

# SOLUTIONS MANUAL



# Chapter One

## Business Now: Change is the Only Constant

### End of Chapter Material

#### Review Questions

1. What factors contribute to the rapid pace of change in business? Is the pace likely to accelerate or decrease over the next decade? Why?

*A number of factors contribute to the rapid pace of change in business, including cutthroat global competition, rapidly changing technology with plunging prices, better and cheaper global communication, and depleted resources. As these trends intensify, the pace of change will likely pick up even more speed in the decade to come.*

2. What role does entrepreneurship play in the economy? Who stands to gain from the success of individual entrepreneurs? How do other parties benefit?

*Entrepreneurship fuels innovation and increases competition, which leads to more choices for consumers, higher quality products, and better prices. The success of individual entrepreneurs impacts those individuals, of course, but also affects other players in the community. A successful new business provides jobs, offers business to suppliers, pays taxes, and adds vitality to the community. As the entrepreneur accumulates wealth, he or she will spend, save, or invest that money, further boosting the economy.*

3. When did American business begin to concentrate on customer needs? Why?

*A critical mass of American businesses began to concentrate on customer needs during the marketing era, which emerged after World War II. The key reason was more intense competition, which gave customers more choices. In this environment, meeting customer needs became an imperative for business success. The customer-first approach continues to influence business decisions today as global competition heats up to unprecedented levels.*

4. How do nonprofit organizations compare to businesses? What role do nonprofits play in the economy? How do they interact with businesses?

*Nonprofit organizations differ from businesses in that their primary goals do not include financial gain. However, nonprofits are clearly business-like establishments that contribute to the economy in a number of significant ways—most employ people, many produce goods and services and take in revenue, and many act as economic magnets for additional investment. Many nonprofits interact with businesses by developing partnerships that benefit both parties. Kraft Foods, for instance, contributes to America's Second Harvest, a nonprofit*

*organization that aims to eliminate hunger in America. Kraft benefits by raising their public profile in alignment with their corporate vision: “Helping People Around the World Eat and Live Better.” America’s Second Harvest benefits, of course, from the financial support.*

5. What are the factors of production? How can economies grow when one or more of the factors is weak?

*Factors of Production:*

- *Natural resources: All inputs that offer value in their natural state, such as land, fresh water, and wind.*
- *Capital: The synthetic resources that a business needs to produce goods or services such as machines, information, and technology.*
- *Human resources: The physical, intellectual, and creative contributions of everyone who works within an economy.*
- *Entrepreneurship: People taking the risk of launching and operating their own businesses, largely in response to the profit incentive.*

*Economies can compensate for weak factors of production by buying or investing in other economies (e.g. purchasing technology from another country), or by developing their own weak factors (e.g. investing in the education of their workforce).*

6. What are the five dimensions of the business environment? Discuss the key elements in each area as they relate to U.S.-based businesses.

<b><i>Dimension of Business Environment</i></b>	<b><i>Key Elements</i></b>
<i>Economic Environment</i>	<ul style="list-style-type: none"> <li>• <i>U.S. government actively promotes fair competition and supports small businesses</i></li> <li>• <i>U.S. legislation supports enforceable contracts, which is not the case in some other countries</i></li> <li>• <i>Corruption and bribery are relatively low in the U.S. compared to other parts of the world</i></li> <li>• <i>Underlying issues such as high federal and consumer debt may threaten long-term health of U.S. economy.</i></li> </ul>
<i>Competitive Environment</i>	<ul style="list-style-type: none"> <li>• <i>Global competition has intensified to unprecedented levels</i></li> <li>• <i>Leading edge firms now focus on customer satisfaction more than ever before</i></li> <li>• <i>Delivering value has become vital for success</i></li> <li>• <i>Imagination, innovation, speed-to-market, and a top notch workforce are crucial elements of a competitive edge</i></li> </ul>

<i>Technological Environment</i>	<ul style="list-style-type: none"> <li>• <i>New technology has created new businesses and transformed others</i></li> <li>• <i>Technology can be a rich source of competitive advantage for fast-moving firms, or a major threat for slow adapters</i></li> <li>• <i>E-commerce continues to grow rapidly, allowing firms to offer customized products at a comparable price to standardized products</i></li> </ul>
<i>Social Environment</i>	<ul style="list-style-type: none"> <li>• <i>U.S. culture is increasingly ethnically diverse, with a rapidly growing Hispanic population</i></li> <li>• <i>The American population is rapidly aging, offering both opportunities and threats for business</i></li> <li>• <i>Workers continue to seek more flexibility from their employers</i></li> <li>• <i>Consumers have begun to demand higher ethical standards from business</i></li> </ul>
<i>Global Environment</i>	<ul style="list-style-type: none"> <li>• <i>Economies around the world are increasingly interwoven</i></li> <li>• <i>Jobs are migrating to the lowest bidder</i></li> <li>• <i>Free trade has lowered prices and increased quality across product categories</i></li> <li>• <i>A number of issues such as war, depleted resources, and natural disaster threaten the long term health of the global economy</i></li> </ul>

7. What are some key strategies for developing a competitive edge in today's competitive global market? How important is customer satisfaction?

*Customer satisfaction is more important than ever before in today's competitive global market. The goal is to develop long-term, mutually beneficial relationships with customers. Higher customer satisfaction can translate into higher profits even when the competition is most challenging. Some broad strategies to develop a competitive edge:*

- *Use imagination and innovation to deliver unsurpassed value*
- *Increase speed-to-market for new products*
- *Recruit and retain the most talented workforce*

8. How has the rise of the World Wide Web changed business practices? What are the benefits and drawbacks for business? For consumers?

*The rise of the Web has created unprecedented opportunities for businesses to reach markets far beyond their local areas, creating a huge potential source of new revenue. The Web has also facilitated alternative selling strategies that give rise to an individualized buying experience. Producers can offer customized*

*products at a cost and price that are roughly comparable to standardized products. And by creating links among producers, suppliers, and distributors, the web offers businesses the potential for new efficiencies in their day-to-day practices. Businesses that capitalize on the opportunities offered by the Web can sharpen their edge dramatically. But the Web has also intensified competition, since it brings new competitors into virtually every business arena. Consumers benefit from the plethora of options, enjoying a new power to choose and to offer feedback to producers. Leading edge businesses respond to consumer feedback and tap into consumer creativity, using both to further sharpen their competitive edge. But to make this work, they must be willing to relinquish power and control to the marketplace.*

9. How has the definition of diversity changed over time? Can a diverse workforce help a company compete more effectively? How?

*Until recently the definition of diversity was fairly narrow, including only ethnic diversity. But leading edge companies view diversity more broadly, including differences in gender, age, religion, and nationality, among others. A diverse workforce can help a company compete more effectively by raising the level of innovation, and gathering new insights about how to reach an increasingly diverse marketplace.*

10. How has the global free trade movement impacted business? Who benefits? Why?

*The global free trade movement has affected business in a number of ways. The re-negotiation of GATT in 1995 and the subsequent establishment of WTO have lowered tariffs, boosting the movement of goods and services across the globe. Regional trade blocs have gone even further, creating blocs of nations with virtually unrestricted trade. In close relationship to free trade, jobs have migrated to the lowest bidder with the highest quality—regardless of where that bidder is based. The result has been lower production costs, lower prices, stronger global competition, more innovation, and a higher standard of living for millions of people.*

## **Application Questions**

1. Take a moment to jot down five things that you love to do. Think broadly (but keep it clean!). Your list could include anything from posting pictures on MySpace to listening to your favorite music. Then brainstorm a list of business careers that could encompass two or more of your passions. A position in nightclub marketing, for instance, could include surfing on MySpace and listening to great music. What skills would you need to succeed in each position? Which skills do you have and which would you need to develop?

*Answers will clearly vary based on student interests. You might want to encourage your students to be creative, but also to stay grounded in real world opportunities. Typically they find that the exercise provides them with new career-related insights that they often explore further.*

2. Most successful businesses today actively develop loyal customers who buy their brands again and again. After all, getting current customers to buy more is much easier than constantly seeking new customers. Think of three brands that you buy on a regular basis. Why do you stick to these products? How could another company dislodge you?

*Responses will vary based on the brands that students choose, but the most thoughtful answers will probably include discussion of long-term value and the importance of innovation to both keeping current customers and finding new customers.*

3. Entrepreneurship has clearly transformed the world economy. Choose three successful entrepreneurs, and use research to compare and contrast their management styles and philosophies. While you can certainly use local entrepreneurs—or even family members—some higher profile (and rather colorful) entrepreneurs include: Jeff Bezos, founder of Amazon; Debbi Fields, founder of Mrs. Fields Cookies; Richard Branson, founder of the Virgin Group; Anita Roddick, founder of The Body Shop; and Vishal Gondal, founder of Indiagames. If you were an entrepreneur, what approach do you think would be most effective for you? Why?

*Responses will vary, but students will almost certainly find that management styles and philosophies vary among successful entrepreneurs—no one style or philosophy works across the board. Encourage them to give serious thought to what style would fit best with their own values and goals.*

4. Brainstorm a list of industries that the Internet has transformed. What are the reasons behind the changes? How do you anticipate that technology will transform business in the future?

*Examples of industries that the Internet has transformed:*

- *Music*
- *Movies*
- *Ticketing (airlines, concerts, etc.)*
- *Real estate*
- *Stock trading*
- *Online auctions*
- *Advertising (search based)*
- *Communication*
- *Dating services*
- *Job recruitment*

- *Gaming*

*The reasons behind the transformation are different from industry to industry, but underlying factors include the ability of the web to put power and choice into the hands of consumers, to connect people and businesses across the globe, to offer 24/7 convenience, and to offer lower prices and lower costs. Student opinions will differ about how the Web will change business in the future.*

5. Use research to develop a list of companies where you believe you would like to work. What qualities do these companies have in common? Does a great work environment lead to success, or does success create a great place to work? When employees enjoy the work environment is a company more likely to succeed? Why or why not?

*Responses will vary, but you may want to guide students to Fortune company rankings, which are easily available on the Web. Their lists include the 100 best companies to work for, the 20 best companies for new grads, and the most admired companies. The editorial that accompanies the lists is typically a strong starting point for student investigations.*

## **Team Project**

Companies that constantly innovate are clearly more likely to succeed in today's hyper-competitive, global environment. Breakthrough ideas tend to come from business owners and employees who regularly exercise their creativity. This team project is meant to help you work with your classmates to flex your creative muscles.

Break into groups of 3-5 people. Choose a product or service 1) that you're all familiar with, and 2) that you all agree is headed downhill. (Possibilities could include anything from a movie studio, to a local pizza place.) Write a brief description of how the product is positioned in the marketplace relative to its competition. Then work together to figure out how you can change the product so that it better meets customer needs. Consider changing everything from the product features to the advertising venues. Write a paragraph that describes the revamped product, and draft a new slogan. Share your results with the class.

*Answers will vary depending on the products that the teams choose, but they are typically very creative.*

## **Case Connections**

### **Wal-Mart: Angel or Demon? You Decide...**

For better or for worse, Wal-Mart dominates the retail industry. With annual revenue of more than \$315 billion, Wal-Mart ranks number two on the Fortune 500 list of the largest U.S. corporations. Wal-Mart is also the largest corporate employer in the nation, with

more than 1.3 million people on its payroll (only the Federal government employs more people). On the global front, Wal-Mart operates nearly 3,000 international stores, buys products from 70 countries, and generates about 20% of their sales from abroad. Given Wal-Mart's aggressive expansion plans, those numbers are only likely to grow.

But beyond the basic facts, general agreement about Wal-Mart ends. Supporters portray Wal-Mart as a solid corporate citizen that fuels economic growth, while detractors criticize every dimension of Wal-Mart operations. The key arguments:

#### *Wal-Mart Supporters:*

- Wal-Mart boosts the standard of living for its customers by offering a plethora of quality products at the lowest possible prices. And by forcing its suppliers to become more efficient, Wal-Mart drives greater productivity and competitiveness throughout the economy.
- Wal-Mart boosts employment in every community where it operates, offering excellent opportunities from the entry level through management. Demonstrating the appeal of its jobs, a Wal-Mart that recently opened near Chicago received more than 25,000 applications for 325 positions.
- Wal-Mart revitalizes communities by building stores in economically depressed areas. In an interview with PBS, Wal-Mart VP Bob McAdam cites the example of Panorama City, CA: "When we came into that location, the mall that we're associated with there was basically boarded up and closed. Every storefront is full today with little businesses that are adjacent to the Wal-Mart store."
- Wal-Mart has made an impressive commitment to the environment by slashing energy use in its stores and trucking fleet, eliminating waste in operations and product packaging, and promoting environmentally friendly products...even when they're less profitable.
- Wal-Mart contributes more than \$170 million to the community each year, which translates to \$18,000 an hour, or \$5 a second. Wal-Mart was especially visible in the wake of Hurricane Katrina, prompting an official to comment on *Meet the Press* that if "the American government would have responded like Wal-Mart, we wouldn't be in this crisis."

#### *Wal-Mart Detractors*

- Wal-Mart has destroyed both the livelihood and the unique flavor of local communities by wiping out small local businesses that just can't compete. Richard Moe, president of the National Trust for Historic Preservation, says, "We know the effects that these superstores have. They tend to suck the economic and social life out of these downtowns, many of which wither and die as a result."



- Wal-Mart offers low prices in part because of huge tax savings and government subsidies. Across the United States, Wal-Mart has received more than \$1 billion in development aid from local governments. Both the subsidies and the tax breaks come from the pockets of local consumers, so in a certain sense, the dollars have simply shifted—the customers indirectly pay Wal-Mart for those low prices.
- Wal-Mart has highly questionable labor practices. The giant retailer has been fined for child labor violations, accused of cheating workers of overtime pay, fined for child labor violations, charged with sex discrimination in a class action lawsuit, criticized for buying goods from foreign sweatshops, charged with hiring undocumented cleaning workers, and accused of closing stores whose workers voted for unionization.
- Wal-Mart does not provide its workers with adequate healthcare. The company healthcare plan covers less than 45% of its employees. Wal-Mart does *offer* insurance, but requires its employees to cover for a big chunk of the cost—too much for many low-wage workers to afford. Not only that, full-time workers must wait six months for healthcare eligibility and part time workers must wait two years...tough given the high employee turnover. A number of critics have accused Wal-Mart of encouraging their employees to turn to Federal and State assistance programs, such as Medicaid, to cover their healthcare needs.

Despite Wal-Mart's healthy financial performance, the intense, relentless criticism has helped drive Wal-Mart's stock price down more than 25% in the past five years. An unflattering documentary film called "Wal-Mart: The High-Cost of Low Price" has further undermined Wal-Mart's image.

But the fight is far from over. Wal-Mart has recently created a public relations "war room," staffed by PR experts. They aim to publicize Wal-Mart's accomplishments and contributions, and to neutralize criticism, using weapons that range from instant Web postings to spur-of-the-moment press conferences. In addition, Wal-Mart CEO H. Lee Scot has made himself available for interviews in a new spirit of openness and cooperation with the press. The success or failure of this PR blitz will almost certainly influence Wal-Mart's long-term performance, both at home and abroad.

### **You Decide**

- After reading the arguments of Wal-Mart supporters and detractors, which do you find more compelling? Why?
- Wal-Mart has attracted far more criticism than competitors with similar records, such as Target. Why? Can you think of other industry leaders who have been magnets for criticism while their competitors operate unscathed?

- Do you think Wal-Mart is responding effectively to the barrage of criticism? What other strategies would you recommend? Consider the upside and downside of at least two different approaches.

(Sources: A New Weapon for Wal-Mart: A War Room by Michael Barbaro, New York Times, November 1, 2005, [http://www.nytimes.com/2005/11/01/business/01walmart\\_ready.html?ei=5088&en=ec9edfc5f2f9841f&ex=1288501200&partner=rssnyt&emc=rss&pagewanted=all](http://www.nytimes.com/2005/11/01/business/01walmart_ready.html?ei=5088&en=ec9edfc5f2f9841f&ex=1288501200&partner=rssnyt&emc=rss&pagewanted=all); One, Two, Three, Four... We Don't Want Your Superstore, Frontline, PBS Website, <http://www.pbs.org/wgbh/pages/frontline/shows/walmart/transform/protest.html>, accessed May 2, 2006; Wal-Mart's Healthcare Struggle is Corporate America's Too by Reed Abelson, New York Times, October 29, 2005, <http://www.nytimes.com/2005/10/29/business/businessspecial2/29health.html?ei=5088&en=448a18530a8d6220&ex=1288238400&partner=rssnyt&emc=rss&pagewanted=all>; Thousands Apply for Jobs at New Wal-Mart by Leslie Baldacci, Chicago Sun-Times, January 26, 2006, <http://www.suntimes.com/output/news/cst-nws-walmart26.html>; Some Uncomfortable Findings for Wal-Mart by Aaron Bernstein, BusinessWeek Online, October 25, 2005, [http://www.businessweek.com/bwdaily/dnflash/oct2005/nf20051026\\_8916\\_db016.htm](http://www.businessweek.com/bwdaily/dnflash/oct2005/nf20051026_8916_db016.htm); Disaster as Relief: How Wal-Mart Used Hurricane Katrina to Repair Its Image by Philip Mattera, Corporate Research Project E-Letter, September-October 2005, <http://www.corp-research.org/archives/sep-oct05.htm>; Wal-Mart Corporate Website, <http://www.walmartstores.com/GlobalWMStoresWeb/navigate.do?catg=316>, accessed May 2, 2006)