nestlé employs over 273,000 people in 186 countries and has operations in almost every country in the world.<sup>34</sup>

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 major form of foreign direct investment is the use of **sovereign wealth funds (SWFs)**, investment funds controlled by governments holding investment stakes in foreign companies, real estate, and other investments. Norway, with a population of 5 million people, is the world's wealthiest SWF, with assets of over \$1.37 trillion.<sup>35</sup> SWFs from the United Arab Emirates, Singapore, and China have purchased interests in many U.S. companies. The size of SWFs (\$7 trillion globally) and government ownership have raised some fears they might be used for achieving geopolitical objectives. China's purchase of farmland located near U.S. military bases is an example.<sup>36</sup>

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.



Chris Rank/Bloomberg/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.

**FIGURE 3.5 THE LARGEST MULTINATIONAL CORPORATIONS IN THE WORLD**

Source: *Fortune*, fortune.com, accessed February 2023.

	COMPANY	COUNTRY
1	Walmart	 U.S.
2	Amazon	 U.S.
3	State Grid	 China
4	China National Petroleum	 China
5	Sinopec Group	 China
6	Saudi Aramco	 Saudi Arabia
7	Apple	 U.S.
8	Volkswagen	 Germany
9	China State Construction	 China
10	CVS Health	 U.S.



- 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?

**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, real estate, and other investments.

**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.<sup>37</sup>

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. German discount grocery chain Aldi continues expanding in the United States and now has over 2,100 locations with plans to hire more than 20,000 workers in 2022.<sup>38</sup> Lidl, another German discount grocery chain, entered the United States in 2017 and

has approximately 150 U.S. locations with plans for further growth.<sup>39</sup> Despite worldwide acceptance, the United States has not conformed to the metric system of measurement.<sup>40</sup> 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 is 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. Years later, at the 2022 World Cup in Qatar, Anheuser-Busch In-Bev was informed there would be no beer sales inside stadiums two days before the competition started due to strict alcohol restrictions.<sup>41</sup> The company had paid \$75 million to be the official beer supplier during the tournament. A valuable lesson from these experiences is 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. The manager was convinced they could motivate 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 the 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.

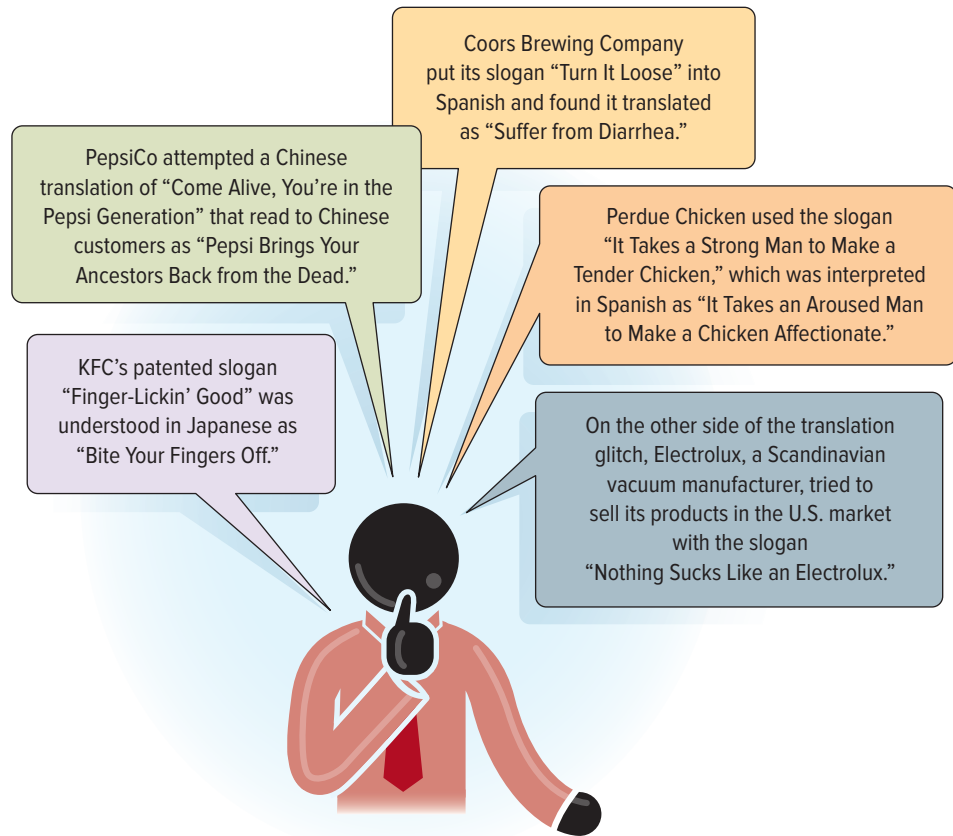
## Economic and Financial Forces

Economic differences can muddy the water in global markets. In Monaco, annual per capita income is over \$170,000, the highest in the world. In 2022, economically strapped Burundi reported the lowest per capita income, barely over \$308.<sup>42</sup> It's difficult for us to imagine buying chewing gum by the stick. Yet this behavior is commonplace in economically depressed nations like Haiti or Somalia, where customers can afford only small quantities. You might suspect with over 1.4 billion potential customers, India would be the world's largest market for Coca-Cola. In fact, India ranks fifth in global sales because 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, where consumers buy in very small (sample size) quantities due to low incomes.

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

### 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.



### exchange rate

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

currencies, globally the U.S. dollar is considered a dominant and stable currency. However, it 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, 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 6,400 employees in 43 countries. Like its larger counterparts, H.B. Fuller uses currency fluctuations to its advantage in dealing with its global markets.

### devaluation

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

Currency valuation problems can be especially harsh on global 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





Brendan McDermid/REUTERS/Almay Stock Photo

*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, tourists from abroad 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?*

relative to other currencies. The Turkish lira has lost over 400 percent of its value since 2008 due to various reasons, including geopolitical and economic issues.<sup>43</sup> 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** is a complex form of bartering in which several countries each trade goods or services for other goods or services. Let’s say a less developed 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 less developed countries.<sup>44</sup>

### **countertrading**

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

## **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 and regulatory system.

U.S. businesses must follow U.S. laws and regulations in conducting business globally. For example, the U.S. and other countries’ sanctions on Russia after it invaded Ukraine in 2022 restricted imports from the country. Since the two countries control nearly a third of the wheat supplied around the world and Russia alone controls a third of the potash production (a main ingredient in fertilizer), the cost of food spiked higher across the globe.<sup>45</sup>

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. That runs contrary to practices in some countries (generally





## 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 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 they ventured too close to a gas stove. The CPSC ruled the material used did not have sufficient flame-retardant capabilities to meet U.S. standards. Your company was instructed to immediately remove the product from store shelves and issue a product recall.

This is a tough blow for your 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 safety laws as the United States. They suggest the product could be exported to a country with less stringent product safety rules. Exporting the product to another country would solve your



chriswang/Room/Getty Images

inventory and profit concerns, but you wonder about if it's right to send a product deemed unsafe in the United States to children in another market. What are the consequences of each alternative? What will you do?

### FIGURE 3.7 COUNTRIES RATED HIGHEST ON CORRUPT BUSINESS

1. Somalia
2. Syria
3. South Sudan
4. Venezuela
5. Yemen
6. Libya
7. North Korea
8. Haiti
9. Equatorial Guinea
10. Burundi

Source: Transparency International, 2023.

less developed 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.<sup>46</sup> 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 less developed 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 less developed countries do not match those of U.S. homes, in kind or capacity. Computer and Internet use in many less developed countries has improved due to the adoption of cloud services but still lags behind more 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.

## 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

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 U.S. 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, the U.S. companies that buy the foreign goods must pay the tariff bill.<sup>47</sup>

An **import quota** limits the number of products in certain categories a nation can import.<sup>48</sup> 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. The

#### 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?*



Jeff Kowalsky/Bloomberg/Getty Images

Russian invasion of Ukraine in 2022 led the United States and many European nations to ban the import or export of products from Russia because of the war. The United States has imposed embargoes on Iran, Syria, North Korea, Russia, and Cuba.<sup>49</sup> The embargo against Cuba has existed since 1962. In 2016, some trade restrictions were lifted and diplomatic relations restored. However, in 2017, diplomatic relations soured and restrictions again were put in place, where they remain.<sup>50</sup>

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

### 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.

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.<sup>51</sup> Trade disputes are presented by member nations, and decisions are expected to be made within a year rather than languishing for years as in the past; member nations can appeal a decision.

The WTO has not solved global trade problems. In fact, the WTO has not reached any significant trade accord since the Doha Round of negotiations ended in 2015. Since its inception, a wide gap has persisted between less developed nations (80 percent of the WTO membership) and more developed nations like the United States. Many worry that WTO authority and legitimacy could be crumbling. Many countries (including the United States) have ignored the WTO and implemented export controls, tariffs, and subsidies.<sup>52</sup>

## Common Markets

### 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.

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 447 million and a GDP of \$17.01 trillion.<sup>53</sup> 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 (United





**FIGURE 3.8 MEMBERS OF THE EUROPEAN UNION**

Current EU members are highlighted in yellow. Countries that have applied for membership are in orange.

Kingdom) voted to leave the EU (an action called Brexit, a combination of the words *Britain* and *exit*). The UK became the first nation to withdraw from the EU when it formally left in 2020.<sup>54</sup> 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. Continuing immigration issues and containing the COVID-19 pandemic also challenged the EU.<sup>55</sup> Going forward, the EU faces many other major issues, including the Russian invasion of Ukraine. 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 Argentina, Brazil, Paraguay, Uruguay, and associate members Bolivia, Chile, Colombia, Ecuador, Peru, and Suriname in a trading bloc that encompasses almost 553 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 would create one of the largest free-trade agreements in the world.<sup>56</sup> The trade deal, however, has not been ratified. France and other members refuse to ratify the agreement due to environmental concerns.<sup>57</sup>

The new Asia-Pacific trade agreement called the Regional Comprehensive Economic Partnership will eventually eliminate more than 90 percent of tariffs among 16 member countries.<sup>58</sup> China, Japan, and Australia have signed on to the new agreement. U.S. trade analysts fear the new trade pact will enhance China's influence in the region. Many believe the United States needs to rethink its strategy in the region. 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

*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 40 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?*



Shutterstock/nito

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.<sup>59</sup>

## The United States–Mexico–Canada Agreement (USMCA)

### North American Free Trade Agreement (NAFTA)

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

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. 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. 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.

### 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.

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. 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.<sup>60</sup> Time will tell if USMCA achieves these lofty goals.

## 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, Honduras, and Nicaragua 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.<sup>61</sup>

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 less developed 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 8 billion potential customers are attractive. However, a global pandemic, terrorism, nuclear proliferation, rogue states, income inequality, trade wars, cyberterrorism, war, 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, incredible exporting prowess, manufacturing power, and growing technological capabilities, 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 2022, China attracted \$189 billion in foreign direct investment.<sup>62</sup> Some economists predict China could overtake the United States as the world's largest economy in the late 2020s.<sup>63</sup>

Many viewed China as a free trader's dream, where global investment and entrepreneurship would lead to wealth. However, concerns about China's one-party political system, human rights abuses, currency issues, increasing urban population growth, trade restrictions, military buildup, and an aging population have raised serious concerns.<sup>64</sup> China's underground economy also still generates significant product piracy and counterfeiting.<sup>65</sup> With the global economy continuing to be intensely competitive, China will be a key driver of the world economy and a formidable competitor of the United States, the EU, and Japan.

While China attracts most of the attention in Asia, India's population of over 1.4 billion presents a tremendous opportunity and challenges. With nearly 47 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 fact, India surpassed China as the world's most populated country in 2023. India has seen strong growth in information technology and biotechnology, and its pharmaceutical business is expected to grow to \$65 billion in 2024. The government is trying to transform the country's image as a difficult place to do business, but complex trade laws, an inflexible bureaucracy, and limited manufacturing capacity are continuing challenges.<sup>66</sup> Economists



ANDRYPHOT/Alamy Stock Photo

*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?*

see better times for India, and some predict India could surpass Germany and Japan to become the world's third-largest economy by 2028–2029.

Many projected Russia would be a wealthy global economy by 2025. Unfortunately, Russia's economy slowed when world oil prices suffered a decline. This forced the government to admit that growth prospects for its economy were not strong for the next two decades. To complicate matters, Russia's invasion of Ukraine caused the United States and major European economies to reduce or stop trade with Russia completely, further stalling its economy. Unfortunately, Russia is continuously plagued by political, currency, and social problems and is considered by Transparency International as one of the world's most corrupt economies.

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 be a major force in the global market as a key supplier of raw materials. Unfortunately, the past several years have been difficult for Brazil's economy, with widespread political corruption, inflation, and slow growth.<sup>67</sup> The COVID-19 pandemic also severely impacted Brazil's economy in the early 2020s. Some hoped the election of a new president in 2022 could move things forward. Still, its consumer market of over 200 million people remains a prime target for major exporters like the United States and China.

Growing areas of opportunity include the less developed nations of Asia. Today, South Korea and Vietnam rank in the top 10 in terms of exports to the United States. Trade with Asian countries including Indonesia and Thailand have also increased significantly due to U.S. trade conflicts with China.<sup>68</sup> The potential of these nations has not gone unnoticed among competing global producers.

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

### offshore outsourcing

Contracting with other companies abroad to do some or all of the functions of a firm, like its production or accounting tasks.

**Offshore outsourcing** is the process whereby one firm contracts with other companies abroad to do some or all of its functions. In the United States, companies have outsourced payroll functions, accounting, and many manufacturing operations for many years. However, the shift to primarily low-wage global markets has remained 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, Apple, and Nike outsourced manufacturing offshore. IBM has more employees in India than in the United States. We have moved beyond just the outsourcing of manufactured goods to 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 specific training such as accounting, law,

**FIGURE 3.9** THE PROS AND CONS OF OFFSHORE OUTSOURCING



finance, risk management, health care, and information technology have seen their jobs outsourced offshore. Eastern Europe, India, China, and other emerging Asian nations are the most popular locations for offshore outsourcing.

Loss of jobs through offshore outsourcing remains a major concern. However, it's not the only concern. Nations such as China have a spotty safety record in manufacturing toys, food, pet food, and drugs. Some medical providers have shifted employee surgical procedures to nations such as India to save costs. Additionally, the COVID-19 pandemic caused significant supply-chain disruptions throughout the world, causing companies to question the benefits of offshore outsourcing.<sup>69</sup> Many companies have begun *reshoring*, returning production and manufacturing back to the United States. In 2022, U.S. companies brought 350,000 jobs back to the United States. Apple, Intel, and General Motors are building new factories in the United States.

As technical talent continues to grow around the globe, and supply chains get back to normal functions, offshore outsourcing will continue to be a controversial topic. To stay competitive, education and training will be critical for U.S. workers to preserve the skill premium and technology advantages 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.

### TESTPREP

- 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 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 or trade for 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.

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**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, foreign subsidiaries, 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 could be lost due to offshore outsourcing and that the quality of products produced could be inferior. Since the COVID-19 pandemic caused distribution and supply-chain problems, companies have evaluated the possibility of “reshoring”—bringing jobs and facilities back to the United States.

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## KEY TERMS

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 *more developed nations*. Countries with a lower standard of living and quality of life are called *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?
5. The COVID-19 pandemic caused major problems for U.S. companies that outsourced manufacturing to other countries. Some firms are now considering *reshoring* and bringing production back to the United States. What are the advantages and disadvantages of moving production back to the United States?

## CRITICAL THINKING



## 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](http://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.

## DEVELOPING CAREER SKILLS

**KEY:** ● Team    ★ Analytic    ▲ Communication    📱 Technology

- ▲ 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, email, 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 they cite. 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. Wright 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 all of Representative Wright's points? Evaluate each of Wright's 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 their 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 global 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](http://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.



### Mary Kay: Spreading Beauty around the Globe

### VIDEO CASE 1

Mary Kay Ash built a successful career in direct selling, but whenever the opportunity for a promotion came up, she was continuously passed over in favor of other male employees. When she finally had enough of this disparity, she quit her job and took a chance on an idea she had nurtured for years. Her vision involved empowering women to achieve unlimited potential according to their motivation and ability. This dream grew into a business plan, and in 1963 Mary Kay, Inc., was born.

Today, Mary Kay is the leading global beauty brand in more than 40 countries around the world. Since its founding, the company has enriched the lives of millions of women across the globe. According to Sheryl Adkins-Green, executive vice president and CMO of Mary Kay, the job of a global beauty brand is to make sure women feel confident, beautiful, and connected with the brand. To accomplish these goals, the company's global team of independent beauty consultants must stay aware of local and regional preferences along with larger trends in the beauty industry. Mary Kay, in turn, must equip its consultants with the materials, information, and advice needed to deliver the best service to their customers.

In the Asia-Pacific region, for example, trends can move exceptionally fast. The insight of local consultants helps the company move quickly to stay on top of these changes in the market. The stakes are high considering that China, the largest market in the region, is home to more than 367 million cosmetics users. Millennials have

especially emerged as a buying force, meaning that Mary Kay needed to develop a new product line for this growing segment of buyers. With help from its consultants, the company came up with a brand called Pink Young, which combines the firm's signature color with the attitude of being young, fresh, and experimental.

After developing this new line, Mary Kay then faced the challenge of bringing it to market. Once again, the company's independent consultants came through and identified key influencers who could generate a lot of buzz for the product launch. Pink Young has since gone on to enjoy massive success in Asia, showing how important it is for companies to consider the needs of all kinds of global consumers. While Mary Kay is first and foremost a beauty brand built on high-quality products and an established delivery system, the company also clearly understands the need to be flexible when breaking into new markets.

#### THINKING IT OVER

1. What local factors must Mary Kay consider while operating in global markets?
2. Why does Mary Kay carefully research a product's potential before it decides to enter a global market?
3. Why does Mary Kay use local trend experts instead of corporate marketing specialists to develop new products for global markets?

## VIDEO CASE 2

*Transparency International  
Fights Global Corruption*

Companies encounter all sorts of challenges when they expand into global markets. Sociocultural forces, economic and financial circumstances, legal and regulatory environments, and even geographic features can have a major impact on the ways that global companies do business. Top firms must adapt to these conditions in order to make their operations successful, although there is one major problem that they cannot easily adjust to: corruption.

Corruption is an insidious problem that harms not only businesses but also entire national economies, with developing markets being especially vulnerable. That's why Transparency International was established 30 years ago by Peter Eigen, a World Bank executive who believed corruption perpetuated poverty. With more than 100 chapters worldwide, Transparency International is the largest global coalition devoted to fighting corruption.

The organization defines corruption as the abuse of public authority for private gain. Corruption by public officials can include unethical practices like bribery and the use of governmental power to punish opponents. A notorious example occurred when the prime minister of Malaysia stole \$4 billion from a development fund set up to help citizens in rural communities. His actions prevented Malaysians from receiving much-needed health care facilities, roads, bridges, and economic opportunities.

Along with the individual suffering caused by corruption, nations that develop reputations for fraud can damage their economies through the loss of foreign direct investment. A lack of outside capital can lead to job losses and stagnant development, potentially setting a country on a backwards track toward further immiseration. Dictatorships are more likely to rely on corruption because they lack the popular participation and independent media structures present in most democracies.

Transparency International admits there is no fool-proof method to uncover the scope of corruption in a country. It does, however, publish a research tool called the Corruption Perception Index where 180 countries are rated on the perception of corruption. The lower the score on the index, the higher the probability of corrupt practices in that country. The index is used by public officials, international financial institutions, and business leaders to determine whether to risk investing in a country.

Transparency International also strongly advocates for the enforcement of the Foreign Corrupt Practices Act (FCPA), which the United States passed in 1977. The FCPA became law in the United States when evidence showed that American companies bribed officials in foreign countries to win business contracts. The FCPA has influenced the passage of strict foreign bribery laws throughout Europe and other countries. It's important to ensure these laws are being effectively enforced.

That's why, after 30 years of activism, Transparency International isn't about to slow down. It still believes that corruption is one of the greatest issues facing the world economy. The organization has made significant progress identifying where corrupt practices occur and thrive, giving it an advantage that should help its mission for years to come.

**THINKING IT OVER**

1. Why is direct foreign investment of major importance for less developed countries?
2. Why are dictatorships more susceptible to corruption than democracies?
3. Do you think organizations like Transparency International are effective at combating corruption? Why or why not?

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