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ABSTRACT

The 20 chapters of this student activity guide provide study guides (key terms and concepts reviews), projects, cases for analyses, and self-assessment exercises for business and career education classes. Topics covered include the following: business winners (entrepreneurship); growth of the U.S. economy, the basics of economics, comparing economic systems and measuring economic success, business in a global economy, business structures, the social and legal environment of business, the role of management in business, accounting and financial planning, sources of funding, risk and insurance, the elements of marketing and marketing research, packaging and pricing decisions, advertising and sales promotion, channels of distribution, employment of human resources, management of human resources, production and operations management, computerized information systems for business, and careers in an information economy. (KC)

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STUDENT ACTIVITY GUIDE FOR

*Business in an
Information Economy*

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Student Activity Guide for Business in an Information Economy

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CHAPTER 1

Business Winners

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below:

- | | | |
|------------------------|--|---------------------------------|
| a. business | i. profit | o. utility |
| b. capital | j. public sector | p. utility of form |
| c. customers | k. risk(s) | q. utility of place |
| d. dividend | l. services | r. utility of possession |
| e. entrepreneur | m. standard industrial classification (SIC) | s. utility of time |
| f. goods | n. stocks | t. wealth |
| g. industry | | |
| h. intrapreneur | | |

- | | |
|---|----------|
| 1. A person who thinks and acts like he or she owns the company. | 1. _____ |
| 2. These people can be business owners or employees who buy raw materials from other business firms, and they can also be individual consumers. | 2. _____ |
| 3. When the income earned from the sale of goods or services amounts to more than the total costs and expenses. | 3. _____ |
| 4. The money received by stockholders who buy shares (of ownership) in a company. | 4. _____ |
| 5. The usefulness of having goods and services readily located so that customers can easily buy them. | 5. _____ |
| 6. Physical objects offered for sale, such as food, clothes, stereos, and records. | 6. _____ |
| 7. Includes money, but also the things money can buy. | 7. _____ |
| 8. A hazard; or the taking of chances that could involve loss, damage, or injury. | 8. _____ |

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

- | | | |
|---|------|---|
| 1. In the United States, a business enterprise is an operation that provides goods and services that satisfy human needs and wants. | 1. T | F |
| 2. Entrepreneurs who do extensive, well-thought-out planning, never need to worry about any business risks. | 2. T | F |
| 3. Without all the businesses in operation in the United States, there would be no jobs for individual workers. | 3. T | F |

4. Winning entrepreneurs understand the importance of competition, profit, and the need for getting business information.
5. Winning business people limit their information sources to talking with other winning business people.

4. T F

5. T F

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

1. A local retail store usually provides _____ utility.
2. A manufacturing firm that produces jeans from raw cotton provides _____ utility.
3. Utility means _____.
4. Government agencies at the city, county, state, and federal levels are included in the _____ classification of the SIC.
5. Getting raw materials from the land comes under the _____ SIC classification.

1. _____

2. _____

3. _____

4. _____

5. _____

Multiple Choice Write the letter for the best answer in the space provided at the right.

1. Winning business people are most likely to get financial information from:
 - a. Friends
 - b. Bankers
 - c. Insurance representatives
 - d. Classified newspaper ads
2. The scorecard in business tells:
 - a. Whether the company is making or losing money
 - b. The salary earned by the business owner(s)
 - c. The number of workers employed by the business and how much each earns
 - d. The type of risks owners take and the ways to avoid risks
3. Information in business is obtained by:
 - a. Reading the business news in print media and hearing and seeing the business news on radio and TV
 - b. Hiring word processors and data entry clerks to enter words and data on the computer
 - c. Calling fellow business people on the telephone and visiting with them in person
 - d. Collecting needed data from all possible sources
4. Which of the following is *not* a contribution business makes to society?
 - a. Utility
 - b. Wealth
 - c. Bankruptcy
 - d. Employment
5. Which of the following is *not* a freedom made available to Americans through the private enterprise system?
 - a. Freedom to deposit your money in a bank of your choice
 - b. Freedom to leave a job and work for another employer of your choice
 - c. Freedom to take over a business enterprise forceably and confiscate the business property of its owner without due process of law
 - d. Freedom to move to a house you can afford in the town of your choice

1. _____

2. _____

3. _____

4. _____

5. _____

USING BUSINESS INFORMATION

PROJECT 1-1: Identifying and Prioritizing Small Firms by Industrial Classifications and the Number of Employees

The following table shows the total number of workers employed in firms with fewer than 100 employees, by standard industrial classification (SIC). Use these data in responding to the activities and questions that follow.

Industrial Classification (SIC)	Number of Employees		
	Division	Total	Percentage
Extraction:		478,518	_____ %
Agriculture, Forestry, Fisheries	206,539		
Mining	271,979		
Manufacturing		875,421	_____ %
Construction		1,118,109	_____ %
Distribution		3,754,700	_____ %
Transportation, Communications, Utilities	318,364		
Wholesale Trade	844,707		
Retail Trade	2,591,629		
Services (private sector only)		2,414,135	_____ %
Finance, Insurance, Real Estate	654,709		
Services, Other	1,760,526		
TOTAL			100%

Source: Small Business Data Base tabulated by Brookings Institution from Dun and Bradstreet's Market Identifier File

1. Add the number of employees listed under the total column and fill in opposite the word TOTAL on the table.
2. Calculate the percentage of total employees in each major SIC classification, and write the percentages in the column next to the total figures in front of the percent sign, as shown. To calculate this, divide each number in the total column by the total of that column (as obtained from item 1 above) and multiply by 100 (or move the decimal point two spaces to the left).
3. Prioritize the general SIC categories of extraction, manufacturing, construction, distribution, and services. List these categories from highest number of employees to lowest (number and percentage).
 - a. _____
 - b. _____
 - c. _____
 - d. _____
 - e. _____
4. Prepare a bar graph that depicts the above data in priority order by SIC, using the percentages obtained from item 2 above. Be sure to label each major SIC division on the graph.

5. Given that the data presented in the table refers only to small businesses—those with fewer than 100 employees—express your opinions as to why the SICs appear in this order.

PROJECT 1-2: Calculating Profit and Loss and Making Business Decisions

You have saved \$600 from baby-sitting and snow-shoveling for neighbors. At 6 percent interest, in a savings account at the bank, your money will earn \$36 annually or \$3 monthly. Instead, you decide to use the money to open a lawn-mowing business. You used \$350 of your savings and your uncle loaned you \$200 to buy a \$550 deluxe-model mower. He expects you to pay him back at the rate of \$70 per month over the summer (the extra \$10 is the interest he's charging you for using his money).

Business Expenses You used 3" x 5" cards to advertise, placing them on bulletin boards in neighborhood laundromats and hairstyling shops, and passing them out to neighbors. Upon receiving few calls, you visited neighbors in person. Then you spent \$45 to place newspaper ads to run for one week; with another \$50 spent later. Gasoline cost \$65. The one-time expense of liability insurance cost \$70. Getting broken mower wheels repaired twice cost \$17 each.

Income and Hours Worked You decided to charge customers \$3.50 an hour to mow their lawns. During the first month you worked 120 hours.

1. Fill in the blanks on the form that follows. Then, complete your first month's profit and loss calculation to see if you actually made money or suffered a loss.

TABLE 1-2 Profit and Loss for the Month ending July 30, 19XX	
Revenues	
TOTAL REVENUE: 120 hours @ \$3.50	\$ _____
Less Costs (gasoline costs)	- _____
GROSS PROFIT FOR THE MONTH	\$ _____
Operating Expenses	
EXPENSES:	
Loan Payment to Uncle:	\$ _____
Advertising:	+ _____
Repairs:	+ _____
Insurance:	+ _____
TOTAL EXPENSES:	- \$ _____ =
Profit or Loss (Net Income)	
NET PROFIT (LOSS): Gross profit less total expenses	_____

2. Calculate the profit or loss percentage. To calculate this, divide the bottom-line dollar (profit or loss) figure by the total figure, and multiply by 100 (or move the decimal point two spaces to the left). Did you make a profit or a loss for the first month of doing business?

Yes ___ No ___ %

Business Risks You took out liability insurance after destroying a customer's prize rose bush and she threatened to sue you. However, you agreed to mow her lawn for free during August as a means of compensation. After that experience, though, it seemed like a good idea to get insurance. The next time you might run over somebody's foot instead of a bush, and the idea of getting sued for thousands of dollars has made you so nervous you haven't been able to sleep. When a competitor came into the neighborhood with a riding lawn mower, you had to increase your advertising budget. This competitor charges customers the same rate as you do, but because she does the job faster, her customers can get their lawns mowed for less money.

3. Discuss the following questions and then make the appropriate decisions to help solve your problems.

If you stay in business, will you:

a. Increase your advertising budget?

Yes ___ No ___

b. Raise or lower your prices?
Or leave prices as are?

Raise ___ Lower ___
Leave as is ___

c. Learn how to make your own repairs?

Yes ___ No ___

d. Borrow more money to buy a riding lawn mower?

Yes ___ No ___

Reasons for your answers: _____

4. Considering the investment of your time, effort, and the money you've saved and borrowed, is your business worth it? (Compare owning a business with earning money from savings.)

Yes ___ No ___

Why or why not? _____

CASES FOR ANALYSIS AND DECISION

CASE 1-1: Deciding How to Spend Profits

The Kendall Auto Repair Shop is in its seventh month of operation. None of the first six months showed a profit. Ken Kendall did not even take any wages out of the business because there simply was not enough money after paying all the costs and expenses of doing business. (The Kendall family, like many new owners, paid their living expenses out of savings.) Now, for the first time, the Kendall Shop has made a profit of \$13,500, based on total sales of \$102,490.

Entrepreneurs spend their profits on lots of things besides taking home extra money. The following illustrate the use of profits:

- Make payments on loans, and pay bills that are past-due.
- Raise the advertising budget so as to bring in more customers and thus make more sales.
- Spend money to study the market to see how they can get more customers.
- Spend money to improve their products and services.
- Stock up on supplies, parts, and merchandise for resale, especially when a purchasing discount is given for buying in larger quantities.
- Improve and expand facilities.
- Buy new and better equipment.
- Give deserving employees raises.
- Lay aside money for emergencies.
- Invest money.

Since Ken Kendall has not even taken any wages out of his business as yet, he has to decide how much he should get. (If his business continues to prosper, then this wage item will become a regular expense item and will no longer have to be taken out of the profits.) Then Ken has some other things he'd like to spend the profit on, but the amount of these expenditures total far more than the amount of money available.

Decide what you would do, if you were Ken, after making some calculations and then considering which options are the best at this time:

1. How much money should Ken keep as wages? \$ _____

2. Calculate the following amounts and rank these options from 1 to 6 in priority order, but remember that the sum of all items in numbers 1 and 2 cannot total more than \$13,500.
 - a. Raise the advertising budget from 3 percent to 8 percent to increase sales. \$ _____
 - b. Buy a desktop computer printer and software programs to make the processing of records and information faster and more accurate; one-time cost, \$2700. \$ _____
 - c. Raise each of the three employees' wages by 10 percent; continuing cost, \$450 per month. \$ _____
 - d. Put money into savings to protect against later possible loss. \$ _____
 - e. Paint the offices and service areas; one-time cost of \$1800. \$ _____
 - f. Replace an old truck with a new one to get better and faster service; monthly payments, \$450. \$ _____

Total Use of Profit \$ _____

Reasons for your decisions: _____

CASE 1-2: "Knowing Oneself"

Despite his boyish tousled-haired look, William H. Gates III is a veteran of the computer industry. Gates got an early start on his rise to the ranks of millionaires. At age 15, he and a high school friend were grossing \$20,000 a year from a company that provided computer analyses of traffic patterns for small towns.

When he was a college sophomore, he helped write an operating system for one of the early desktop computers. The program succeeded so well that Bill soon founded Microsoft with his friend Paul Allen.

Gates is now admired by the "techie" and respected by investment bankers and security analysts on Wall Street (home of the New York Stock Exchange). As founder, chairman, and chief executive officer, Bill is the undisputed boss at Microsoft. His company is a leading computer-software firm, headquartered in the Seattle suburb of Redmond. When Microsoft went public (allowing anybody to buy stock), he kept stock worth \$306 million.

Gates' big break came in 1981 when IBM adopted a Microsoft operating system—the internal brains that make the machine work—for its personal computer line. Sales increased from \$32 million to \$140 million just three years later. By using some of the profits to expand, Microsoft and its 1200 employees later moved into a new 29-acre corporate campus.

Even more impressive than Bill's sales and financial success is that he appears to know himself, according to many followers of the computer industry. Gates seems to know what he likes, what he's good at, and in what areas the company will improve if he delegates responsibility.

A lot of creativity is needed to launch a business, especially when a new product is involved. Both designing the product and getting it marketed (advertised and sold) takes creativity. Once off the ground, a business needs someone who is a sound financial thinker and manager.

Gates sought outside help and information when they were needed. He also turned the day-to-day management over to others, so he could still have time to create. That is what Bill likes to do best—help design new products and create exciting advertising campaigns.

SELF-ASSESSMENT

Assess yourself, your likes and strengths, so you can have at least a tentative idea about what kind of business person you might become. Answer the questions that follow, and then fill in the blanks on the questionnaire.

- | | |
|--|--|
| <p>1. Does (or did) someone in your family own a business?
If yes, do/did you ever participate in its operation?</p> | <p>1. Yes <input type="checkbox"/> No <input type="checkbox"/>
Yes <input type="checkbox"/> No <input type="checkbox"/></p> |
| <p>2. Have you already been an entrepreneur, even temporarily or with a small or part-time operation (includes paper carrier, baby-sitter, lawn mower, etc.)?</p> | <p>2. Yes <input type="checkbox"/> No <input type="checkbox"/></p> |
| <p>3. Are you an only child or an older child?</p> | <p>3. Yes <input type="checkbox"/> No <input type="checkbox"/></p> |

NOTE: Answering yes to even one of the above puts you in the category that characterizes many entrepreneurs. However, many other people discover, even late in life, that they have an aptitude for owning a business.

Studies have also shown that entrepreneurs are willing to take "calculated risks" and that they understand the need to get sound information and make plans before plunging into a business of their own. Successful entrepreneurs are also energetic, flexible, creative, and self-confident. They can bounce back when they or their businesses fail, revise their plans, and work even harder to win.

- 4.** Record a YES or a NO in each of the blocks that follow on the next page: (If you like, you can also use another sheet of paper to record incidents that indicate successful experiences, and thus prove to yourself that your YES answers are accurate.)

TABLE 1-3

Traits/Happenings	In Home and/or Neighborhood	In School, With Others	Paid or Unpaid Work Experience
<i>Calculated Risk-Taking</i> (You gathered data and were rather sure of the outcome before starting)			
<i>Creativity</i> (You like to make things, or design new ways of doing things; people follow your ideas)			
<i>Take-Charge Responsibilities</i> (E.g., of people, ideas and data, things, or machines)			
<i>Flexibility</i> (You can unplan or change things or ideas when the first ones fail or don't work as expected)			

Note: Add other experience, talents, etc. in the space below that would indicate that you possess entrepreneurial traits or characteristics.

CHAPTER 2

Growth of the American Economy

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below:

- | | | |
|--------------------------------|--|---------------------------|
| a. agricultural economy | f. graphics | j. service economy |
| b. cottage industry | g. industrial economy | k. spreadsheet |
| c. database | h. information economy | l. telecommute |
| d. domestic system | i. information processing cycle | m. word processing |
| e. factory system | | |

1. General term used to describe an industry whose labor force consists of individuals and family units working at home with their own equipment. 1. _____
2. When the majority of income in a society is earned from goods that come from the land. 2. _____
3. A computer software program that allows the operator to produce graphs and charts. 3. _____
4. A series of activities that include: input, processing, output, distribution, and storage and retrieval. 4. _____
5. The system involving the employment of homeworkers by entrepreneurs. 5. _____
6. When the majority of income in a society is earned from manufacturing and the sale of factory-made products. 6. _____
7. A computer-software program that allows the operator to enter and manipulate (add, delete, move, etc.) words and data to process and print documents. 7. _____
8. When the majority of income in a society is earned from the production and sale of services. 8. _____
9. A system in which people work in manufacturing or industrial plants rather than in homes or on farms. 9. _____
10. When the majority of income in a society is earned from the generation, use, and sale of information or information services. 10. _____

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

- | | | |
|---|------|---|
| 1. Change from one economic era to another in the United States has tended to be abrupt, not gradual. | 1. T | F |
| 2. The farmers of colonial times are considered by some to be the first American entrepreneurs. | 2. T | F |
| 3. By the late 1800s industry was advancing slower than agriculture in the United States. | 3. T | F |
| 4. Some believe the success of the McDonald's fast-food franchise marked the start of a trend toward the demand for more services by both consumers and businesses. | 4. T | F |
| 5. Workers and entrepreneurs in today's information-based economy have little need for technological skills. | 5. T | F |

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

- | | |
|--|----------|
| 1. The Homestead Act of 1862 provided settlers with free _____. | 1. _____ |
| 2. The Morrill Act gave free land to townships, so that cash from sales could be used for _____. | 2. _____ |
| 3. The Knights of Labor was one of the earliest _____ in the United States. | 3. _____ |
| 4. An electronic device that converts computer signals into telephone signals (and back again) for sending and receiving information over telephone lines is called a _____. | 4. _____ |
| 5. A meeting or conference among people at different locations which are electronically linked by audio and or visual connections is called a _____. | 5. _____ |

Multiple Choice Write the letter for the best answer in the space provided at the right.

- | | |
|--|----------|
| 1. Which of the following laws was designed specifically to outlaw contracts, combinations, and conspiracies that serve to restrain trade?
a. The Civil Rights Act, Title VII (1964)
b. The National Labor Relations Act (1935)
c. The Sherman Antitrust Act (1890)
d. None of the above | 1. _____ |
| 2. When several companies form a business combination whose activities are intended to limit or eliminate competition, they are said to form a:
a. Trust
b. Cooperative
c. Franchise
d. All of the above | 2. _____ |
| 3. Child workers were exploited during the early industrial era in various ways, including:
a. They couldn't go to school
b. They had to work long hours at low wages
c. The working conditions were poor
d. All of the above | 3. _____ |

4. Which of the following steps of the information processing cycle involves making sure that output is communicated to the people who need it? 4. _____
- a. Input
 - b. Processing
 - c. Distribution
 - d. Storage and retrieval
5. Electronic communication systems include: 5. _____
- a. Computer-to-computer transmissions over phone lines
 - b. Copier-to-copier transmissions over phone lines
 - c. The reading of price codes by using a laser beam
 - d. All of the above

USING BUSINESS INFORMATION

PROJECT 2-1: Making Sense Out of Historical Data

Some historical dates and events help to describe the growth of the American economy. Record the events that appear below in chronological order. Then prepare a date-graph to be mounted on a poster, bulletin board, or large mural. If you have the appropriate software program available—word processing and/or graphics—and know how to use it, you can prepare this historical graph on the computer. Note that the graph should show the earliest date to the left, and the latest date to the right. See the example below:

	Early	Mid	Late	Early	Mid	Late
1700s	1800s	1800s	1800s	1900s	1900s	1900s

Historical data and events appear in random order. Beginning with no. 1, number the following items in chronological (time) sequence. Then prepare the graphic.

- _____ The Interstate Commerce Act, passed in 1887, created a commission to regulate rates and services of companies that provided interstate transportation of passengers or freight.
- _____ The 1935 National Labor Relations Act provided the legal foundation for the rights of unions and workers.
- _____ The Homestead Act of 1862 gave free land to settlers.
- _____ Starting in the early 1980s, the emphasis of economic activity began to shift toward the use of information and information services.
- _____ The first licensed McDonald's franchise was established in 1955.
- _____ The American colonies declared their political and economic independence from the British in 1776.
- _____ The first business computer was introduced in 1954.
- _____ In 1890 the Sherman Antitrust Act was passed, which outlawed contracts, combinations, and conspiracies that served to restrain trade.
- _____ In 1881 the American Federation of Labor (AFL) was formed to organize skilled workers.

_____ In the mid-1930s the Congress of Industrial Organizations (CIO) was formed to organize unskilled workers.

_____ The first transcontinental railroad was finished in the late 1860s.

_____ Consumers demanded more services in the middle of the twentieth century.

_____ By 1900 the annual value of industrial goods was more than twice that of farm products.

_____ Telegraph lines were installed in the late 1800s.

_____ The 1914 Clayton Antitrust Act outlawed anti-competitive sales contracts and price cutting to force competitors out of business. The Act also gave labor unions limited protection.

_____ In the early 1800s the business of America was farming.

_____ Title VII of the Civil Rights Act was passed in 1964.

_____ In 1880 about a million children between ages 10 and 15 worked in factories.

_____ About 8.5 percent of women in the United States were in the labor force by 1920.

_____ The first U.S. census, taken in 1790, showed a population of 4 million.

_____ The 1862 Morrill Act granted states free land to sell to support schools.

_____ By 1775 the American colonies had more blast furnaces and forges than England and Wales combined.

_____ By 1835 the Erie Canal was used to transport lumber, grain, and meat products from the west to the east; machinery, hardware, leather goods, textiles, and imported foods and drugs traveled from the east to the west in exchange.

PROJECT 2-2: Using Economic Information

Business owners, as well as consumers, make decisions about how to use scarce resources to get the things they need and want. Money is a scarce resource because few businesses or people have as much as they want. When an owner decides to spend the amount of money available on one thing, then there is often little or no money remaining to spend on something else. Thus the decision to choose one thing means that the decision to give up another thing has also been made, which is *opportunity cost*. See the examples that follow—for a family and for a business.

Choosing One Thing

A car for Janet

A new computer, with software

Giving Up Other Things

A family vacation

A new recreation room

A new delivery truck

Expanding to the building next door

ANALYZING CHOICES WITH A T-CHART

Business owners often chart the advantages and disadvantages of each item or option under consideration before making a decision (or choosing one thing

and giving up other things). The advantages of each item are listed on one side of a T-chart, and the disadvantages are listed on the other side. See the example that follows, for the business decision shown above:

Option: Buying a computer, and giving up both a new truck and the expansion of the business next door.

Advantages	Disadvantages
Process information faster Saves hiring an extra worker Can catch errors easier	Cannot make deliveries with a computer Cannot expand next door Takes time to learn the computer

Your Decision Issue You have five acres of choice land on a well-traveled road at the edge of town. Your land has a small building that is situated within easy access of the road. This building is well-built, warm, and has parking space nearby. In deciding to open your own business, you have not yet decided between these two options:

- A truck farm with a road-side stand from which to sell the vegetables and berries that you grow.
- A strawberry patch and an information-processing service center. Customers come to pick their own berries while other customers pay you for processing their information needs with the computer that you will operate in the road-side building.

T-Chart Considerations We have already said that money is a scarce resource. Land and time are also scarce resources. Notice from the above options that how you use your five acres is a consideration as well as the use of the time (and talents) you have available. Use the blank T-charts to plot the advantages and disadvantages of the two options given above. Be sure to include your own skills, talents, and likes and dislikes among the items recorded, as well as the use of your land, time, and money.

Option:

Advantages	Disadvantages

Option:

Advantages

Disadvantages

CASES FOR ANALYSIS AND DECISION

CASE 2-1: Phone Lines Provide "Transportation" for the Information Age

Engineer David Leeper's phone rings. But before he picks it up, a phone-company computer identifies where the call is coming from and announces the caller's name in an electronic voice through a speaker. David can push a button and take the call; or, he can ignore the spoken message and the phone will keep ringing as if no one's there.

David Leeper is participating in a communication-system experiment being run by Bellcore. Bellcore is the research arm of the seven regional phone companies spun off from American Telephone & Telegraph (AT&T) Company in 1984. But this experiment is also the tip of a worldwide effort, with huge consequences for the phone industry and its customers. Thousands of engineers, like David at Bellcore, are spending millions of dollars around the world to conduct experiments. For example, other communication engineers are working at Canada's Northern Telecom, West Germany's Siemens, and Sweden's Ericsson.

One goal of these experiments is to produce one compatible coast-to-coast network that can carry voice and data messages simultaneously over the same line. The U.S. phone system has been moving in this direction for the past two decades, driven by the demands of U.S. consumers who spend from \$123 billion to \$200 billion annually. Instead of one line, there once were 22 separate local phone systems that used to be Ma Bell, plus millions of miles of computer lines in big buildings. The results will benefit businesses and consumers, who will be able to buy a vast array of new communication and computer services. Businesses will save billions of dollars in computer and wiring costs. They'll also be able to avoid the cost and inconvenience of moving documents and data by mail and expensive satellite hookups.

The network was once used primarily for voice transmissions. But now it gets 10 percent of its revenues from moving data, such as payroll and financial information. For example, telecommuters who live in such places as Singapore, Taiwan, South Korea, and Hong Kong (as well as in the United States) get data processing assignments from American companies. After entering data at their computer terminals, their transmissions go by communication space satellite back to the U.S. headquarters.

The combination of experiments is nicknamed "the rewiring of America." But

whatever the name, the ultimate goal is to create a worldwide network that runs entirely on digital equipment. The new system combines computing power, information, and telecommunications into "a transportation system for the information age," says William G. McGowan, chairman of MCI Communications Corp.

International representatives, however, cannot agree on hardware and software standards for manufacturers. Besides, the cost of designing and building advanced networks will run into hundreds of billions of dollars.

1. Arrange to present a role play or debate in which the two sides (pro and con) represent U.S. telecommuters and foreign telecommuters. To help you identify advantages and disadvantages, prepare T-charts, like the ones used in Project 2-2.

Then express your opinions about the foreign competition that U.S. telecommuters get from telecommuters working out of their homes abroad—especially since foreign telecommuters usually are willing to work for lower wages.

2. Debate or take the roles of foreign engineers versus U.S. engineers trying to negotiate an agreement on compatible hardware and software. To help you get ready, develop T-charts for analysis.
3. Debate or take the roles of foreign and U.S. telecommunication company representatives. Use the T-chart method of analysis. Express opinions about the costs to phone companies to design and build a one-system network versus the benefits to businesses and consumers.

Sources: Special Report: "The Rewiring of America," *Business Week*, September 15, 1986, pp. 188-196; and "Business Today," CNN, November 13, 1986

CASE 2-2: Highlights From Around the World in the Information Era

Read the following excerpts and then carry out the activities that follow.

"INFORMATION HELPS FARMERS"

The importance of land to farmers has traditionally been threefold: a home, a livelihood, and collateral to use in getting bank loans. When farmers are unable to keep up the payments on their loans, like any consumer or business customer who buys "on time," they are likely to have their farms foreclosed. When loan payments go unpaid, bankers must foreclose because a bank's money belongs to its depositors, not to the bankers. These days, though, more farmers are relying on computers to help them run their farms properly. Computer simulation models provide farmers with information and help them forecast revenues, expenses, and net profits.

"COMPANIES ADVERTISE THE LATEST INNOVATIONS"

"Advertise in China!" *International Business and Management* is a monthly business magazine directed to 15,000 business, trade, and government officials in the People's Republic of China. This magazine consists of articles translated into Chinese. It brings a wide variety of business and economic news, financial trends, management techniques, and product and marketing developments to the Chinese business community. Ads are translated into Chinese and inquiries are translated into English.

"CSX NOW HAS FOUR WAYS TO GROW"

CSX has entered a new era of growth potential. This \$11 billion giant is gaining strength as a leader in transportation, energies, properties, and technology. CSX



Transportation provides custom-made rail, barge, truck, and warehouse services to help shippers reach markets across the country and around the world. CSX Energy directs activities in oil and gas exploration and development, operates natural gas pipelines, and manages CSX-owned coal reserves. CSX Properties is a major developer of real estate. CSX Technology is a leader in computer-information services, with telecommunications systems that include the nation's most extensive fiber optics network.

Collect evidence from ads, commercials, articles, and broadcasts to support the premise that we're living in an information era. Use plain paper to construct T-charts to plot the advantages and disadvantages of your position. Then report in a speech, written paper, poster or bulletin board your findings that support or refute the issues described in this case; namely:

- That farmers are increasingly using technology, such as computers.
- That business is expanding operations that make use of technology, energy, communications, and the high-speed processing of information.

Sources: "60 Minutes," CBS, October 19, 1986; advertisements in *Business Week*, January-May 1989. See also Judith Silberstein and F. Warren Beenton, *Bringing High-Tech Home: How to Create a Computer-Based Home Office*, New York: John Wiley & Sons, 1985.

CHAPTER 3

The Basics of Economics

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below:

- | | | |
|---------------------------------|----------------------------------|-----------------------------|
| a. barter | b. human resources | m. natural resources |
| b. capital resources | i. labor | n. opportunity cost |
| c. demand | j. labor force | o. prices |
| d. economic resources | k. market clearing prices | p. scarcity |
| e. economic wants | l. market | q. supply |
| f. economics | | r. trade-off |
| g. factors of production | | |

- | | |
|---|---|
| <ol style="list-style-type: none"> 1. The gifts of nature that are used to produce goods and services. 2. The general condition of having unlimited wants and limited resources for satisfying these wants. 3. The quantities of a resource, good, or service that will be offered for sale during a period of time. 4. The benefit given up when choosing one alternative over another. 5. Anything that is used to produce or create goods and services. 6. The quantities of a resource, good, or service that will be purchased at various prices during a period of time. 7. The buildings, machines, equipment, and tools used to produce goods and services. 8. Any system or arrangement that allows buyers and sellers to negotiate prices and exchange goods and services. 9. The three different kinds of economic resources needed to produce goods and services. 10. The amounts of money people pay in exchange for a unit of a particular good or service. | <ol style="list-style-type: none"> 1. _____ 2. _____ 3. _____ 4. _____ 5. _____ 6. _____ 7. _____ 8. _____ 9. _____ 10. _____ |
|---|---|

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

1. When a business makes a decision, it only affects that particular firm, its workers, and its customers.

1. T F



- | | | |
|---|------|---|
| 2. The most basic of all economic concepts is scarcity. | 2. T | F |
| 3. While it is true that goods and services are bought for money, they cannot be created from money. | 3. T | F |
| 4. When used in economics, the word <i>capital</i> refers to money. | 4. T | F |
| 5. Although it is not one of the three basic productive resources, information is also an important resource that businesses use to produce goods and services. | 5. T | F |

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

- | | |
|--|----------|
| 1. _____ is the study of how societies use their limited resources to produce, exchange, and consume goods and services to satisfy the wants of their members. | 1. _____ |
| 2. The people who provide all forms of physical and mental effort involved in the production of goods and services are referred to as _____ or _____. | 2. _____ |
| 3. In economic terms, a _____ is accepting or choosing less of one thing to get more of another. | 3. _____ |
| 4. The direct exchange of goods and services without the use of money is called _____. | 4. _____ |
| 5. The price at which the quantity supplied and the quantity demanded for a good are equal, the equilibrium price, is also referred to as the _____ price. | 5. _____ |

Multiple Choice Write the letter for the best answer in the space provided at the right.

- | | |
|--|----------|
| 1. Which of the following have to make economic choices?
<i>a.</i> Individuals and families
<i>b.</i> Individuals and businesses
<i>b.</i> Businesses and countries
<i>d.</i> Individuals, businesses, and countries | 1. _____ |
| 2. The three different kinds of economic resources considered to be factors of production are:
<i>a.</i> Natural, human, and money
<i>b.</i> Natural, human, and capital
<i>c.</i> Natural, capital, and money
<i>d.</i> Human, capital, and money | 2. _____ |
| 3. Which of the following is a renewable resource?
<i>a.</i> Oil
<i>b.</i> Copper
<i>c.</i> Trees
<i>d.</i> Gold | 3. _____ |
| 4. The most important thing about a nation's human resources is:
<i>a.</i> The number of them available
<i>b.</i> How many hours they are available to work
<i>c.</i> Their health and education level
<i>d.</i> Whether they live primarily in rural or urban areas | 4. _____ |
| 5. Today we have markets for the exchange of all of the following EXCEPT:
<i>a.</i> Labor
<i>b.</i> Services
<i>c.</i> Property
<i>d.</i> There are markets for a, b, and c | 5. _____ |

USING BUSINESS INFORMATION

PROJECT 3-1: Factors of Production Used to Create Business

Office Goods

Use the form below to identify five goods commonly found in the office of any business or organization and at least two factors of production used to create these goods. List the goods in the column at the left and identify at least two types of each of the factors of production used to create them in the appropriate columns. An example is shown for a calculating machine.

Good	Natural Resources	Human Resources	Capital Resources
<i>Ex. Calculator</i>	<i>Taconite or iron ore for metal casing Sand for silicon chips</i>	<i>Shovel operators in mines Assembly-line workers</i>	<i>Trucks to haul ore Metal-stamping machine</i>
1.			
2.			
3.			
4.			
5.			

PROJECT 3-2: Preparing a Supply and Demand Curve

As indicated in Project 3, pages 67-68 of the text, the supply and demand schedule for sugar doughnuts at Popular High School is as follows:

- At \$0.20, 100 supplied and 400 demanded
- At \$0.30, 150 supplied and 350 demanded
- At \$0.40, 200 supplied and 300 demanded
- At \$0.50, 250 supplied and 250 demanded
- At \$0.60, 300 supplied and 200 demanded
- At \$0.70, 350 supplied and 150 demanded
- At \$0.80, 400 supplied and 100 demanded

Using this data, prepare the supply and demand curves for sugar doughnuts at Popular High School in the space on the next page. Use Figure 3-4, page 64 of the text, as an example. Be sure to label all parts of your work clearly.

CASES FOR ANALYSIS AND DECISION

CASE 3-1: Needed—Productive Human Resources

One of the most important questions facing business and government leaders in the United States today is related to the human resources, or people, in our country. The question is: Who will do our country's work as the demand for skilled labor outstrips a declining supply?

According to some experts, the U.S. position as the world power in business and trade has been slipping rapidly throughout the 1980s. They point out that we now have a \$150 billion yearly trade deficit and a foreign debt that totals more than half a trillion dollars. This seems to be enough evidence to convince them and others, too, that we have lost much ground to our competitors and that something needs to be done.

Many national leaders believe that the way for the United States to recover some ground is to invest more heavily in people, the nation's human resources. After years of neglect, these leaders say that the human resources of our nation need to be the focus for improvement. In 1988, Japan's functional literacy rate was better than 95 percent; in the United States, where it had been as high as 90 percent, it was 80 percent. The illiteracy rate is just one indicator of a larger problem in our economy. The United States, in short, has been scrimping on maintaining and developing its human resources.

After trying to solve its serious competitive problems by pouring hundreds of billions of dollars into capital equipment, corporations were blindsided when it came to workers. It is believed that our society's failure to invest in people is

hurting the business community. For example, Chemical Bank in New York must interview 40 applicants to find one who can be trained successfully as a teller. As a further example, IBM Corporation discovered, after installing millions of dollars worth of fancy computers in one of its factories, that it had to teach high school algebra to thousands of workers before the computers could be used.

According to some experts, there is also overwhelming evidence that people, not machines, are the driving force behind economic growth. In the period from 1948 to 1982, the nation's output grew at an annual rate of 3.2 percent. Edward Dennison, an expert in growth economics, says that one-third of that gain was caused by the increase in the education level of the U.S. work force. Another 50 percent of the growth was the result of technological innovation and increased know-how, which also depends on education. And just 15 percent of the total increase was the result of more capital equipment.

What do you think our nation should do to improve its human resources? Listed below are four general suggestions that have been presented for improving our human resources. In the space provided after each of the suggestions, briefly indicate, in your own words, what you think is meant by the suggestion.

Source: Adapted from a series of seven articles making up the Special Report section of *Business Week*, September 19, 1988, pp. 100-141

1. Instill habits of learning and working in children at an early age.

2. Improve schools so students learn to think and use basic skills so some of our best people want to become teachers.

3. Adopt major new incentives to encourage training and retraining of students.

4. Tailor the workplace to better meet the needs of the workforce of the 1990s.

5. Indicate which of the suggested activities you feel is most important to begin first, second, and so on, by placing the number corresponding to your choice in the blank following each of the words below:

First _____ Second _____ Third _____ Fourth _____

Write a brief statement summarizing *why* you ranked the various activities as you did in the space provided below.

CASE 3-2: What Happens to Old PCs?

It has been said that one person's junk is another's treasure. That is becoming especially true for personal computers. Every year computer manufacturers introduce new machines that are faster, have greater storage capacities, and are more powerful than last year's models. Even though Silicon Valley's newest computers make a two- or three-year-old PC seem ancient, the older machines are still capable of doing a full day's work.

Used PCs can still crank out letters and reports as well as crunch numbers in a spreadsheet. That makes them a reasonable—and cheaper—option for users who don't need or can't afford the newest technology.

It is estimated that sales of used PCs will be over \$2 billion this year, up 30 percent from last year. More than 40 million PCs are now in use in the United States—8 million new PCs are sold annually. Some of the older PCs are kept, but hundreds of thousands of them are retired each year. When the used computers are resold, the savings are substantial. The relatively low price of used PCs has made them attractive buys for individuals as well as small and large businesses.

Connecting buyers such as Kodak and others with the right sellers is often the job of brokers such as Boston Computer Exchange (BCE). Buyers and sellers meet through the exchange's electronic network. BCE President Alex Randall says business is booming because "the technology is moving forward infinitely faster than the equipment wears out."

As with used cars, some computers keep their value longer than others. IBM, Compaq, and Apple—the top sellers among new PCs—are also the best sellers in the used market. A used Compaq that is still in production sells for about 70 percent of a new one. A used IBM keeps about two-thirds of its value, and an Apple Macintosh about 60 percent. However, the value of even a top brand plunges when it goes out of production.

There are many reasons why the used personal computer industry has generally performed well. Apart from their hard disk drives, which can be replaced easily, PCs seldom break down. The used PCs will do all the things most organizations need them to do, but it may just take a bit longer. "Unlike cars, they won't rust, wear out, or grow old," says Stephen Gold, president of Computer Renaissance, a Pittsburgh-based used computer store.

Source: Adapted from Susan M. Gelfond, "Old PCs Don't Die: They Just Go Back to Market," *Business Week*, August 29, 1988, p. 52.

1. Based on what you know about supply and demand from reading and studying Chapter 3, explain why the price of used computers is less than the price for new ones.

2. What are some reasons why there continues to be an increase in the quantity of used PCs supplied to the market?

3. Based on the case study how much would one of the following PCs cost if it was used but was still being produced?

- a. Compaq PC costing \$2100 new? \$ _____
- b. IBM PC costing \$2100 new? \$ _____
- c. Apple Macintosh—\$2100 new \$ _____

4. If you had \$2000 available to buy either a new or used PC from the group included in the question above, what are five things you would consider when making your decision? Why would you consider each of these?



CHAPTER 4

Comparing Economic Systems and Measuring Economic Success

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below.

- | | | |
|-----------------------------------|--|---------------------------------------|
| a. command economic system | e. free enterprise | i. per capita GNP |
| b. competitive market | f. gross national product (GNP) | j. price index |
| c. consumer sovereignty | g. inflation | k. productivity |
| d. economic system | h. market economic system | l. traditional economic system |

- | | |
|--|----------|
| 1. A term used to describe a situation in which people can use their resources in any type of legal activity they wish. | 1. _____ |
| 2. The general increase in prices in an economy. | 2. _____ |
| 3. A type of economic system in which basic economic decisions are based on actions of people and business firms involved in buying and selling economic goods and services. | 3. _____ |
| 4. When there are so many buyers and sellers of a resource, good, or service that not one of them is large enough to influence the price. | 4. _____ |
| 5. A measure of the amount of output produced per unit of input. | 5. _____ |
| 6. A type of economic system in which basic economic decisions are made by a central authority and are obeyed by members of the society. | 6. _____ |
| 7. The total of all prices paid for all the goods and services purchased by those who consume them in a year. | 7. _____ |

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

- | | |
|---|-----------|
| 1. Even though they have different types, every society has some type of economic system. | 1. T F |
| 2. Deciding <i>how</i> to produce the goods and services in a society is the basic economic question that is of most interest to individuals. | 2. T F |

3. Japan's economic system is considered to be a traditional economic system.
4. In the U.S. private enterprise economic system, business owners and managers decide *how* goods and services will be produced.
5. Most modern economies have some elements of all three basic economic systems.
6. In the U.S. economy people are free to use their resources to produce anything they wish.

3. T F
4. T F
5. T F
6. T F

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

1. A(n) _____ consists of all the institutions, laws, attitudes, and activities which together determine how economic decisions are made in a society.
2. The economic system of the United States is considered to be a _____ economic system.
3. Because consumers play a major role in deciding what will be produced in the U.S. economy by their purchases of goods and services, it is said that we have consumer _____ in our economy.
4. The _____ is the most frequently used measure of all economic activity.
5. A _____ measures the changes in prices using the price for a given year as the base price.

1. _____
2. _____
3. _____
4. _____
5. _____

Multiple Choice Write the letter for the best answer in the space provided at the right.

1. The three important economic questions that every society must answer are:
 - a. What, when, and why to produce?
 - b. Why, how, and for whom to produce?
 - c. What, how, and for whom to produce?
 - d. What, how, and why to produce?
2. The development of the computer in the last 30 years has had the greatest impact on
 - a. What goods and services are produced
 - b. How goods and services are produced
 - c. Why goods and services are produced
 - d. For whom goods and services are produced
3. The three basic types of economic systems are the
 - a. Traditional, command, and market systems
 - b. Traditional, socialist, and market systems
 - c. Command, socialist, and market systems
 - d. Command, socialist, and capitalist systems
4. The economic system of the Soviet Union is considered to be a _____ economic system.
 - a. Traditional
 - b. Strong command
 - c. Socialist
 - d. Market
5. The economic system of Great Britain is considered to be a _____ economic system.
 - a. Traditional
 - b. Communist
 - c. Moderate command
 - d. Market

1. _____
2. _____
3. _____
4. _____
5. _____

6. One of the distinctive features of the U.S. private enterprise economy is that most factors of production are owned and controlled by _____
- a. Individuals
 - b. Business firms
 - c. State governments
 - d. Federal government
7. To determine how many goods and services have been produced for each person in an economy during a year, the total of all prices paid for all goods and services is divided by the population; the result is the _____ of a nation.
- a. Inflation
 - b. Price index
 - c. Gross national product (GNP)
 - d. Per capita GNP
8. Three of the most important general indicators used to measure the success of an economy are:
- a. GNP, employment, and competition
 - b. GNP, competition, and inflation
 - c. Competition, employment, and inflation
 - d. GNP, employment, and inflation

USING BUSINESS INFORMATION

PROJECT 4-1: Living in Some of the World's Capital Cities

The first and last case studies for Chapter 4 compared the cost of living in Moscow, London, and Washington, D.C., based on how much work time it takes to buy goods and services in these cities. In the table below, the cost of living in the capital cities of four other nations and Washington, D.C., are compared. In this table, the costs have all been converted to U.S. dollars to make it easier for comparison.

	Ottawa	Paris	Bonn	Tokyo	Washington, D.C.
Average industrial wage (1 week)	\$377	\$410	\$419	\$985	\$320
Inflation rate	4.1%	2.75%	1.50%	1.75%	3.05%
Two-bedroom apartment (1 month's rent)	\$468	\$866	\$575	\$2463	\$700
One dozen eggs	\$1.03	\$2.08	\$2.05	\$1.23	\$0.74
Sirloin steak, per pound	\$4.10	\$7.08	\$7.45	\$7.45	\$2.98
Restaurant meal for two (with wine, moderately priced)	\$45	\$52	\$41	\$123	\$76
Gallon of gasoline	\$1.43	\$3.88	\$2.42	\$4.35	\$1.24
First-run movie ticket	\$4.93	\$7.39	\$3.28	\$12.32	\$4.93

Source: Embassies, *Toronto Star*, from Knight-Ridder Graphics Network. Table appeared in *The Duluth News-Tribune*, June 19, 1988, p. 12A.

Answer the following questions using the information provided in the table.

1. Write the nation for which each of the cities is the capital in the space provided below:

Ottawa _____ Bonn _____
Paris _____ Tokyo _____

2. In which of the cities do people earn the highest income? _____
The lowest? _____
3. In which of the cities is apartment rent the highest? _____
The lowest? _____
4. In which of the cities are prices for the two food items, eggs and steak, the highest? _____ The lowest? _____
5. In which of the cities does it cost the most to eat out and go to a movie? _____
The least? _____
6. In which of the cities is a gallon of gasoline the highest? _____
The lowest? _____
7. Check the answers you have recorded for questions 3, 4, 5, and 6 above. Which country is listed most frequently as having the highest prices? _____
The lowest prices? _____
8. In which of the cities is the inflation rate the highest? _____
The lowest? _____
9. What statement would you make about the cost of living compared to income, based on the information provided in the table and the answers you provided to the previous questions?

PROJECT 4-2: Business and Economic Indicators

Shown in Table 4-2 are figures for several of the leading business and economic indicators used by business and government leaders. These figures are for a period near the end of 1988. Using reference materials such as *Business Week*, *The Wall Street Journal*, government publications, and your local daily newspaper, find figures for the most current period. Write the figures for the most current period in the column marked "Current." Then calculate the change from the figures shown for the end of 1988 and record that in the column marked "Change." (Show decreases with a minus sign or by putting the figure in parentheses.) Finally, calculate the percent of change from 1988 to the current figures and record that in the column marked "Percent Change." (Again, show decreases with a minus or parentheses.)

Indicator	1988	Current	Change	Percent Change
Production Indicators—Latest Week				
Steel (thousands of tons)	1,836	_____	_____	_____
Autos (units)	151,038	_____	_____	_____
Prices—Latest Week				
Gold (\$ troy oz.)	406.4	_____	_____	_____
Copper (\$ lb.)	125.2	_____	_____	_____
Wheat (#2 hard \$/bu)	4.13	_____	_____	_____
Cotton (strict low middling, 1 ¹ / ₁₆ in lb.)	51.19	_____	_____	_____
Leading Indicators—Latest Week				
Stock price closings				
Standard & Poors 500 (S&P 500)	272.86	_____	_____	_____
Dow Jones Industrial Average (DJIA)	2053.96	_____	_____	_____
Business failures	230	_____	_____	_____
Economic Indicators—Month				
Employment, civilian (millions)	115.3	_____	_____	_____
Unemployment rate, civilian	5.4%	_____	_____	NA

Based on the 1988 data and the data you have added for the most current period, do you feel the economy is performing better or worse than it was near the end of 1988? Why?

CASES FOR ANALYSIS AND DECISION

CASE 4-1: The New Competition

South of downtown Milwaukee in an 80-year-old building, Allen-Bradley Co. operates a plant that is a showpiece of industrial automation. The plant demonstrates how proper planning and the skilled application of manufacturing automation can result in a quantum leap in factory efficiency, productivity, and competitiveness.

On the eighth floor at 7:30 every morning, 20 fully automated devices come to life, ready for another workday. A mainframe computer located elsewhere in the building has already transmitted to the computer-controlled assembly facility the orders it received overnight from distributors around the world. The line, which can be operated by as few as three workers, produces contactors, the electrical relays that control the flow of power in industrial and office machinery.

The basic black plastic shell is produced in an adjacent injection molding shop. A bar-coded sticker is pasted on it as it enters the assembly line. The

sticker tells the laser light-reading equipment along the line which of 720 different variations of the device to produce, which lot it belongs to, and to whom the finished product is to be shipped. The line of buzzing, whirring, and blinking machines inspect each device at 350 points and can replace faulty parts without human intervention.

Because the \$15 million automated facility turns out a new product line for Allen-Bradley, it did not eliminate any existing jobs. Officials of the United Electrical Workers local gave the project their blessing because it represents an expansion and job security for its work force. In fact, the union has helped identify and train prospective workers for the advanced line and for future high-technology assembly projects.

Larry Yost, who oversaw the automation project, said Allen-Bradley first identified a growing market for the contactors. Then it began to explore ways of making them cheaper than foreign competitors. "We thought about buying a European or Japanese company already making them. We considered buying the product and putting our brand label on them. We considered building a new plant in Mexico, or in non-union northern Wisconsin," Yost said.

After careful study, the company rejected all of those alternatives. Buying the product from another supplier would put quality control in outsiders' hands. Building a plant in Mexico would reduce hourly labor costs but require more workers working more hours, expensive training, and long supply lines. A northern Wisconsin plant would have the same disadvantages as a Mexican operation but with higher labor costs. To keep control of the operation and produce at a low cost, Yost said "we took the direct labor out" with full automation.

Now Allen-Bradley claims it can make the contactors, even one at a time, cheaper than any competitor anywhere in the world.

Source: Adapted from John M. Broder, "To Make It, Make It Differently," *The Los Angeles Times*, Reprint Series, Sept. 2, 1987

1. What are some reasons Allen-Bradley decided to produce contactors using a fully automated approach?

2. Why do you think the local union group has been willing to cooperate with Allen-Bradley in developing this automated plant?

3. Even though Allen-Bradley ended up rejecting all the alternatives presented in the case, there must have been some advantage(s) to each of them for them to have been considered seriously. Identify as many advantages as you can for each of the alternatives.

- a. Buy from a European or Japanese company

b. Build plant in Mexico

c. Build plant in northern Wisconsin

4. Written cases can never present all the information about a situation such as the Allen-Bradley one described here. What are some things, *other than those mentioned in the reading*, you feel were considered as Allen-Bradley made its decision to take on a new product line and produce it in a fully automated plant in Milwaukee?

CASE 4-2: Why So Many Economic Statistics?

Almost daily, it seems, the headlines feature statistics on some aspect of the nation's economy. The figures are intended to give an indication of what has happened, what's currently going on, and what might lie ahead. Hundreds of economic statistics are reported each month by trade associations and private organizations as well as by the U.S. government.

The volume of statistics increases in January, April, July, and October when the "quarterly" numbers appear. Many of these cover the same economic activity but summarize activities for the quarter before they are published. During the most recent October, for example, the U.S. government issued major releases for 20 different economic indicators.

These releases were prepared by the following agencies, which are commonly referred to by the abbreviations that follow them: Bureau of Labor Statistics (BLS), Commerce Department (Comm), and the Federal Reserve Board (FRB). Most of the information released by these agencies is contained in one or more of the following publications which are present in almost all libraries: *Business Conditions Digest*, *Survey of Current Business* (Comm), *Employment and Earnings* (BLS), and *Federal Reserve Bulletin* (FRB).

Why is data collected and processed to create this type of information and why is it made so easily available in our society? Most business and government leaders are responsible for developing a "business" plan for their organizations. These business plans may be for six months or they may be complex five-year plans. No matter how simple or complex, the development of such plans requires thinking about the likelihood of future events happening and their influence on the organization. This is referred to as "forecasting."

The first step in forecasting is the collection of data or information about past and current events, and the likelihood of future events happening. Managers use the data and statistics provided by government agencies as well as the trade associations and private organizations to fulfill this need.

They analyze this information and predict whether future events will occur and the effects they are likely to have on their organization if they do occur. Experts often are divided as to which forecasting methods offer the most reliable

results. However, they all agree that business forecasting is absolutely essential for the long-run success of any organization.

As our economy increasingly shifts its emphasis from manufacturing to information, it is clear that forecasting will continue to become more important. In order to do a good job of forecasting, leaders must have accurate and timely information available. If the information on which forecasting and decisions are made is wrong, it will be very difficult to arrive at good decisions. This is why business and government leaders are quick to support the data gathering and publishing activities of any group that provides reliable statistics related to economic activities in our society.

Source: Adapted from Connie McGeorge, "Economic Indicators: Which Ones Count?" *The Region*, Minneapolis Federal Reserve Bank, December 1987, pp. 5-7; and Paul Kirvan, "The Fine Art of Forecasting the Future, and its Significance to Telecommunications Professionals," *Communications News*, April 1987, pp. 66-69.

1. After reading Chapter 4 you have some knowledge about economic indicators. Based on that knowledge, which three economic indicators would you be most likely to want to keep track of if you owned a company?

2. Why would you keep track of each of these indicators? _____

3. Go to your school library or local city or county library and review a copy of one of the publications listed in the case. In the space below identify the publication and generally describe what you found in it.

4. Identify at least three people in your community (indicate their position and organization) who you think would be interested in the information contained in the publication you reviewed and state *why* you feel they would be interested in it.

CHAPTER 5

Business in a Global Economy

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below.

- | | | |
|---------------------------------|---------------------------------|----------------------------------|
| a. absolute advantage | g. foreign exchange rate | m. offshore manufacturing |
| b. balance of payments | h. foreign exchange rate | n. quota |
| c. balance of trade | i. free-trade zone | o. tariff |
| d. comparative advantage | j. imports | p. trade deficit |
| e. embargo | k. multinational company | q. trade surplus |
| f. exports | l. nationalization | |

- | | |
|--|----------|
| 1. When the amount a nation pays for imports exceeds the amount it receives for its exports. | 1. _____ |
| 2. The difference between the value of a nation's exports and imports for a period of time. | 2. _____ |
| 3. The difference between the total amount paid for all foreign activities and the total amount received from all foreign countries over a period of time. | 3. _____ |
| 4. When a company arranges for a foreign company to do some part of its manufacturing at a foreign location. | 4. _____ |
| 5. The takeover of foreign companies by the government of a nation in which the business firm is located. | 5. _____ |
| 6. The ultimate trade restriction, prohibiting trade in certain goods or services with certain nations. | 6. _____ |
| 7. When one nation can produce a good or service cheaper than another. | 7. _____ |
| 8. A tax placed on imported goods. | 8. _____ |

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

- | | |
|---|-----------|
| 1. International trade occurs because each country involved in a trade believes it will benefit or acquire some advantage from making it. | 1. T F |
| 2. The majority of world trade occurs because nations have an absolute advantage in producing certain goods and services. | 2. T F |



3. A U.S. firm can participate in international trade by arranging marketing agreements for its products in other countries.
4. When goods and services are sold internationally, the price of the good or service is stated in terms of the money used in the seller's country.
5. Today, the foreign exchange rates in the world are very stable because they are set by agreements between nations.

3. T F
4. T F
5. T F

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

1. _____ are goods or services that are bought from foreign countries.
2. If nation A can produce both toys and cars more efficiently than nation B, but it has a greater advantage producing toys, we say it has a _____.
3. When a business owns and operates production and marketing facilities in several countries, it is referred to as a _____ company.
4. In international trade, all foreign currencies are called _____.
5. A _____ is a limit on the quantity of a specific type of good or service that can be imported.

1. _____
2. _____
3. _____
4. _____
5. _____

Multiple Choice Write the letter for the best answer in the space provided at the right.

1. The largest percentage of U.S. imports are in the category of
 - a. Petroleum and coal products
 - b. Textiles and clothing
 - c. Autos and parts
 - d. Other machinery
2. Most of our petroleum products are imported from
 - a. American Republics
 - b. Canada
 - c. Far East
 - d. Middle East
3. A U.S. company can conduct international trade and continue to be based here during its activities by
 - a. Exporting
 - b. Entering into licensing agreements
 - c. Making joint ownership agreements with foreign companies
 - d. All of the above
4. The number of units of a nation's currency that the nation must pay to get one unit of another nation's currency is called the
 - a. Balance of trade
 - b. Quota rate
 - c. Foreign exchange rate
 - d. Balance of payments rate
5. If a nation receives more for its exports than it spends for its imports, it has a
 - a. Trade deficit
 - b. Trade surplus
 - c. Trade tariff
 - d. Balance of payments

1. _____
2. _____
3. _____
4. _____
5. _____

6. When a nation imports goods and services, members of its society will benefit by getting all of the following EXCEPT
- a. Lower prices for some goods and services
 - b. Better quality in some goods and services
 - c. More jobs in the economy
 - d. Different kinds of goods and services to choose from

6. _____

USING BUSINESS INFORMATION

PROJECT 5-1: U.S. Merchandise Trade With Major Trading Partners

The United States conducts international trade with almost every nation in the world. Use a reference such as the *Survey of Current Business*, *Economic Report of the President*, *Statistical Abstract*, or *World Almanac* to find international trade figures for the latest year available and complete the table below. Record the year for which you are providing figures in the space at the end of the title line. Then write the value of our exports and imports with each nation in the appropriate columns. Calculate the balance of trade with each nation and write it in the last column, indicating whether it is a surplus (use a plus symbol) or a deficit (use a minus symbol). A sample line for trade with "Anywhere" is shown. Finally, record the total U.S. exports, imports, and balance of trade with all countries in the line provided at the bottom.

TABLE 5-1 U. S. Merchandise Trade With Selected Countries _____ (Year)			
Country	Exports (millions)	Imports (millions)	Balance of Trade* (millions)
Example: Anywhere	\$100,000,000	\$125,000,000	+ \$5,000,000
Africa (all nations)	_____	_____	_____
Canada	_____	_____	_____
China, People's Republic	_____	_____	_____
France	_____	_____	_____
Hong Kong	_____	_____	_____
Japan	_____	_____	_____
Mexico	_____	_____	_____
South Korea	_____	_____	_____
U.S.S.R.	_____	_____	_____
United Kingdom	_____	_____	_____
West Germany	_____	_____	_____
TOTAL: All Countries	_____	_____	_____

*+ = surplus, or favorable balance of trade
 - = deficit, or unfavorable balance of trade

Using the information presented in the table, answer the following questions:

1. To which two nations did we export the most goods and services?

_____ and _____

2. From which two nations did we import the most goods and services?

_____ and _____

3. With which two nations did we have the largest trade surplus?

_____ and _____

4. With which two nations did we have the largest trade deficit?

_____ and _____

PROJECT 5-2: Types of U.S. Exports and Imports

The types of goods and services a nation exports and imports change over a period of time. Using one of the nations or areas listed in Project 5-1 above, find the trade data for the most current year available and complete the table below. Record the name of the country or area you select and the year at the end of the title line and the value of exports and imports for each of the commodity groups in the spaces provided. Record the total of exports and imports on the bottom line and then calculate and record the percentage of total exports and imports accounted for by each of the commodity groups in the spaces provided.

TABLE 5-2 Types of U.S. Exports and Imports to and from _____ 19__ (Nation or Area)				
(shown in millions of dollars)				
Commodity Group	Exports		Imports	
	Value	Percent of Total	Value	Percent of Total
Food and live animals	_____	_____	_____	_____
Beverages and tobacco	_____	_____	_____	_____
Crude materials, inedible except fuel	_____	_____	_____	_____
Mineral fuels and related materials (including coal and petroleum products)	_____	_____	_____	_____
Animals and vegetable oils and fats	_____	_____	_____	_____
Chemicals	_____	_____	_____	_____
Machinery (other)	_____	_____	_____	_____
Transportation equipment	_____	_____	_____	_____
Aircraft parts, except engines	_____	_____	_____	_____
Other manufactured goods	_____	_____	_____	_____
Other transactions	_____	_____	_____	_____
TOTALS	_____	_____	_____	_____



Using the data presented in the table, answer the following questions:

1. Which of the commodity groups accounted for the highest percentage of exports? _____
2. Which of the commodity groups accounted for the highest percentage of imports? _____
3. List some of the things included in the food and live animals commodity group. _____
4. List some of the things included in the crude materials commodity group.

5. List some of the things included in the machinery (other) commodity group.

6. List some of the things included in the other manufactured goods commodity group. _____
7. How does the data for the current year compare with that shown in Figure 5-1 on page 95 of the text?
 - a. Does other machinery still account for the highest percentage of exports?

If not, why do you think this has changed? _____

 - b. Do other manufactured products still account for the second highest percentage of exports? _____ If not, why do you think this has changed?

 - c. Does other machinery still account for the highest percentage of imports?

If not, why do you think this has changed? _____

 - d. Does the group with petroleum products still account for the second highest percentage of imports? _____ If not, why do you think this has changed?

CASES FOR ANALYSIS AND DECISION

CASE 5-1: From Telecommuting to Offshore Data Processing

The computer revolution and dramatic changes in lifestyle during the 1980s are making an idea from the 1970s increasingly popular in business. Telecommuting, having employees work at home and communicate with the office via computers and communication links, is being used more and more by business firms of all sizes today. Such corporate giants as J.C. Penney, Travelers, and Pacific Bell have discovered that there are advantages to having some employees work at home, at least part of the time. Even IBM, whose management is

generally recognized as being among the most conservative of all management groups, now has employees telecommuting.

A spin-off of the telecommuting trend is the rapidly emerging job market in offshore data processing. American-owned facilities in the Caribbean, Asia, and elsewhere have extended the concept of telecommuting offshore. Instead of using sophisticated telecommunications technology to allow a few employees to work at home a few miles from the office, companies are using it to set up whole departments in foreign countries thousands of miles away from their U.S. offices.

One such firm is AMR Caribbean Data Services, a subsidiary of American Airlines, Inc. Two years ago it moved its data entry from Tulsa, Oklahoma, to two offshore facilities it owns in the Caribbean. Each day 400 workers in a Barbados shop process an average 225,000 used American Airlines tickets. Data input clerks key data into a computer from the ticket stubs, which are gathered in New York and flown to the island daily. Within 24 hours the data is transmitted to Tulsa, where it is used to reconcile accounts.

"Basing the operation in the Caribbean saves us roughly \$4 to \$6 million a year, primarily in labor costs," says William P. Griffith, president of the firm. Griffith feels rising wage rates in the United States and the costs of meeting guidelines related to the growing health concerns over the effects of daily work at a video display terminal make it prohibitively expensive to keep data processing operations in the United States.

Other firms seem to agree. AMR has a second facility in the Dominican Republic. There, 650 employees process everything from insurance claims to market surveys and canceled checks for 25 other U.S. firms that have contracted with AMR/Caribbean. By one estimate there are now up to 70 U.S. firms operating similar offshore data processing facilities.

The growth of such facilities alarms those who see domestic entry-level data processing jobs disappearing as a result. "Exporting these traditionally entry-level jobs to places where labor is cheaper could keep a whole segment of the American work force from gaining the computer literacy that will be needed by U.S. corporations in the future," says Jack M. Nilles, who developed the idea of telecommuting. Ultimately, say telecommuting experts, it could be the corporations that suffer most from the shifting of data processing jobs overseas.

Source: Adapted from Susan Dillingham, "Employers Find Advantages in Sending Workers Home," *Insight*, December 5, 1988, pp. 40-43

1. If there are growing health concerns over the effects of daily work at a video display terminal for Americans, do you think firms should be able to "export" these jobs and the concerns to people in other parts of the world? Why?

2. Some persons have suggested that U.S. firms should not be allowed to set up offshore data processing offices. Do you agree or disagree with this? Why?

3. What type of people do you think are being hurt most by the exporting of data-entry jobs to other nations? Who in our society is most likely to be seeking employment as a data-entry clerk?

4. What do you think is meant by the comment that "Ultimately, . . . it could be the corporations that suffer most from shifting data processing jobs overseas"?

CASE 5-2: Is "Buy American" Discrimination?

The President has signed into law an omnibus trade bill that took Congress three years to hammer out. Buried in its depths is a provision on "buy Americanism." In this section Congress tells the President that foreign governments should stop discriminating against U.S. suppliers. For any government that doesn't, the President will now be under greater pressure to "reciprocate"—to close the U.S. government market to foreign goods and services from the suppliers in that specific country.

By April 30, 1990, the President must submit to Congress the first annual report, naming the governments discriminating against U.S. suppliers. If the offenders have not changed their ways within 60 days, the President must put the dispute before the GATT or retaliate by not allowing our government to buy from them. A GATT procurement code was negotiated among 20 countries, including the United States, in 1979. It commits governments to nondiscriminatory procedures in announcing bids and awarding contracts.

Even among those who signed it, the code does not now apply to the purchasing policies of many big government agencies. The United States is seeking, as part of a new trade negotiation, to expand the code's sweep, especially relating to the buying of transport, telecommunications, and heavy electrical equipment. It also wants services to be covered.

Meanwhile, the U.S. government itself is discriminating more and more against foreign suppliers. A Federal "buy American" list has been around for a long time, and it continues to grow. The Defense Department is one example, although many of its restrictions have been set up by Congress.

In 1956, Congress told the Defense Department to buy American textiles and apparel. Since then the department's "buy American" list has been growing steadily. It now includes specialty metals, coal and coke, hand and measuring tools, miniature and instrument bearings, stainless steel flatware, "administrative" motor vehicles, aircraft ejection seats, and ship propulsion shafts. The latest additions are machine tools and supercomputers.

"Buy American" is not limited to the Defense Department. Recently Congress ordered federal power-marketing agencies to pay up to 30 percent more for U.S. high-voltage equipment rather than buy from abroad. Also, it decided to require at least 25 percent U.S. content for equipment bought for federally funded mass transit systems.

Members of Congress who argue to get items put on "buy American" lists generally say this must be done as a way to guarantee adequate U.S. supplies in time of war. Recently, there has been more pressure to do away with quotas and tariffs and other import restrictions, so more and more industries are claiming national security as a basis for restricting imports.



Since we seem to be discriminating against foreign industry, it may be hard for our foreign trading partners to understand why Congress has passed the new law that says the U.S. government must get tougher with foreigners who discriminate.

Source: Adapted from Richard Lawrence. "Buy American Fever Is Spreading." *The Duluth-News Tribune*, September 5, 1988, p. 12C.

1. Explain what is meant by the term "buy American." _____

2. Do you think we should have laws that require U.S. government agencies to buy certain goods and services only from American suppliers? Why or why not?

3. Do you think foreign governments should have laws requiring they buy certain goods and services only from suppliers in their nations? Why or why not?

4. Do you think it was a good idea for Congress to require the President to get tougher with foreign governments that discriminate against buying certain goods and services from U.S. suppliers? Why or why not?

CHAPTER 6

Business Structures

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below.

- | | |
|--|-------------------------------|
| a. board of directors | b. franchisee |
| b. Certificate of Incorporation | i. franchiser |
| c. cooperative | j. mutual agency |
| d. corporate charter | k. partnership |
| e. corporation | l. sole proprietor |
| f. dividend | m. sole proprietorship |
| g. franchise | n. unlimited liability |

- | | |
|---|----------|
| 1. A business with a single owner as the entrepreneur. | 1. _____ |
| 2. The earnings, per share, that stockholders receive from investing in the purchase of stocks of a public corporation. | 2. _____ |
| 3. The risk of loss that owners take when they structure their businesses as sole proprietorships and partnerships. | 3. _____ |
| 4. The business structure that results from a legal relationship between franchiser and franchisee. | 4. _____ |
| 5. The business structure that exists when a group of people, such as farmers, get together to form a business that is similar to but different than a corporation. | 5. _____ |
| 6. The officers who are elected to head a business, once a charter is obtained from the Office of the Secretary of State. | 6. _____ |
| 7. The business structure that consists of two or more people as owners. | 7. _____ |

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

- | | | |
|--|------|---|
| 1. Sole proprietorships generate most of the revenue in the United States. | 1. T | F |
| 2. Corporations earn the most money from sales. | 2. T | F |



- | | | |
|--|------|---|
| 3. People form cooperatives in order to make friends. | 3. T | F |
| 4. People open franchises because they're scared of having to make decisions on their own. | 4. T | F |
| 5. The most common business structure is the partnership. | 5. T | F |

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

- | | |
|---|----------|
| 1. A McDonald's fast food restaurant is an example of a _____. | 1. _____ |
| 2. Allen & Daughters is an example of a _____. | 2. _____ |
| 3. CSX, Inc. is an example of a _____. | 3. _____ |
| 4. The Missouri Farmers Association (MFA) is an example of a _____. | 4. _____ |
| 5. Valdez, Klein, and O'Brien (in the text) is an example of a _____. | 5. _____ |

Multiple Choice Write the letter for the best answer in the space provided at the right.

- | | |
|--|----------|
| 1. To form a corporation, the incorporators need to: | 1. _____ |
| a. Elect officers | |
| b. Write bylaws | |
| c. Get a state charter | |
| d. All of the above | |
| e. None of the above | |
| 2. To form a partnership, the partners need to: | 2. _____ |
| a. Elect officers | |
| b. Write bylaws | |
| c. Get a state charter | |
| d. All of the above | |
| e. None of the above | |
| 3. To form a sole proprietorship, the owner needs to: | 3. _____ |
| a. Get reliable business information | |
| b. Write bylaws | |
| c. Get a lawyer to prepare a contract | |
| d. All of the above | |
| e. None of the above | |
| 4. To operate a franchise, the franchisee needs to: | 4. _____ |
| a. Contact a franchiser | |
| b. Raise capital | |
| c. Agree to, and or negotiate, the terms of the contract | |
| d. All of the above | |
| e. None of the above | |
| 5. To operate a cooperative, the members need to: | 5. _____ |
| a. Contact a franchiser | |
| b. Have common interests and goals | |
| c. Get a lawyer to prepare a contract agreement | |
| d. All of the above | |
| e. None of the above | |

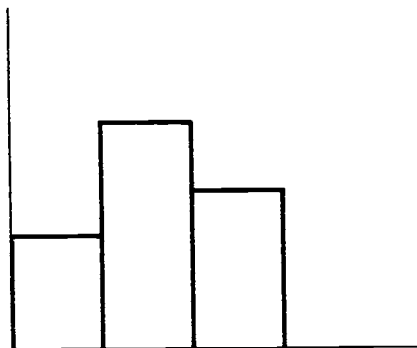


USING BUSINESS INFORMATION

PROJECT 6-1: Preparing Graphs and Interpreting Data

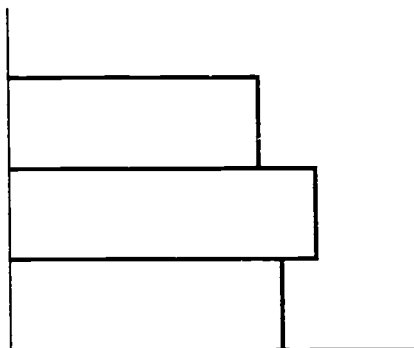
Use the information below to prepare two rough-draft (pencil) bar graphs on scratch paper. Then prepare a combined graph and interpret the data.

1. Vertical bar graph. Note: A vertical bar graph looks like this:



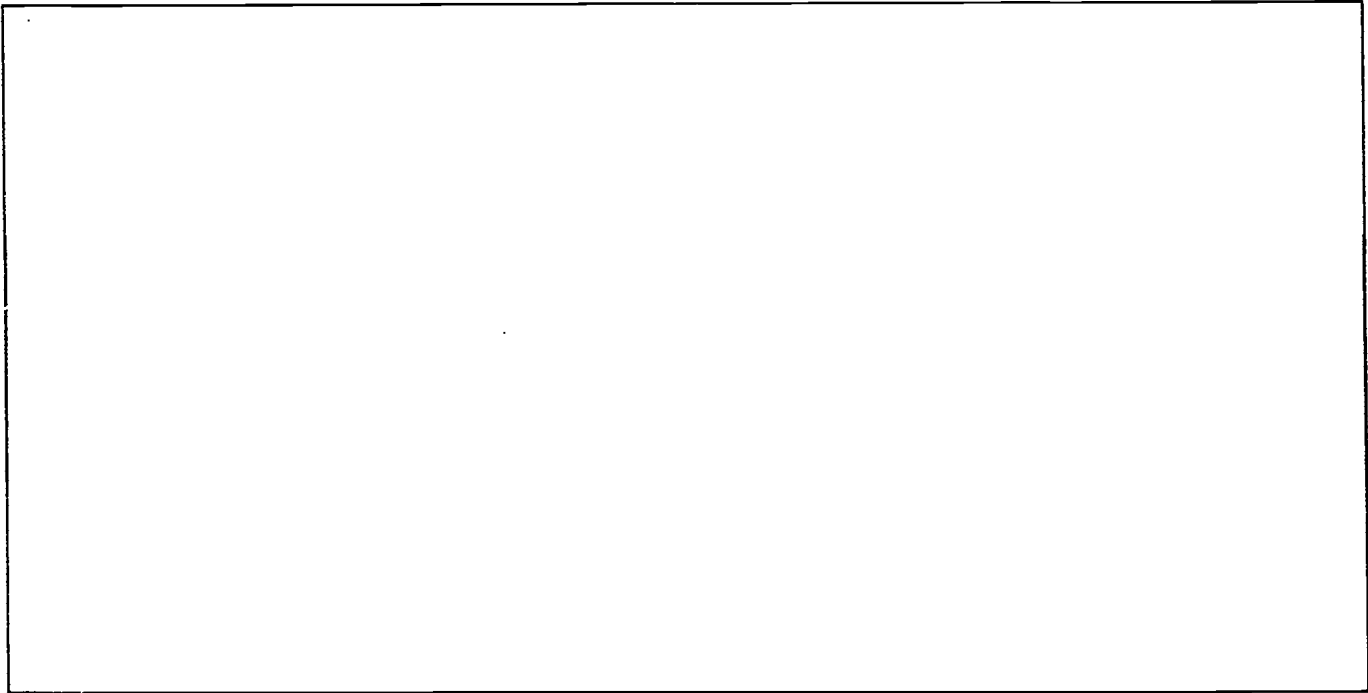
- a. Title: Types of Business Organizations
- b. Data: Corporations comprise 20.2 percent of all U.S. business structures; partnerships comprise 10.3 percent; and sole proprietorships comprise 69.5 percent.
- c. Legend: "Franchises are included among the above three business structures."

2. Horizontal bar graph. Note: A horizontal bar graph looks like this:



- a. Title: Sales Revenues
 - b. Data: Sole proprietorships produce 5.6 percent of total U.S. revenues; partnerships produce 3.8 percent; and corporations produce 90.6 percent.
 - c. Legend: "Franchises are included among the above three business structures."
3. Decide which bar graph you prefer, vertical or horizontal. Combine the data from your two rough-draft bar charts above to produce one chart to submit. For example, white space (□) may be used to show the data from Chart No. 1 above, and solid or lined (▨) bars may be used to show the data from Chart No. 2.

When you are satisfied with your graph, use a ruler and ink to produce a quality looking graph in the space below:



4. How do you account for the differences in each pair of bars, for example, the short versus the long lines (representing percentages) for sole proprietorships, partnerships, and corporations? (Hint: Compare the number of each business structures versus the amount of total revenues produced.) Provide your interpretation of the data in the graph, using the space below:

PROJECT 6-2: Deciding Whether or not to Draw up a Partnership Agreement

Study and consider each of the nine parts shown in the following partnership agreement. Then respond to the questions and items that follow.



PARTNERSHIP AGREEMENT

This agreement made and entered into this second day of November, 1991, between Lois Barr, Carl Fitzgerald, and May Wing, all of the city of Tucson, county of Pima, state of Arizona.

Witnesseth:

One. The parties, Lois Barr, Carl Fitzgerald, and May Wing, agree to become partners in a data-processing service firm.

Two. The business of the partnership shall be conducted under the firm name of Barr, Fitzgerald, and Wing Processing Service, located at 3821 East Grant Street, Tucson, Arizona.

Three. The capital investments are as follows: Lois Barr, \$30,000; Carl Fitzgerald, \$15,000; and May Wing, \$15,000.

Four. All profits or losses arising from said business are to be shared according to each partner's original capital investment; that is, Barr, 3/7; Fitzgerald, 2/7; and Wing, 2/7.

Fifth. Each partner will devote her or his entire work time and energies to the business and will engage in no other business enterprise without the written consent of the other two partners.

Sixth. Each partner will draw a monthly salary as follows: Barr, \$1,800; Fitzgerald, \$1,500; and Wing, \$1,500. No partner may withdraw from the business an amount in excess of her or his salary without the written consent of the other partners.

Seventh. The duties of each partner are defined as follows: Lois Barr, general administration and marketing; Carl Fitzgerald, accounting and finance; and May Wing, data-processing supervision.

Eighth. In event of the death, incapacity, or withdrawal of a partner, the business will be conducted for the remainder of the year by the surviving partners. The profits for that year will be allocated to the withdrawing partner according to the time she or he was active.

Ninth. If and when this partnership is dissolved, the assets are to be distributed among the partners according to her or his original investment unless otherwise agreed upon among the partners in writing.

In witness whereof, the parties have hereunto set their hands and affixed their seals of the day and year, as follows:

Dated this _____ (month, day), of 1991

In the presence of

Witness

Lois Barr
Lois Barr
Carl Fitzgerald
Carl Fitzgerald
May Wing
May Wing



1. How much capital (money) will each partner contribute to the business?

Lois Barr: \$ _____

Carl Fitzgerald: \$ _____

May Wing: \$ _____

2. Assume that the second year's profits amount to \$50,000. The partners agree to use \$30,000 to expand the business. How much money, after expansion, will each partner get?

Lois Barr: \$ _____

Carl Fitzgerald: \$ _____

May Wing: \$ _____

3. In addition to the initial capital investments, the firm's assets include the \$30,000 invested to add on to the building, plus an estimated \$25,000 of goodwill. Then the partners decided to dissolve the business. Upon sale of the business, the partners received a 10 percent profit, over and above their total investment, including goodwill. How much money did each partner get?

Lois Barr: \$ _____

Carl Fitzgerald: \$ _____

May Wing: \$ _____

4. Express your opinion about the need for and use of a partnership agreement. For instance, if you were going to open a business that would be structured as a partnership, do you think it would be a good idea to pay a lawyer to draw up such a contract? Why or why not?

CASE FOR ANALYSIS AND DECISION

CASE 6-1: Not Employees, but Stakeholders and Stockholders

There are no employees inside the manufacturing and distribution offices of Domino's Pizza Inc. There are only team members, team leaders, and the coaching staff.

In an era when one buzzword is "participative management," the words employee or worker suggest (to some people) passivity or subordination. The "subservient" worker conjures up an image of the dominating boss, who unfeelingly casts down orders to servants.

So the search is on for other terms, such as "associates" or "stakeholders." And nowadays it is not uncommon to hear some employers liken a firm to a family and to refer to its workers as "family members."

Perhaps the term stakeholders is accurate because many workers today realize that they have a direct stake in their firm's success. Many workers also recognize that their jobs and livelihoods depend on how competitive their company is in the marketplace, both at home and overseas.

Furthermore, many workers today are stakeholders in yet another sense.

Many workers actually have become stockholders in their company. They own it! A new breed of the hard-driving capitalist has come into being—the “employee stockholder.”

At a Wisconsin printing company, for example, the average five-year employee owns shares worth \$250,000. In Avis car rental offices across the United States, employees wear lapel buttons that read “Owners Try Harder,” a change from the once popular slogan “We Try Harder.”

The Employee Stock Ownership Plan (ESOP) was created in the 1950s. But lately owners have discovered that stakeholder employees are more eager to meet the dual goals of business: high quality and high productivity. So by the late 1980s about one-fourth of all corporate employees (over 10 million) were enrolled in an ESOP, up from 3 million only a decade earlier. Over 10,000 companies in the United States offer such programs. And in 1,500 or more firms, the employees own the majority of the stock. That majority makes them the owners, the entrepreneurs.

Sometimes the employees get the ESOP action started through group effort. Other times it's the managers who work to get ownership of their companies. These managers are out to prove they can run their own show and run it better than some sprawling corporate conglomerate that no longer seems to respond to the needs of its people.

The list of blue-chip corporations owned by its management includes the Montgomery Ward department store chain (bought from Mobil), the former ITT subsidiary that makes Scott lawn products, and the onetime Unisys unit that produces Nu-kote ribbons for typewriters and computer printers.

The Scott president claimed: “There was no longer a push for excellence.” After the managers bought the unit for \$133 million, they promptly introduced several new highly successful quality products, increasing sales by 16 percent. Such managers call their action to take over ownership of their companies as “Independence Day.”

But all is not rosy for every employee-owned or management-owned company. Like starting either a sole proprietorship or a partnership, the owners have to come up with enough capital to buy their companies, which often means taking on a heavy debt load. If sales plummet, their debt burden could become crippling.

All sole proprietorships, partnerships, franchises, or cooperatives—like corporations—must make a profit to continue succeeding. Getting and remaining competitive with quality products and services is necessary to ensure making a profit. And competition, especially foreign, has become a concern to many businesses, including ESOPs.

Listen to H. Ross Perot, a Texas businessman, for example. He has said:

Nine out of 10 of the largest banks in the world are now Japanese; the tenth is an American bank. How did nine out of 10 of the biggest banks in the world come to be Japanese? It's simple. The Japanese made the best products in the world. We bought their products. They got out money. Now it's in their banks.

An American group that's also highly concerned about the competition and productivity issues is the Council on Competitiveness, a nonprofit organization founded in 1986. Membership includes some top-level executives from some pretty high-powered U.S. corporations, as well as union representatives and the presidents of major universities. The Council has one major objective, which is to help improve America's economic competitiveness, whether products and services come from small or large businesses or from the efforts of entrepreneurs or intrapreneurs. Perhaps the ESOP is one means of meeting and matching the competition from abroad. But even ESOPs and management-owned companies won't be able to make a dent in the problem if they can't generate



enough revenues to cover their expenses and continue operating. Every sole proprietor and every partner must do this in order to succeed.

Sources: Frederick Ungeheuer, "They Own the Place," *Time*, February 6, 1989, pp. 50-51; H. Ross Perot, "A Country is no Stronger than its Schools," *Kansas City Star*, December 5, 1988 (reprinted from *The Los Angeles Times Washington Post News Service*); Gordon Bock, reported by Raji Samghabadi, "When Managers are Owners," *Time*, November 7, 1988, p. 99; and Jolie Solomon, "When Are Employees not Employees? When They're Associates, Stakeholders . . ." *The Wall Street Journal*, November 9, 1988, p. B1

1. Assume you start your own business. Make the following decisions:

Name of your company: _____

Products or services offered for sale:

Business structure (sole proprietorship, partnership, corporation, franchise, or cooperative): _____

Approximate number of workers you employ: _____

2. Express your opinions from the point of view of the data you provided above.

a. Is the production of quality products and services important to the success of your business? If so, why?

b. Is high-level productivity from your employees important to the success of your business? If so, why?

c. If you cannot get and remain competitive (in the local, national, or global market) in any other way, would you be willing to restructure your company as a corporation? Would you then make stock options available to your employees? Why or why not?

3. If, instead of the owner, you were a manager of your company, would you be interested in joining with others to buy your company? Why or why not?

4. If, instead of the owner, you were an employee of your company, would you be interested in joining with others to buy your company? Why or why not?

5. If, as either an employee or a manager, your company has been bought by your group, how would you want to restructure the new business? Check one:

sole proprietorship _____

partnership _____

corporation _____

franchise _____

cooperative _____

Why? (think about the advantages and disadvantages, as noted in the chapter but also in reference to competition and productivity) _____



CHAPTER 7

*The Social and
Legal Environment
of Business*

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below:

- | | |
|---|---|
| a. administrative law | k. Federal Trade Commission Act |
| b. bailee | l. Interstate Commerce Commission |
| c. bailor | m. intentional torts |
| d. Clayton Act | n. negligence |
| e. common carrier | o. Occupational Safety and Health Administration |
| f. copyright | p. patent |
| g. crimes | q. strict liability |
| h. Equal Opportunity Commission | r. torts |
| i. Environmental Protection Agency | s. trademark |
| j. ethics | t. tradename |

1. A symbol, word, name, device, or any combination of these adopted and used by a business firm to identify its products and services and distinguish them from those sold by other firms.
2. The primary federal agency charged with assuring safe and healthful working conditions for the nation's workers and preserving our country's human resources.
3. Actions deliberately committed outside established guidelines of business conduct.

1. _____
2. _____
3. _____

4. A grant which gives the inventor or discoverer of a new and useful work, manufacturing technique, or useful improvement of these categories the exclusive right to them for a period of 17 years. 4. _____
5. One who receives possession of the goods in a bailment agreement. 5. _____
6. A law passed to attack unfair economic practices not covered in the Sherman Act. 6. _____
7. Wrongs done to individuals rather than to society as a whole. 7. _____
8. An act that prohibits false or misleading advertising, and untrue claims about the quality or performance of a product or service. 8. _____
9. Failure to exercise the degree of care which a reasonable person would have exercised under the same or similar circumstances or conditions. 9. _____
10. A public transporter of goods such as a truck line, railroad, airline, or bus company. 10. _____

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

1. The Interstate Commission is an example of an industrial association engaged in self-policing activity. 1. T F
2. Torts represent the moral principles or values that motivate individual or group behavior. 2. T F
3. An intentional tort is an action which is committed deliberately outside the established guidelines of business conduct. 3. T F
4. A contract is a promise or set of promises in which two or more parties agree to act or not act in a certain way. 4. T F
5. A deed gives temporary, partial control of real property. 5. T F

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

1. Chrysler, Federal Express, and IBM are all examples of _____. 1. _____
2. A person who argues that the business goals of a firm are essentially economic in nature is taking a _____ view of business social responsibility. 2. _____
3. The body of laws which deals with business matters such as contracts or sale of property are referred to as _____. 3. _____
4. The role of government that offers business a wide variety of tax breaks is an example of its _____ role. 4. _____
5. Interstate commerce activities are left to regulation by the _____ governments. 5. _____

Multiple Choice Write the letter for the best answer in the space provided at the right.

1. The part of our legal system dealing with the control and regulation of businesses and individuals is known as: 1. _____
 - a. Commercial law
 - b. Tort law
 - c. Administrative law
 - d. Criminal law

2. An agency that reflects the change in social values and concerns of society is the: 2. _____
 - a. Environmental Protection Agency (EPA)
 - b. Interstate Commerce Commission (ICC)
 - c. Clayton Act
 - d. FTC Act

3. An example of a valid and enforceable contract element is: 3. _____
 - a. The parties of the contract must be 21 years of age
 - b. Lack of consideration
 - c. Either an offer or an acceptance
 - d. Proper legal form

4. Business law includes all of the following business matters *except*: 4. _____
 - a. The sale of property
 - b. Intentional torts
 - c. Agency and employment law
 - d. Creation of a bailment

5. An example of a tax which is intended to regulate or restrict business activity is the: 5. _____
 - a. Corporate income tax
 - b. Excise tax
 - c. Sales tax
 - d. Property tax

USING BUSINESS INFORMATION

PROJECT 7-1: Identifying the Parts of a Contract

The Video Mart requires its members to sign a movie club contract before they may check out movies. Use the sample contract on the next page to answer questions which follow.

1. Name the body of law that governs this contract.
2. Identify the parties of the contract found in the Video Mart agreement.
3. Which element of a contract do the parties of the contract constitute?
4. How is Video Mart able to determine the legal capacity of the party signing the contract?
5. What is the evidence of a voluntary agreement by the parties to this contract?
6. What is the purpose of this contract? Is it a legal purpose?
7. What exchange of value or consideration binds this agreement?
8. Is the contract written in proper legal form?
9. If Amanda Jackson is an employee of the Video Mart, what is she called in this contract situation?

MOVIE MEMBERSHIP AGREEMENT

Video Mart Home Movie Club

VHS Membership #6495

Ralph Olowski

Membership Date 10-9-XI

5543 Turner Blvd.

Bridgeport, CT 06608

Phone Number 379-4454

**** 1-YEAR MEMBERSHIP ****

Amount Paid \$25.00

Handling Fee

\$ 1.00 per movie per day

\$ 5.00 per movie per week

All handling fees are subject to change with a 30-day notice in the store.

The Video Mart will maintain a stock of video movies which will be available for exchange. Movies must be selected from Video Mart's current stock of movies.

No reservations will be made at any time, on any movie.

The Video Mart's movie club membership is limited to the terms and conditions of this agreement. Club members may take out 5 movies at a time.

Members are responsible for all damaged movies while in their possession. Members will be charged list price less 25% discount for movies damaged while in member's possession.

I understand and agree that none of the movies that I receive under this program may be copied, reproduced or shown publicly.

I have read and understand this agreement and acknowledge that it is a binding contract between the parties hereto represented. No statements or representations other than those set forth shall bind either party. No modifications can be made of this contract except in writing and signed by both parties.

Dated this 10th Day of October 19 XI

Members Name Ralph Olowski

Video Mart's Representative Amanda Jackson

PROJECT 7-2 Identifying and Classifying Regulatory Agencies

Read each situation in Column 1 which describes a business activity covered under federal regulation. In Column 2, write whether the situation described in Column 1 falls under the classification of industry regulation or social regulation. In Column 3, write the name of the regulatory agency which oversees the situation described in Column 1. See Table 7-1.

TABLE 7-1 Federal Regulation of Business Activities		
Column 1	Column 2	Column 3
1. The board recommended that increased air flow and air filters be used to reduce the danger to human health where formaldehyde was found in products used to manufacture its floor coverings.		
2. A fine of \$2.59 million was proposed against IBP Inc., the nation's largest meatpacking company, on charges that it failed to report more than 1,000 job-related injuries and illnesses over a two-year period.		
3. Financing has been found for the new radio station. The management must now receive permission to operate on its proposed spot on the dial (frequency).		
4. EXC Corporation has been granted a government contract. They must decide the best way to modify their office to accommodate handicapped persons.		
5. Some bus companies complain that fare slashing and excess capacity will drive them out of business.		
6. Over the past decade, roughly 90,000 workers who were exposed to asbestos have sued producers of products containing this substance.		
7. While allowed to use employment tests, a business must be sure the test fits the employment situation.		
8. The nation's largest long-distance telephone company is requesting more flexibility in setting its rates.		
9. Regulation has made the major airlines bigger. For example, Delta and Northwest have emerged as megacarriers through their buyouts of Western and Republic, respectively.		
10. Mr. Frost, the company president, stressed the need for training and emergency procedures for the operation of the new equipment.		

CASES FOR ANALYSIS AND DECISION

CASE 7-1: A Role for Business in Education

Arthur Sykes, president of Maxim Corporation, was invited to attend a conference on the future of education. The keynote speaker outlined some of the major themes cited by critics of American schools. The speaker's address included some of the following shortcomings:

- When American students are compared with their international counterparts, they score below average in math.
- 84 percent of 23,000 young adults who took a simple qualifying exam for entry-level jobs at New York Telephone failed.
- According to the Committee of Economic Development, more than 25 percent of children under the age of six live in poverty. Too many of these children enter the public school system without the "readiness" to learn.
- The verbal and math scores of students taking the College Board examinations have declined dramatically since 1963.
- Educational studies show weaknesses among students in academic areas such as history, literature, economics, and geography.
- One million teenagers drop out of high school before graduating.

Mr. Sykes was alarmed by these statistics. When he returned to corporate headquarters, he assembled his officers to prepare a plan to assist public education in the cities where their manufacturing plants are located. The plan agreed upon by the officers included the following:

- Awarding grants to teachers with innovative ideas to improve education.
- Inviting elementary and secondary school administrators to corporate headquarters for management training seminars.
- Placing Maxim's employees in the schools to serve as tutors and advisors to specific students and classes.
- Directing grants to the schools for the purchase of new textbooks and supplies.

In all, the Maxim Corporation earmarked more than \$3 million for the most recent years.

1. How would you describe the Maxim Corporation's view of social responsibility?

2. What are the positive and negative aspects of Maxim's action for the communities where they have operations?

3. What are the positive and negative aspects of Maxim's actions for the stockholders?

CASE 7-2: Crimes and Torts, Ethics, or Smart Business Practice?

Troublesome questions are coming to the surface in American business. It is sometimes difficult to see the difference between illegal acts and unethical practices. Where does the law end and proper ethics become the guide for employers and employees? Courts are often asked to decide between what is good business practice and unethical policies. For each situation below, identify whether it is most closely related to point of law, a point of ethics, or a sound business practice. Defend your answer in each situation.

1. Fred works for a company that encourages employees to become comfortable with personal computers. His boss encourages him to play games on them during the lunch hour and even allows Fred to take a laptop model home at night. Fred becomes so comfortable that he keeps his own investments charted on the computer. It takes him an hour during work each day to keep his finances current on his computer. He also uses it to write personal letters to friends.

2. Sue has been asked to "spy" on the competition. She has been told to go out and buy a competitor's food processor. She will then test the processor in her home. She will also take it to the manufacturing department where they will take it apart to analyze the cost of its production.

3. The company where you work has told you they have been monitoring the use of the computer you use at work. The reason given is that they want to find out how much the machine is being used. You hear rumors that the company is also checking your computer files to see that your work conforms to company policy.

4. A major automobile manufacturer allows its corporate officials to drive new cars for personal use. The cars are sold to consumers after a six-month period. Lately the company has been spinning the odometers back to zero before the cars are shipped to dealer showrooms for sale.

CHAPTER 8

*The Role of Management
in Business*

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below:

- | | | |
|-------------------------------|--------------------------------|------------------------------|
| a. authority | f. line authority | k. staff authority |
| b. controlling | g. middle-level manager | l. strategic planning |
| c. departmentalization | h. management | m. tactical planning |
| d. directing | i. organizing | n. top-level manager |
| e. first-line manager | j. planning | |

- | | |
|--|-----------|
| 1. A manager who sees that the immediate goals and objectives of the organization are carried out by others under her or his direct supervision. | 1. _____ |
| 2. The job of assigning and coordinating the firm's resources. | 2. _____ |
| 3. Development of short-term objectives which must be met in order to meet long-term strategic plans. | 3. _____ |
| 4. The power to act, to make decisions, and to carry out assignments. | 4. _____ |
| 5. The advisory responsibility to employees and managers in the organization. | 5. _____ |
| 6. The person who is mainly responsible for planning and organizing the goals and objectives of the organization. | 6. _____ |
| 7. The management process of influencing, guiding, and leading subordinates to carry out business activities. | 7. _____ |
| 8. The process of achieving organizational goals by working with people and other resources. | 8. _____ |
| 9. The person who is responsible for carrying out the assignments and directives of top-level management. | 9. _____ |
| 10. The process of dividing work activities into specific units. | 10. _____ |

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

- | | | |
|--|------|---|
| 1. One of the responsibilities that a manager has is to handle crises such as a labor strike. This is an example of an interpersonal role played by the manager. | 1. T | F |
| 2. Strategic planning is the primary responsibility of top-level managers. | 2. T | F |
| 3. The most widely recognized function of an organization is planning. | 3. T | F |
| 4. A personnel director is an example of a middle-level manager. | 4. T | F |
| 5. The most important role that a manager has is the role of a decision maker. | 5. T | F |

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

- | | |
|---|----------|
| 1. _____ managers are responsible for setting and meeting the goals and objectives of the organization. | 1. _____ |
| 2. The marketing research specialist and the telemarketing specialist have an advisory relationship to the national and regional sales managers. This is an example of _____ authority. | 2. _____ |
| 3. Tactical plans are developed by middle-level managers and are usually carried out by _____ managers. | 3. _____ |
| 4. Locating and obtaining the necessary resources when they are needed is the _____ function of management. | 4. _____ |
| 5. Hosting clients, leading and coaching employees, and acting as a contact to other businesses are examples of the _____ role of a manager. | 5. _____ |

Multiple Choice Write the letter for the best answer in the space provided at the right.

- | | |
|---|----------|
| 1. Which level of manager has to take both a long- and short-range view of the organizational goals?
a. Top-level managers c. First-line managers
b. Middle-level managers d. Lower-level managers | 1. _____ |
| 2. The method of organization which involves putting together all the similar tasks needed to perform a particular activity is called organizing by:
a. Function c. Geographical location
b. Product d. Customer | 2. _____ |
| 3. All of the following are examples of tactical planning except:
a. Expanding a business by selling a new product
b. Adjusting prices to respond to an excess supply of goods
c. Cutting expenses to avoid going over budget
d. Setting quarterly and annual budgets | 3. _____ |
| 4. The most important function of management is:
a. Organizing c. Directing
b. Planning d. Controlling | 4. _____ |
| 5. One of the purposes of long-term planning is to:
a. Obtain and coordinate resources so that a business objective can be accomplished
b. Develop objectives which must be met to achieve long-term strategic plans
c. Adopt courses of action to achieve major objectives
d. Obtain feedback on actions implemented to achieve objectives | 5. _____ |

USING BUSINESS INFORMATION

PROJECT 8-1: Organizing a Food Company

A national food company is organized according to the products and services they produce. Their main base of business comes from the sales of fluid milk and other related products. During the last year, sales of this product reached \$900 million. The milk, yogurt, and cottage cheese are produced in regional plants to serve markets throughout the nation.

Ice cream represents an important part of the food producer's total product line. The company reports sales of \$125 million during the last year. New ice cream products include the ice milk and ice cream novelty items sold to ice cream franchises.

The company has produced high-quality cheese for more than 100 years. Last year the sales in this area were \$50 million. The cheese line includes cheddar, colby, brick, and muenster cheeses sold to grocery stores and food processing plants. In the past, whey, a waste by-product in making cheese, had to be disposed. During the past year, the company found that they could reprocess the whey and sell it to pharmaceutical companies. What was formerly waste is now profit to the firm.

The food company also produced and sold \$200 million worth of canned and frozen vegetables during the last year. These products are marketed directly under the company's label and sold to food services such as hospitals, food processors, and in international markets.

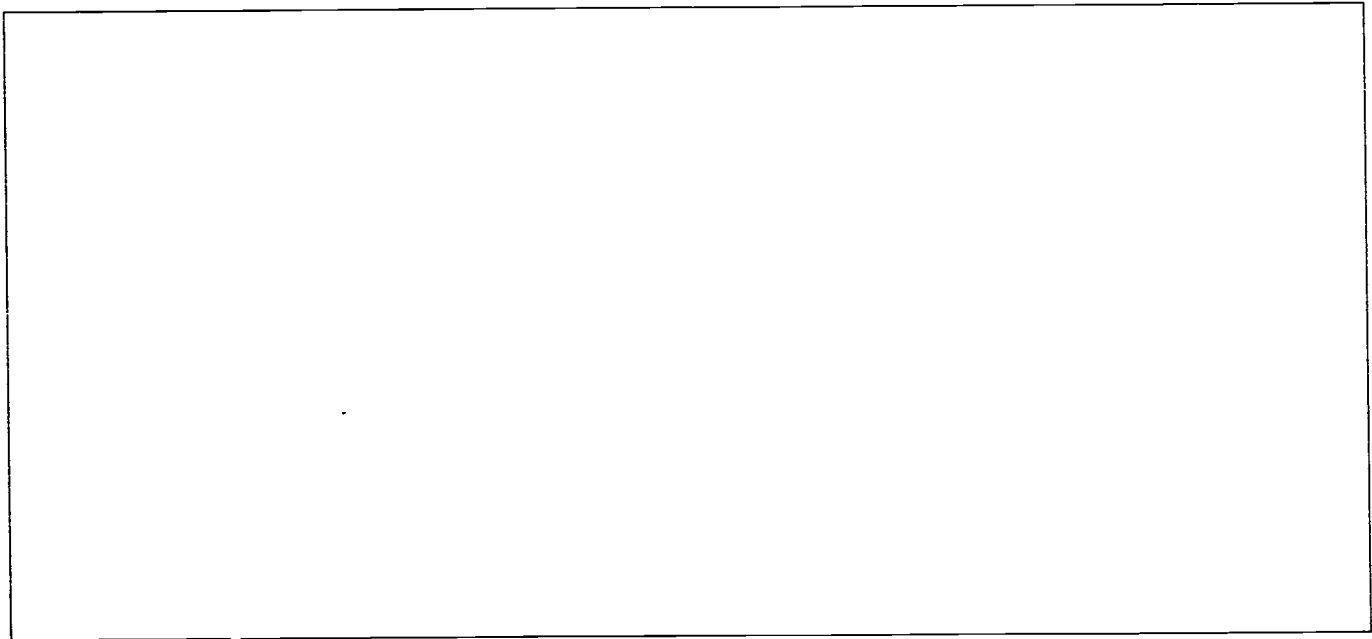
The company also organizes itself into units that sell pickles, relishes, and salad dressing; (\$100 million in sales); sauces, puddings, juices, and dips (\$60 million in sales); and powdered dairy products (\$70 million in sales).

The company must maintain a large trucking fleet. The management of the food company decided that in addition to handling their own products, they would offer their trucking services to other firms who wanted to ship less than one truckload. This part of the business generated \$40 million from other firms.

Study the data for the national dairy company and complete the table below.

TABLE 8-1		
Product Line	Sales in Latest Year	Percent of Sales by Product
TOTALS:		

Now that you understand the total contribution each product makes to the firm, what suggestions could you make on how to organize the resources assigned to these products by department? In the space provided, draw an organization chart which reflects your departmentalization plan for the national dairy company. (See Figures 8-5 and 8-6, pages 175 and 177 in the text, for examples.) Be prepared to explain your organization chart.



PROJECT 8-2: Identifying Levels and Functions of Management

Each of the situations below represent high-level, middle-level, and first-line managerial responsibilities. They also represent the four functions of management—planning, organizing, directing, and controlling.

Manager A, of Wolverine World Wide, has targeted Eastern Europe as a prime source for sale of its Hush Puppies Shoes.

Manager B has selected a state-owned shoe producer in Bulgaria to make 500 lime green shoes per week.

Manager C compared the meals served among the three franchises in order to adjust inventory of fresh produce.

Manager D demonstrated the proper way to display the meal for this evening's special.

Manager E computed the ton miles per 100 gallons of fuel for the week.

Manager F, in speaking to a business group, expresses the firm's new theme—"We Drive to Serve You."

Manager G is shopping for the funds necessary to build a new theme park in London.

Manager H has divided the firm's operations into three international areas—Europe, East-Asia, and North America.

Manager I calculated that the sulfur oxides emitted by the plant have been reduced to 25 percent—the target is 21 percent.

Manager J posts the result on the bulletin board along with a note of encouragement to reduce the figure.

Manager K accepts an industry-wide award for the design of a lawn mower and vows to win again next year with the latest design.

Manager L selects the work team for the new design.

Manager M approves the building of a day-care center for children of hospital employees.

Manager N hires the director of the day-care center.
Manager O approves the advertising copy designed to appeal to the Hispanic community.
Manager P plans strategy for increasing sales of services to the Hispanic community by 20 percent.
Manager Q approves the addition of Saturn, a new division of General Motors.
Manager R recommends a new bill-paying process.
Manager S decided to oversee the training function of employees who were beginning a new process.
Manager T used a new quality-control process to find the cause of defects in the paint on mini-van hoods.

- Under the headings provided in the space below, organize the management data so that it is easy to distinguish the management level of each person and the classification of each of the specific situations by management function.

Manager	Management Level	Management Function

- Based on the data found in the situations and your display of the data, make a statement which describes the differences in management levels based upon the functions they perform.

CASES FOR ANALYSIS AND DECISION

CASE 8-1: The Downsizing of American Business

The reduction of middle management positions and corporate staff is often called downsizing. Before downsizing, the number of middle managers in large businesses grew rapidly from 1950 until 1980, when it reached 10 percent of

the work force. By comparison, Japan's middle management numbers were 4.4 percent of the work force. One large corporation had 100 layers of management with more than 1,000 job titles. Estimates are that one-third of all middle managers (approximately 1 million) have lost their jobs in the past 10 years.

A second method used by companies to slim down their managerial staffs is to reduce the number of corporate staff management positions. Planners, economists, analysts, and futurists who have been in an advisory role often find themselves without jobs. For example, when General Foods Corporation was acquired by Phillip Morris, it eliminated most of its 2,000 corporate staff positions.

What is happening with the ranks of middle management? Layers of management are giving way to committees made up of employees and management. U. S. manufacturers such as General Electric, Goodyear, and General Motors are working with management-union committees. Encouraged by its success in the GM-Toyota joint venture in California, GM will use this method in its new Saturn plant. Most experts say that it is possible to build as many cars per hour under the new plan with half the workers and managers.

1. One manager who was interviewed after downsizing a large firm said that his job was tougher but simpler. Why would this be true?

2. How would the relationship between a first-line manager and the workers change under a team approach?

3. What is the disadvantage to the firm if downsizing is implemented too severely?

CASE 8-2: The Ideal Job?

Heidi Brown's résumé looked good. She was a college graduate who had a bachelor's degree in operations management. Moreover, she also had two years of general supervisory experience. Now, however, she was looking for a new job. She bought a new suit for her forthcoming interviews.

Heidi has several interviews with large business firms. If hired, she would take a six-month, job-specific training program before she actually started work as a product control supervisor. This suited her fine.

One day she received a call from a friend who knew about her qualifications. Her friend knew of a management position within a small, family-owned business. The firm was growing fast and needed a new manager to supervise the employees in the manufacturing process.

Heidi arrived at the interview a few minutes ahead of schedule. She was surprised at the small building. It surely was not too impressive. She was even more surprised when she was interviewed by the owner of the firm. He was interested in a "can do" person who could take charge of the day-to-day manufacturing process. The employees worked in small groups, called cells, where the raw materials were introduced and the product was made from beginning to end by the employee cell group. This would mean that the manager would work with the cell members as part of a team. Of course, there would be many other things to do as well. The owner assured her that she would be busy.

As a first-line manager, Heidi would work with the owner, his wife, and two sons who were also active in the firm. He assured her that they were one happy family and that she would enjoy the freedom of making quick decisions on her own.

On the important question of salary, Heidi found that the starting salary was lower than that offered by the larger firms. But she was assured that she would do better in the long run. The business was owned by the family and as such did not include any stock-tied benefits normally found in large corporations. There was an atmosphere of open communication between employees and management. Each month the employees meet to discuss the progress of the company. He did admit that the business was in a competitive market for its products, but the company was doing well for its size. As a parting comment, he assured her that the success or failure of the business depended on his employees.

1. Describe the organization chart for this firm. _____

2. What preparation do you think the company will offer Heidi before she starts the job? _____

3. What are Heidi's prospects for promotion in this firm?

4. What type of person will Heidi have to be to succeed at this job?

5. What are the positive and negative aspects of this job for Heidi?

6. Would you take this job if you also were offered one by a large corporation?

CHAPTER 9

Financial Management

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below:

- | | | |
|-------------------------|------------------------------|-----------------------------|
| a. accounting | i. financial account- | o. owner's equity |
| b. assets | ing | p. ratio |
| c. audit | j. income statement | q. retained earnings |
| d. balance sheet | k. leverage | r. revenue |
| e. controller | l. liabilities | s. statement of |
| f. depreciation | m. liquidity | changes in |
| g. dividend | n. managerial ac- | financial position |
| h. expenses | counting | t. treasurer |

- | | |
|---|------------------|
| 1. Information gathered by the business by reporting to external organizations. | 1. _____ |
| 2. Anything of monetary value a business owns. | 2. _____ |
| 3. The use of borrowed money to purchase the assets used to make more money. | 3. _____ |
| 4. A statement that shows the financial condition of the business on a given day. | 4. _____ |
| 5. The financial interest the owner has invested in the business. | 5. _____ |
| 6. The increase in owner's equity caused by the increase in assets from the sale of goods and services. | 6. _____ |
| 7. Using accounting information to make internal decisions. | 7. _____ |
| 8. A system of principles and concepts used to record, classify, process, summarize, and interpret financial data of a business. | 8. _____ |
| 9. A review of a business conducted by an accounting firm. | 9. _____ |
| 10. The chief accountant who is normally responsible for the tax department, for determining the cost of producing goods and services, and for the financial accounting of the firm. | 10. _____ |



CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

1. When an investor wants to determine the financial condition of a business, he or she would usually be interested in the balance sheet of the business. 1. T F
2. The accounting equation is expressed as follows: Assets should be equal to liabilities and owner's equity. 2. T F
3. When a business acquires economic resources through borrowing, they are called equity. 3. T F
4. A business which begins its accounting operations on February 1 and ends it the following January 31 is operating on a fiscal year basis. 4. T F
5. The balance sheet and income statement are usually prepared at the beginning of the accounting period. 5. T F

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

1. The difference between current assets and current liabilities is called _____. 1. _____
2. The portion of the original cost of the plant and equipment that is used each year is called _____. 2. _____
3. _____ is the difference between cash received and cash paid out. 3. _____
4. _____ ratios are used to tell the investor or financial manager the ability of the business to pay debts when they become due. 4. _____
5. Copyrights, trademarks, and patents are examples of _____ a business owns. 5. _____

Multiple Choice Write the letter for the best answer in the space provided at the right.

1. A financial manager has to decide whether or not to purchase a computer to reduce paperwork. Which of the following elements of an accounting system pertains to this situation? 1. _____
 - a. Procedures for work
 - b. Equipment
 - c. Forms to read business data
 - d. People
2. An example of an activity ratio is: 2. _____
 - a. Inventory turnover ratio
 - b. Return on owner's equity
 - c. Acid test ratio
 - d. Quick ratio
3. When a firm's liquid assets are greater than its current liabilities, it will 3. _____
 - a. Experience a shortage of working capital
 - b. Be unable to pay its short-term debts
 - c. Have a current ratio of more than one
 - d. Have an acid test ratio of less than one
4. Which of the following is the most liquid asset of a business? 4. _____
 - a. Cash
 - b. Receivables
 - c. Equipment
 - d. Inventory

5. The statement of changes in financial position reports: 5. _____
- a. The revenues, expenses, and net income of the business
 - b. The value of all assets, liabilities, and owner's equity of the business
 - c. The sources and uses of funds in the business
 - d. The changes in the cash balance of the business

USING BUSINESS INFORMATION

PROJECT 9-1 Supplying Missing Data for Financial Statements

The Sunshine Wallboard Corporation has supplied you with certain financial information on its balance sheet and income statement. Some of the account titles and account balances have been left blank. Management wants you to complete the financial statements by supplying the missing numbers or information. (See Figure 9-6 on text page 204 and Figure 9-5 on text page 200 for guidance.) Write your answers to the following questions on a separate sheet of paper.

SUNSHINE WALLBOARD CORPORATION		
Income Statement		
For the year ended September 30, 19X9		
		(in thousands)
Revenues:		
Net Sales	\$136,000	
Other Revenues	<u> -0- </u>	
Total Revenues		\$136,000
Costs and Expenses:		
Cost of Goods Sold	(m). _____	
Operating Expenses	<u> 16,400 </u>	
Total Cost and Expenses		96,000
Net Income Before Income Taxes		(n). _____
Less Income Taxes (at tax rate of 35%)		(o). _____
Net Income		(p). _____ <u> </u>



SUNSHINE WALLBOARD CORPORATION

Balance Sheet

September 30, 19X9

(in thousands)

Assets:

(a). _____		
Cash	\$52,000	
Accounts Receivable	(b). _____	
Inventories	18,000	
Prepaid Expenses	<u>800</u>	
Total (c). _____		\$ 94,500

Plant and Equipment Assets

Machinery and Equipment	\$32,000	
Less: Accumulated Depreciation (d). _____		20,500
Buildings	13,000	
Less: Accumulated Depreciation	<u>3,000</u>	(e). _____
32,000		
Land		32,000
Total Land and Equipment Assets		(f). _____
Total Assets		<u>(g). _____</u>

Liabilities and Stockholder's Equity:

Current Liabilities:

Accounts Payable	6,300	
Income Taxes Payable	400	
Salaries Payable	<u>4,000</u>	
Total Current Liabilities		(h). _____

Long-term Liabilities:

Long-Term Debt		4,900
Total Liabilities		(i). _____

Stockholders' Equity:

Common Stock: 20,000,000 shares*		
issued at value of \$.50 per share	(j). _____	

Retained Earnings		(k).	
Total Stockholders' Equity		(1).	
Total Liabilities and Stockholders' Equity			\$157,000

*Eliminate last 3 zeros of number in millions to convert to thousands.

1. How much has Sunshine earned this year, after taxes, in thousands, if we do not round the numbers?
2. How much has been earned on each share of stock?
3. Does the Sunshine Wallboard Corporation's current ratio meet the general rule of thumb for liquidity? Defend your answer.
4. If the industry average for inventory turnover is 5:1, is Sunshine competitive?
5. What is the return on equity ratio for Sunshine? Is this good?

PROJECT 9-2: Preparing Financial Information for Management Decision Making

As an accountant for the Sunshine Wallboard Corporation, your responsibility is to prepare comparative data for making management decisions. One report you prepare is called a horizontal analysis report. A *horizontal analysis report* allows managers to chart the financial trends for the business. This means that you will prepare the report so that you present financial information across a two-year period. The dollar amount for each year is listed, but so is the percentage change. The report format has been prepared for you so you need only supply the data for 19X9 from the balance sheet you completed as part of Project 9-1.

SUNSHINE WALLBOARD CORPORATION				
Comparative Balance Sheet				
For the Years Ended September 30, 19X8 and 19X9				
			Increase/Decrease	
	19X9	19X8	Dollars	Percent
ASSETS				
Current Assets				
Cash		\$ 48,000		
Accounts Receivable		20,000		
Inventories		20,000		
Prepaid Expenses		800		
Total Current Assets		88,800		

Plant and Equipment Assets

Machinery and Equipment

32,000

Less: Accumulated

Depreciation

(10,000)

Buildings

13,000

Less: Accumulated

Depreciation

(2,500)

Land

32,000

Total Plant and

Equipment

64,500

Total Assets

153,300

LIABILITIES**Current Liabilities**

Accounts Payable

5,800

Income Taxes Payable

400

Salaries Payable

3,500

Total Current Liabilities

9,700

Long-Term Liabilities

Long-Term Debt

5,600

Total Liabilities

15,300

STOCKHOLDERS' EQUITY

Common Stock

10,000

Retained Earnings

128,000

Total Stockholders' Equity

138,000

Total Liabilities and

Stockholders' Equity

153,300

Shares Outstanding

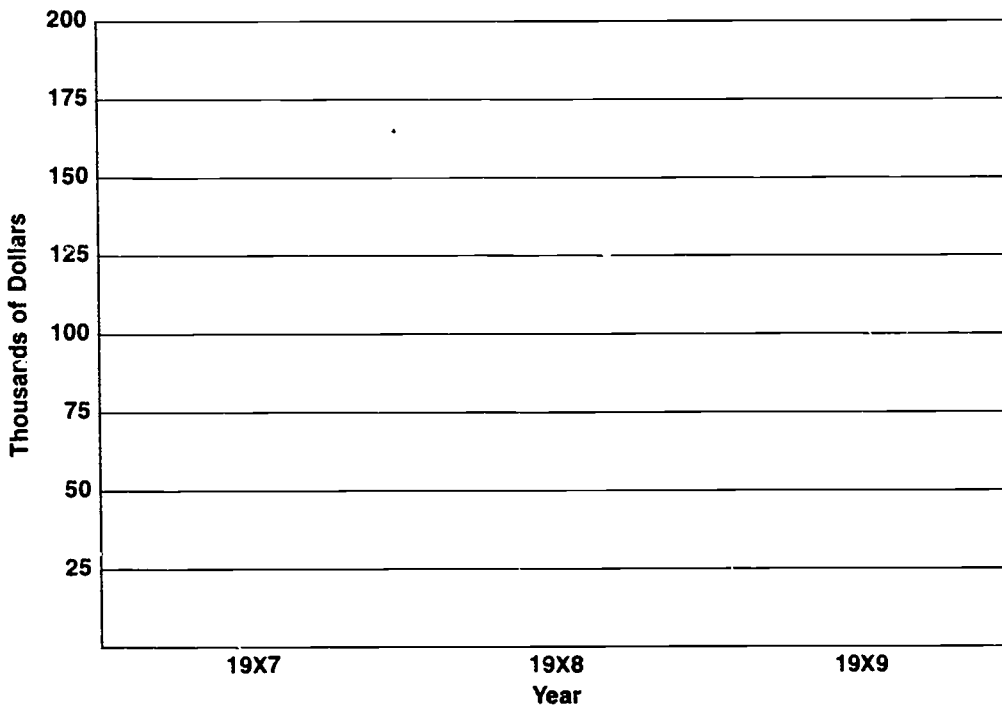
20,000

7.3

1. What do you think has happened to make the following accounts change (or remain unchanged) from 19X8 to 19X9?
 - Accounts receivable
 - Machinery and equipment
 - Salaries payable
 - Common stock

2. A trend analysis compares the results of an accounting period with the results of prior years. A trend analysis may be plotted on a line graph for easier interpretation by management. In the space below show the trend in total assets, total liabilities, and stockholder's equity for the three-year period, 19X7–19X9. The data for 19X7 is: Total assets—\$145,000, total liabilities—\$17,000, and total stockholders' equity—\$128,000. Plot the data for 19X8 and 19X9 and connect the dots.

3. Make a title for your line graph and be sure to make it clear which of the lines represent total assets, total liabilities, and total stockholders' equity, respectively.



CASES FOR ANALYSIS AND DECISION

CASE 9-1: The Annual Stockholders Letter

Mary Ribinski opened her annual report for the Lone Pine Corporation. As she removed the report from the envelope, a strong scent of pine greeted her. Mary has been a shareholder of Lone Pine for the past three years. She was quite disappointed this year as the price of the stock fell by about 20 percent and the dividend was cut by 50 percent. It was with good reason, then, that she glanced through the 60-page book filled with glossy pictures of smiling employees and managers. As usual, she began her thorough study of the report by reading the opening letter from the chairperson of the board of directors.

Mary had never seen the chairperson's picture before, but this year there was one large picture and several small "action shots" of the head of her company. His letter began by suggesting that this was the "Year of the Employee" at Lone Pine. He went on to praise the efforts of employees, calling them reliable and praiseworthy.

In her reading, Mary found out that the sales for the year were "stable." In fact, this stability was going to continue for the next year as well. The chairperson also said that the research efforts of the company would continue so that new products could continue to be developed.

Some cost-cutting measures were also being sought for Lone Pine. He mentioned something called "global outsourcing" of manufacturing efforts. He also stated that Lone Pine was aggressively seeking dramatic cost-cutting efforts.

Finally, he reassured stockholders that Lone Pine was now poised for earnings growth.

1. Lone Pine Corporation has made an effort to gloss over its poor year. What are some possible techniques that reflect this?

2. What major financial item is missing in the chairperson's message?

3. How could Mary find out whether the research efforts discussed by the chairperson have been working?

4. What might be the result of "global outsourcing of manufacturing efforts"?

5. Why might being poised for earnings growth mean very little?

CASE 9-2: The Accountant's Report

Grant Brooks owned stocks in several companies. He received his annual reports each year. At the back of each report was a letter called the Accountant's Report. One such report for the Abbot Company read as follows:

We have examined the consolidated balance sheets of Abbot Company at February 27, 19X8 and February 28, 19X7, and the related statements of earnings, stockholders' equity, and cash flows for each of the three years

(52–53 weeks) in the period that ended February 27, 19X8. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above fairly present the financial position of Abbot Company at February 27, 19X8 and February 28, 19X7 and the results of their operations and cash flows for each of the three years in the period ended February 27, 19X8, in conformity with generally accepted accounting principles applied on a consistent basis.

1. What type of an accounting firm wrote this report? _____

2. According to the report, what were some of the procedures for conducting an audit?

3. What is the name for the type of accounting information gathered by the Abbot Company for reporting to stockholders?

4. Does the accounting report give approval to potential investors to buy the stock of this company as a good investment? Why or why not?

CHAPTER 10

Sources of Funding

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below:

- | | | |
|----------------------------------|--------------------------------|-----------------------------------|
| a. capital budgeting | b. investment companies | o. over-the-counter market |
| b. capital market | i. line of credit | p. preferred stock |
| c. commercial paper | j. monetary policy | q. prime rate |
| d. common stock | k. money market | r. secured loan |
| e. debenture bonds | l. mortgage bonds | s. trade credit |
| f. Federal Reserve System | m. mutual fund | t. working capital policy |
| g. investment banks | n. pension funds | |

- | | |
|---|--|
| <p>1. Stocks that give its holders voting rights to elect the board of directors and thus influence the operations and decisions of a firm.</p> <p>2. It has no central trading floor, but rather relies on a network of thousands of securities dealers who usually use the telephone to execute their trades.</p> <p>3. Corporations that accept money from individual or business savers and then use these dollars to invest in securities.</p> <p>4. It determines a target amount that a firm plans to spend on each regular business operation and how each operation will be financed.</p> <p>5. A company's promise to repay a stated sum of money after a specified period of time.</p> <p>6. Stocks that give its purchasers a preferred claim on the profits and assets of the corporation but do not entitle them to elect the corporation's board of directors.</p> <p>7. A widely used form of unsecured short-term credit where a specific sum is set aside by the lender that a firm may draw on as needed over a specified period of time.</p> <p>8. The central bank of the United States which regulates the amount of money and credit available in the economy.</p> <p>9. The process of making financial decisions related to fixed assets.</p> <p>10. It is created by the interaction between suppliers and users of short-term funds.</p> | <p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____</p> <p>5. _____</p> <p>6. _____</p> <p>7. _____</p> <p>8. _____</p> <p>9. _____</p> <p>10. _____</p> |
|---|--|

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

- | | | |
|--|------|---|
| 1. Users of savings and loan associations and credit unions tend to be businesses rather than individuals. | 1. T | F |
| 2. The largest stock exchange in the world is the New York Stock Exchange. | 2. T | F |
| 3. The prime rate is usually offered to a bank's best customers. This lowest rate available is equal to the discount rate charged by the Fed to its members. | 3. T | F |
| 4. Commercial paper is an example of a secured short-term financing source. | 4. T | F |
| 5. Business users obtain the majority of their funds from commercial banks. | 5. T | F |

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

- | | |
|---|----------|
| 1. The stock exchange and over-the-counter markets are two important ways that long-term funds are transferred in a _____ market. | 1. _____ |
| 2. Commercial banks, savings and loan associations, and credit unions are all examples of _____ which a business may turn to as sources of funds. | 2. _____ |
| 3. The _____ market is created as a result of the interaction between suppliers and users of short-term funds. | 3. _____ |
| 4. A bond which is unsecured by a firm's assets is called a _____ bond. | 4. _____ |
| 5. _____ is the money used to pay a firm's regular business operations. | 5. _____ |

Multiple Choice Write the letter for the best answer in the space provided at the right.

- | | |
|--|----------|
| 1. Which of the following would be an advantage of equity funding?
a. It spreads the ownership and the control of the corporation among many parties.
b. There will be less of a threat of bankruptcy in times of economic hardship.
c. Interest paid using this method of financing is not subject to taxation.
d. It is a less risky form of financing. | 1. _____ |
| 2. A new firm in its second year of operation wants to expand into new markets. Interest rates are very high during this time. Which of the following is the most appropriate method of financing to recommend to the firm's financial manager?
a. Use retained earnings
b. Borrow cash
c. Sell bonds
d. Sell common stocks | 2. _____ |
| 3. One common characteristic of both internal financing and debt financing is that it:
a. Does not require owners to give up ownership and control of the firm
b. Might be disadvantageous when interest rates are high
c. Eliminates the need to worry about obligations to outside parties
d. Makes it unnecessary for firms to keep large amounts of cash on hand | 3. _____ |
| 4. Which of the following is not a source of short-term financing?
a. Trade credit
b. Short-term loans
c. Bonds
d. Commercial paper | 4. _____ |

5. Which of the following statements best describes a savings and loan association?
- a. It accepts deposits in the form of savings and checking accounts.
 - b. It offers a wide range of other services such as insurance and investment management.
 - c. Its tax-exempt status allows it to make loans on generally more favorable terms.
 - d. Most of its funds are invested in financing home mortgages.

5. _____

USING BUSINESS INFORMATION

PROJECT 10-1: Identifying and Using the Business News

The following short financial news items each illustrate information which may be useful to the financial manager. Read each news item and answer the questions which follow.

Barry Corporation (American)		
Third Qtr to September 30	19X8	19X7
Sales	\$30,000,000	\$34,000,000
Net Income	300,000	1,800,000
Share Earnings	.10	.60

1. Where is Barry's stock traded? _____

2. When does Barry's fiscal year begin? _____

3. By what percentage did Barry's net income for the quarter change?

4. How many shares of stock were held by stockholders during each year?

Finance Rates			
In percent	Last Week	Prior Week	Year Ago
Prime Rate—Major Banks	10.00	10.00	8.75
1-Month Commercial Paper	8.20	8.15	6.63
Corporate AA Industrial Bonds	10.00	9.90	10.00

5. Which two issues would likely be sold through an investment banker?

6. Which issues would be good sources for working capital needs?

7. The prime rate has (increased/decreased) since last year by what percent?

8. Would you hold off or borrow for short-term needs? Defend your answer.

MINNEAPOLIS — Minstar Inc. stockholders have approved a plan by which they will take their firm private. Under the terms of the agreement, Chairman Irwin Jacobs and his partners will buy all of the company's stock for \$31.50 per share. Minstar stockholders will get a premium since the stock is currently trading at \$23.

9. How much will a stockholder be paid if he owns 100 shares of Minstar?

10. What percent will each share of stock gain from the sale at the buyout price compared to the current market price?

11. Does the amount gained represent profit to a stockholder? Explain your answer.

12. Who will own Minstar after the transactions are made? _____

HOUSTON — CDI Corporation started trading Monday. The firm, based in Philadelphia, provides services for the engineering, technical and scientific communities.

13. What has CDI done according to this news item? _____

14. CDI will most likely trade which kind of financial instruments? _____

NEW YORK — The commercial real estate buyer often has little idea whether the market is headed up or down. Standard and Poor's Corporation and other partners hope to put an end to this problem. They will calculate an index for financial managers to follow. The index, which will be published each quarter, will be calculated based on the average prices per square foot for offices, apartments, and retail and industrial property in 50 cities. For a yearly fee, subscribers will get indices for various property types in individual cities, as well as a general average for the nation. The data come from 400 real estate brokers, banks, pension advisers, and insurers who have all agreed to supply records of their sales.

15. What type of financial business decisions could be helped by this index?

16. How could a financial manager who oversees properties in many locations benefit by this index?

17. Why would a financial manager want to remain cautious about this index?

LOS ANGELES — Beckman Instruments Inc., a unit of SmithKline Beckman Corp., today filed an initial public offering of 4.5 million shares at \$19 a share through Goldman, Sachs.

18. What type of financing has Beckman sought? _____

19. If Beckman's stock trades on the NYSE, how was the \$19 suggested price established?

20. What part does Goldman Sachs play in this transaction? _____

ST. LOUIS — The Department of Labor announced today that the unemployment rate last year was 5.5 percent. This rate compared to a previous low of 5.7 percent 10 years earlier and a high of 10.7 percent 5 years earlier.

21. If a business is growing, what might this news mean to the financial manager? _____

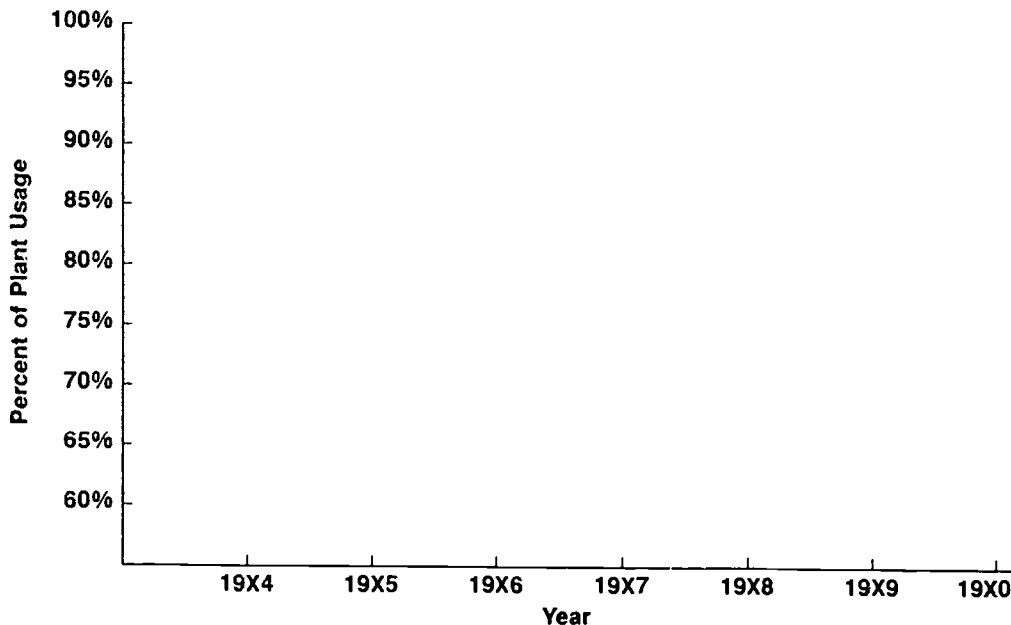
22. What portion of the financial manager's responsibilities would be affected by this news? _____

23. What specific plans might the financial manager make in factoring in this news? _____

PROJECT 10-2: Making Plans for Future Growth

You are the new financial manager for your firm. One of the tasks assigned to you by your boss is to make capital budgeting decisions for your rapidly growing firm. The company has recently given a special cash dividend of \$1.25 per share to the shareholders. The company also announced the receipt of a commitment letter from a large bank for \$100 million to pay off its existing bank debt, and have \$20 million in funds available for continued growth and acquisitions.

While it is clear that the working capital situation is positive, there are some serious capital budgeting decisions to make. Therefore, you have gathered data on the utilization of the manufacturing plant. Your figures show the following percent of usage: 19X4, 65 percent; 19X5, 78 percent; 19X6, 80 percent; 19X7, 82 percent; 19X8, 84 percent; 19X9, 87 percent; 19X0, 89 percent. Use these numbers to plot the Plant Utilization for your firm in line graph form. Use the space below to do your work. Label your line graph when you have completed it.



You have also gathered other data on the health of the economy and your industry in particular. Your research has revealed that your company has a backlog of orders to fill. The prices of raw materials are edging up slightly which means that more of these materials are being purchased in your industry. Based on your data, consider the following questions:

1. What appears to be the trend for increases in your capital budgeting?

2. Based on what you know thus far, do you have internal funds to rely on, at least in part?

3. What evidence do you have that your prospects for borrowing are promising?

4. What are the basic choices you have in planning for the capital budgeting future of your firm?

CASES FOR ANALYSIS AND DECISION

Case 10-1: Financial Markets Shocked by One-Half Point

When the head of the Federal Reserve testified before Congress he issued a clear message: Inflation is our number one enemy and the Fed plans to stop it. A short time later, he made his point. On August 9, 1988, the Fed boosted the discount rate one-half point to 6.0 percent.

The markets were shocked. The major index of stock prices, the Dow Jones Industrial Average, dropped 73 points. The yield on long-term government bonds rose one-quarter of a point—its highest level of the year. Even in Tokyo, the Nikkei stock average fell by more than 2 percent.

Why the rise? The economic indices showed that payrolls, overtime, and earnings were all on the way up—a sign that consumers would have more money to spend. At the same time, bank loans had risen sharply. These were signs to the Federal Reserve Board that the first hints of inflation were present.

1. Why did the stock market drop and at the same time interest rates rose?

2. What effect does the increased discount rate have on the borrowing of banks?

3. What other remedies could the Fed use to curb inflation? _____

4. Was the rise in the discount rate a real threat of increased costs to lenders, or was it a warning of more to come?

Case 10-2: When the Employees Became the Owners

When Sir James Goldsmith, the corporate raider, bought Crown Zellerback Corp., he never thought that he would be selling part of it to 635 union members in a Washington lumbermill where they worked.

It seems that Sir James decided that he no longer wanted the mill, even though it was turning a profit. When the local Lumber and Sawmill Workers Union learned of the planned sale, they stepped in to buy the plant.

Even though they didn't have any money, they went into debt by \$40 million. They started the process by hiring a consultant to help them. The consultant led them to the Washington State Employment Ownership program, which gave the employees the advice they needed.

Drexel Burnham Lambert, Inc., handled the financing for the project. They handled the negotiations with Sir James Goldsmith and worked to raise the \$45 million necessary to make the purchase.

The purchase was supported by nonsecured bonds and secured loans to be repaid by future earnings. Of the amount borrowed, \$35 million was used to buy the manufacturing facilities and 47,000 acres of timberland. Another \$10 million was used for working capital.

When the deal was sealed, the employees owned 60 percent of the stock. Goldsmith still owned 10 percent of the stock and the rest was owned by outside investors. The board of directors consisted of employees, managers, and investors.

Source: "Lumber Workers Stage Coup in Purchasing Profitable Mill," Chicago Tribune, November 13, 1988, section 7, page 14

1. How did the employees use the principle of financial leverage in this case?

2. What was the role of Drexel Burnham Lambert in this case? Why was their participation important?

3. What was the security used in order to obtain loans from outside sources?

4. What will the working capital be used for?

CHAPTER 11

Risk and Insurance

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below.

- | | | |
|--|--------------------------|--------------------------------|
| a. bond | b. fidelity bonds | o. risk management |
| b. burglary | i. liability risk | p. robbery |
| c. coinsurance | j. loss | q. speculative risk |
| d. consequential losses | k. mutual company | r. stock company |
| e. crime insurance | l. personal risks | s. survey bonds |
| f. deductible | m. property risk | t. workers compensation |
| g. Federal Insurance Contributions Act (FICA) | n. pure risk | |

- | | |
|---|-----------|
| 1. Risk resulting from negligent behavior by owners and their employees. | 1. _____ |
| 2. A certain amount (50 percent and up) of fire insurance a firm must maintain based on the value of the building. | 2. _____ |
| 3. A corporation which is owned by its policyholders. | 3. _____ |
| 4. A legal agreement where someone agrees to reimburse another person should a loss be experienced because the person bonded did not fulfill an obligation. | 4. _____ |
| 5. The ongoing process of using available resources to protect the firm against risk-related losses. | 5. _____ |
| 6. A classification of risk that offers the chance of loss and the chance of profit. | 6. _____ |
| 7. The unlawful taking of property when the business is closed. It also includes forced entry into the business. | 7. _____ |
| 8. Involves the uncertainty of loss due to premature death, physical disability, or old age. | 8. _____ |
| 9. It is used to protect a company from dishonest employees. | 9. _____ |
| 10. Risk that can result from a loss but cannot result in gain for the business. | 10. _____ |

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

1. The largest single provider of insurance in the United States is the government.
2. Social Security is designed to provide two-thirds of regular weekly income benefits to the unemployed.
3. The major goal of risk management is to identify the specific areas where the firm is exposed to risk.
4. To be insurable, a risk must be "pure" rather than speculative.
5. A stock company is a corporation owned by its stockholders and operated to make a profit.

1. T F
2. T F
3. T F
4. T F
5. T F

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

1. The _____ states that the insured firm cannot be covered unless there is the possibility of an economic loss.
2. Insurance is best used where the risk of loss is _____ but the cost of a loss would be _____.
3. Social security, workers compensation, and unemployment are examples of insurance provided by the _____.
4. Insurance which compensates employees who are injured on the job regardless of fault is called _____.
5. The _____ clause states that the insured pays for a certain amount of each loss and the insurer pays the costs above that amount.

1. _____
2. _____
3. _____
4. _____
5. _____

Multiple Choice Write the letter for the best answer in the space provided at the right.

1. Which of the following is not among the most common business risks?
 - a. An individual is injured while using a company's product.
 - b. The president of an automobile company dies unexpectedly.
 - c. A partnership declares bankruptcy.
 - d. A major flood destroys an apartment building.
2. Installing an alarm system in your car to prevent it from being stolen is an example of:
 - a. Reducing risk
 - b. Avoiding risk
 - c. Assuming risk
 - d. Transferring risk
3. Bonding insurance is intended to protect employees against losses in which major risk area?
 - a. Loss of property
 - b. Loss of earning power
 - c. Loss due to dishonesty or nonperformance
 - d. Liability
4. A business has experienced losses due to damages or injuries caused by the insured while performing professional services for clients. What type of insurance is available to protect itself against such losses?
 - a. Workers compensation insurance
 - b. Malpractice insurance
 - c. Life insurance
 - d. Health insurance

1. _____
2. _____
3. _____
4. _____

5. The most popular form of risk management is: 5. _____
- a. Transferring risk
 - b. Avoiding risk
 - c. Reducing risk
 - d. Assuming risk

USING BUSINESS INFORMATION

PROJECT 11-1: Planning Insurance Costs Based on Inflation Rates

The following table shows the percentage increases in the Consumer Price Index (inflation rate) from 19X1 to 19X7. The cost of the medical care component of the Consumer Price Index is also shown for the same time period.

Year	Inflation Rate	Medical Care Component of Inflation Rate
19X1	10.4%	10.8%
19X2	6.1	11.6
19X3	3.2	8.7
19X4	4.3	6.2
19X5	3.6	6.2
19X6	1.4	7.7
19X7	2.1	6.3

If you were a risk manager, these figures could provide you with valuable information in developing an overall plan for your organization. Use this information and Chapter 11 to answer each of the following questions on a separate sheet of paper:

1. What general input can the risk manager find from the data in the table?
2. Health insurance experts have suggested that there are various reasons for increases in health care costs. Provide a brief explanation as to why each of these trends would cause health care costs to rise.
 - Inflation
 - Utilization of medical services
 - Shifting of costs from the public to the private sector
 - New technology
3. How would the risk manager use the health care inflation figures to estimate the cost in 19X8 to the business firm who insures its employees?
4. What are some methods the risk manager could use to keep the costs of premiums down without transferring risk to an insurance company?
5. On a separate piece of paper prepare a bar graph that depicts the inflation rate and health care costs found in the table above. Be sure to label your work so that it may be read easily.

PROJECT 11-2: Developing a Risk Management Worksheet

Sandy Dennis, the risk manager for the Tower Bottling Company, has prepared a list of risks her company faces. She has also listed the potential methods the company has to protect itself against each risk. When she prepares this table, she lists all risk strategies, even though she may not eventually use all of them. The table below represents her work. You will notice that she has left some spaces for you to assist her as she completes the table.

TABLE 11-2 Risk and Risk Management Strategies, Tower Bottling Company		
Type of Risk	Financial Impact	Strategies for Reducing Impact
a. Property Loss	Storm damage. Destruction/loss from fire. Repair or replacement from theft.	Self-insure from funds set aside. Purchase property insurance. Risk reduction. _____ _____
b. Liability	Lawsuits and legal expenses. Workers compensation liability. Product liability.	Self-insure from funds set aside. Purchase liability insurance. Risk reduction. _____ _____
c. Health of employees	Sickness and injury Loss of income.	Self-insure from funds set aside. Purchase health insurance. _____ _____ _____ _____ _____
d. Retirement of employees	Social cost of low income in old age.	Purchase social insurance. _____ _____ _____ _____
e. _____ _____	_____ _____	_____ _____ _____ _____

1. Using Sandy's strategy chart that you helped complete, decide which risk management methods you would use to reduce the financial impact of each. Information about Tower Bottling is listed with each type of risk. You may use one or more of the risk management methods that you or Sandy sug-

gested. You may also make your own assumption about Tower Bottling for *e*.

- a.* Property loss—(Tower has a main office, a bottling plant, and 20 trucks to deliver in a 100 mile radius.)
- b.* Liability—(Tower does all of its own quality control, and bottles drinking water and soda in bottles and cans.)
- c.* Health of employees—(Tower's employees do not belong to a union. The company has the reputation of being very health conscious.)
- d.* Retirement of employees—(Tower has had a fund to help provide for employee retirement.)
- e.* _____

2. Risk management methods may change from time to time? Why?

CASES FOR ANALYSIS AND DECISION

CASE 11-1: A New Kind of Risk

Our dependency on technology creates a new kind of risk that greatly affects the success of business. Imperfect computer software, failures of computer systems, and computer crime cost corporations millions of dollars each year. Some of the specific risks include:

- Unauthorized access to the data the firm stores for criminal purposes
- Defective data quality which causes faulty business decisions
- Loss of information that is needed for business operations

With this much at stake, it would seem that business firms would be well aware of their vulnerability. However, this is just not the case. Many large firms seem aware of the risk associated with technology, but medium and small firms do not.

The risk manager today must not only be aware of the traditional risks, but also the risk of crisis or chaos rising from technology.

1. What would be the best risk management technique in dealing with unauthorized access to business data?

2. If the defective data risk which causes faulty decisions is an improperly recorded prescription by a pharmacy, what risk management method would best reduce the risk? What type of risk is most likely to be affected?

3. If the loss of information risk is a large sum of money being transferred to a foreign bank, what is the best risk management method?

4. Why are big business firms more likely to be aware of the technology risks?

CASE 11-2: Pioneers of Health Promotion

A Minnesota lumber company, Sherer Brothers Lumber Co., became a pioneer in health promotion among its employees through bitter experience. The present owners inherited a firm from their father who had overlooked and in some ways encouraged poor health habits. Drinking had been part of the lumberjack's macho image. Sales representatives didn't hesitate to take time out from their daily activities to drink with customers. Cigarettes were also purchased wholesale and then sold to employees at a cost less than retail. Drinking, smoking, and overeating contributed to a number of serious accidents and premature deaths.

Today the second generation of family owners has an opposite point of view about employee health. Employees and managers have become part of a wellness committee. Unplugging the cigarette machines and replacing candy machines with free fruit was a start. Weight loss seminars, smoking ending seminars, and drug-abuse treatment helped employees who needed them. Weight training equipment, sports clubs, and loans for health club memberships were all examples of the owners belief in good health.

Last year the company spent slightly over \$100,000 for their wellness campaign including bonuses for good attendance records, free lunches, and treatments for health problems such as alcoholism. They estimate their savings during the same period to be \$200,000.

Source: Excerpt from "Healthy Returns," by Joshua Hyatt in *Inc.*, April 1987

1. What would most likely be the largest dollar savings of such a program?

2. Which form of risk management did the lumber company use in their business?

3. What other positive aspects of the business could also result from such a plan?

CHAPTER 12

Elements of Marketing and Marketing Research

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below:

- | | | |
|-----------------------------------|-------------------------------|------------------------------|
| a. component parts | g. market research | m. raw materials |
| b. convenience goods | h. marketing mix | n. secondary research |
| c. demographics | i. patronage motive | o. shopping goods |
| d. discretionary income | j. physical needs | p. social needs |
| e. industrial products | k. primary research | q. specialty goods |
| f. life cycle of a product | l. psychological needs | |

- | | |
|---|----------|
| 1. The science that describes the characteristics of populations, such as education, income level, age, occupation, and the like. | 1. _____ |
| 2. Products and services needed to satisfy one's ego and self-respect. | 2. _____ |
| 3. An activity that makes use of library and other print sources. | 3. _____ |
| 4. Everyday products like milk, bread, and nonprescription drugs. | 4. _____ |
| 5. The pieces and bits that go into making finished products, like electronic parts, nuts and bolts, and so on. | 5. _____ |
| 6. The phases that goods pass into and through, from beginning to end. | 6. _____ |
| 7. The systematic study that has as its goal the identifying and characterizing of markets, and the forecasting of future market trends. | 7. _____ |
| 8. The human need that sends customers to buy services and products that can help them satisfy their longing to love and be loved, and to belong to various human groups. | 8. _____ |
| 9. The amount of money left, from wages, after basic needs have been met through making purchases. | 9. _____ |

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

- | | | |
|---|------|---|
| 1. Marketing managers are responsible for planning, organizing, directing, and controlling in the marketing department. | 1. T | F |
| 2. The marketing mix is a mixture of the elements of advertising, designing commercials, and selling. | 2. T | F |
| 3. The life cycle of a product goes from birth to death, with nicknames of baby, toddler, child, and adult. | 3. T | F |
| 4. Advertisements are found in the print media, and commercials in the broadcast media. | 4. T | F |
| 5. Primary research is conducted by youth in primary school. | 5. T | F |

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

- | | |
|---|----------|
| 1. The nickname for a product in the declining stage is _____. | 1. _____ |
| 2. The ability to buy products and services is called _____. | 2. _____ |
| 3. The amount of money left after people pay for their basic needs is called _____. | 3. _____ |
| 4. Marketers often try to get customers to be loyal to the company and its products or services, which is why they use ads to appeal to the _____ motive. | 4. _____ |
| 5. Marketers often design ads to appeal to customers' intelligence and need for factual data, which are based on the _____ motive. | 5. _____ |

Multiple Choice Write the letter for the best answer in the space provided at the right.

- | | |
|---|----------|
| 1. Discretionary income is:
<i>a.</i> The money people spend on secret items
<i>b.</i> The amount of money available to spend as one pleases
<i>c.</i> The wages workers receive from doing discrete work
<i>d.</i> The salaries that managers earn | 1. _____ |
| 2. Purchasing power:
<i>a.</i> Allows people to become customers—to buy goods and services
<i>b.</i> Gives owners control over their workers
<i>c.</i> Gives children with an allowance control over their friends
<i>d.</i> Allows workers the chance to join unions | 2. _____ |
| 3. Raw materials include such things as:
<i>a.</i> Refrigerators and vehicles
<i>b.</i> Shoes and records
<i>c.</i> Electronic parts, nuts and bolts
<i>d.</i> Cotton, copper, and wheat | 3. _____ |
| 4. Physical needs motivate people to buy such things as:
<i>a.</i> Shoes and records
<i>b.</i> Electronic parts, nuts and bolts
<i>c.</i> Food, clothing, and medicine
<i>d.</i> Cotton, copper, and wheat | 4. _____ |

5. Social needs motivate people to pay for such things as: 5. _____
- | | |
|---------------------------|----------------------------------|
| a. Movies and recreation | c. Medical and dental services |
| b. Rental cars and trucks | d. Accounting and legal services |

USING MARKETING INFORMATION

PROJECT 12-1: Selecting Target Markets in Relation to Goods and Services

1. Examine the statistics that appear in Tables 12-1 to 12-4, which is the demographic data for one suburban tract, the village of Centennial. Discuss what this demographic data means, and how such information is useful to marketers in advertising and promoting goods and services.
2. Decide which of the products and services that follow are more often bought by which target segments. Record the letters of all of the selected target segment(s) in the space provided beside the products and services. The target segments are:
 - a. Consumers with high income and high education levels
 - b. Consumers with low income and low education levels
 - c. Teenagers
 - d. Families with children, including babies
 - e. Senior citizens (adults age 55 and over)

Products

- _____ fur coats
- _____ groceries
- _____ hardcover nonfiction books
- _____ antiques
- _____ recreational vehicles (RVs)
- _____ records and tapes
- _____ disposable diapers
- _____ clothing and accessories
- _____ bicycles and toys

Services

- _____ house-cleaning service
- _____ travel agency
- _____ self-service laundromat
- _____ shoe-repair service
- _____ bowling
- _____ gasoline station
- _____ health and fitness center
- _____ medical services
- _____ accounting and estate-planning
- _____ beauty and barber shops

3. Count the number of target segments (see your letter codes) that each product and service might appeal to. What do these data tell you about what marketers should spend the *most* and *least* amount of money and effort on promoting in this suburban tract?

Persons 25 years and older	2857	100%
Elementary: 5-7 years	89	3
8 years	428	15
High School: 1-3 years	973	34
4 years	886	31
College: 1-3 years	344	12
4 years or more	137	5

All households	2,597	100%
Less than \$10,000	418	16
\$10,000-\$14,999	894	34
\$15,000-\$24,999	621	24
\$25,000-\$49,999	336	13
\$50,000-\$100,000	287	11
Over \$100,000	41	2

	Males	Females
Total population	2,433	3,220
Under age 5	351	340
Ages 5 to 12	327	381
Ages 13 to 17	296	386
Ages 18 to 24	325	390
Ages 25 to 34	302	398
Ages 35 to 54	357	467
Ages 55 to 64	295	442
Ages 65 to 74	108	209
Over age 75	72	207

All employed (16-65 years old)	2,612	100%
Professional, technical	58	2
Managers, owners	367	14
Sales workers	305	12
Clerical and office	407	16
Mechanics, construction	249	9
Operators—factory	935	36
Transport operators	52	2
Service, miscellaneous	191	7
Unskilled laborers	48	2

PROJECT 12-2: Identifying Human Needs in Relation to Products and Services

1. Use the code letters that follow to identify products and services according to human needs. Human needs can be categorized as: (a) physical, (b) social, (c) prestige, and (d) psychological.
2. Use the code letters that follow to identify products and services according to the demographics of the market segments. The demographic groups (market segments) are categorized as: (a) low-income, low-educated (high school or below); (b) high-income, college-educated; (c) teenagers, (d) senior citizens, and (e) housewives (women not in the paid work force).

Products	Human Need	Demographic Group
Groceries	_____	_____
Used cars and pickup trucks	_____	_____
Brand-name cosmetics	_____	_____
Discount clothing	_____	_____
New car—Lincoln	_____	_____
Sculptures and paintings	_____	_____
Country-Western records	_____	_____
Fur coats	_____	_____
Hardcover books and references	_____	_____
Snacks and fast foods (frequently)	_____	_____
Plastic household decorations	_____	_____
Microcomputers and software	_____	_____
Romance novels	_____	_____
Business magazines and newspapers	_____	_____
Boats and RVs	_____	_____

Services	Human Need	Demographic Group
Attending movies	_____	_____
Eating out in fine restaurants	_____	_____
Going to baseball games	_____	_____
Having the car repaired	_____	_____
Attending live dramatic theatre	_____	_____
Paying to get the house cleaned	_____	_____
Going to drag races	_____	_____

(Continued)

Products	Human Need	Demographic Group
Visiting a beauty shop biweekly	_____	_____
Playing golf	_____	_____
Bowling	_____	_____
Attending private boarding schools	_____	_____
Going to the laundromat weekly	_____	_____
Reading and painting	_____	_____
Watching TV news and business shows	_____	_____
Traveling abroad; using travel agents	_____	_____

CASES FOR ANALYSIS AND DECISION

CASE 12-1: Identifying a Unique Market Segment

After seven years of being in business, station KSTS-TV nearly bombed. The station had tried to reach several target market segments, including Asian-Americans, teenagers, and children, with its programming but had failed. With the station's profits eroding, John Douglas, the station's owner, faced the problem of moving KSTS in a new direction. Flexible-minded, enterprising, and ambitious, Douglas had proven in the past that he was an astute businessman who could overcome challenges like this one.

As one of the first black analysts in the securities industry, Douglas had applied for a TV license from the Federal Communications Commission (FCC) in 1975. But it wasn't until 1978 that the FCC awarded him a construction permit. Although his own investment was less than \$100,000, Douglas raised another \$650,000 from four MESBICS (Minority Enterprise Small Business Investment Companies). Getting the financing was only one challenge; creating a commercially successful station was another, yet unrealized, one.

Douglas's big break (and the station's) came with the launch of the Financial News Network (FNN). He was able to air shows from FNN and sell program time on his local station to entrepreneurs. He leased about two hours daily to stockbrokers and entrepreneurs who paid about \$1,000 an hour to advertise stocks, discuss deals, and promote their companies.

Douglas says: "The motto of our programming is 'How to make money and how to protect it.'" Some of the TV shows, which provide key information to people who want to make their money work for them, include the following innovations:

- "Market Timing Tactics"—an electronic chalkboard that shows stockmarket trends.
- "Business Woman"—a program on career and professional women.
- "Entrepreneurial Exchange"—a call-in talk show for minority entrepreneurs.

By making its programming appealing to entrepreneurs, businesspeople, and investors, station KSTS-TV at last began to experience success.

A survey conducted by a California market-research company showed that 40 percent of the station's market-segment audience watched KSTS shows in their

offices. The survey's findings also showed that a KSTS viewer is likely to be a company owner, partner, or corporate president.

As a result of these market-research findings, KSTS has been able to attract some prestigious advertising sponsors, including a Rolls Royce dealer.

1. Why is it important, even critical in some cases, for marketers to identify the market segment(s) that form the customer group for goods and services?

2. Sometimes the competition is so fierce and/or the costs of operating a business are so high, that it's also important to "carve out a *unique* market niche" or place for one's goods and services. Suppose you and a group of fellow investors decided to start a television station in your community. From what you know about local TV stations (the competition), what type of programming would you present, as directed to a specific market segment? Note that affiliate stations can sign up with the big networks, and also with cable and independent programmers for general programs. What we're talking about here is the local reputation for providing a specific type of programming for a specific market segment.

CASE 12-2: The Market for Videos

With nearly 50 percent of households owning videocassette recorders (VCRs), the public's appetite for videos appears to have no end. A market-research firm that specializes in the entertainment industry projects that the number of people who rent videos in the United States will grow to 42 million by the mid-1990s.

"The demographics for supermarkets are identical to what we need in video—repeat traffic on a weekly basis," says a National Video franchisor vice president. Two franchise systems—National Video and Adventureland Video—have targeted supermarkets instead of specialty shops.

The challenge for franchisors is finding the right site for the right kind of store. That means getting away from specialty stores and into high traffic areas. Convenience stores and supermarkets carry fewer selections than specialty stores, but they are expected to have good sales because of impulse buying.

Sources: Udayan Gupta, "Selling TV Time to Entrepreneurs Builds a Loyal Audience for Station KSTS-TV," *Venture*, November 1985, p. 128; and Ralph Raffio, "The Big Picture for Video Retailers," *Venture*, June 1986, p. 128.

1. If you were the owner of a small specialty store that sold mostly videos, what market segments would you try to target in an effort to compete with supermarkets that also sell videos?

2. Why?



3. What types of videos would you put most of your marketing efforts into, as a means of satisfying the wants and needs of your selected market segment?

CHAPTER 13

Packaging and Pricing Decisions

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below.

- | | | |
|-----------------------------------|--------------------------|-------------------------------|
| a. break-even point | e. follow-the- | i. logo |
| b. cost-oriented pricing | leader pricing | j. markup |
| c. demand-oriented pricing | f. indirect costs | k. operating expenses |
| d. direct costs | g. inventory | l. penetration pricing |
| | h. labeling | |

- | | |
|--|---|
| <p>1. This factor is in operation when an arbitrary markup is added to the cost of producing the product or service.</p> <p>2. This factor takes place when businesses keep their prices in line with that of the competition's, especially the leading competitor.</p> <p>3. This factor is in operation when marketers attempt to identify what prices customers are willing to pay. This method also addresses the prestige factor, since many customers are willing to pay more for value that provides quality and/or exclusiveness.</p> <p>4. This factor is in operation when prices are set as low as possible, while still covering the costs of manufacturing and promotion.</p> <p>5. This occurs when sales volume reaches a given point that will cover all of the company's direct and indirect costs for producing the products or services.</p> <p>6. Included in this item are expenditures for such things as rent or mortgage payments, utilities, wages, advertising, insurance, supplies, and the like.</p> <p>7. The total amount of stock or goods available in storage.</p> <p>8. Items that are included in the production of a product or service such as raw materials, plant machinery, the wages for the manufacturing workers and packaging.</p> | <p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____</p> <p>5. _____</p> <p>6. _____</p> <p>7. _____</p> <p>8. _____</p> |
|--|---|

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

1. Packaging involves the design and production of the physical container that holds a product.
2. Packages are designed to be pretty, even if they fail to protect the contents.
3. Labels give information and directions.
4. Price is rarely the most important factor in the consumer's decision to buy.
5. Retailers often follow the pricing policies recommended by manufacturers and franchise marketers.

1. T F
2. T F
3. T F
4. T F
5. T F

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

1. The _____ point occurs when sales volume reaches the point that will cover all of the company's direct and indirect costs for producing the product or service.
2. The total amount of stock or goods available in storage is referred to as the _____.
3. Labeling, as the printed matter on products and packages, is designed to communicate _____.
4. People who have a combination of formal education and in-depth experience that cover a wide range of knowledge and background in a given field are said to have _____.
5. A company's identifying _____ is protected, by U.S. patent registration, so that other companies won't use or misuse the same symbol.

1. _____
2. _____
3. _____
4. _____
5. _____

Multiple Choice Write the letter for the best answer in the space provided at the right.

1. A nonmonetary exchange is a transaction of value that can involve:
 - a. Time and energy
 - b. Tasks and/or the restraint of action
 - c. Products, services, or ideas
 - d. All of the above
 - e. None of the above
2. Direct costs are items that are included in the production of a product or service and also include:
 - a. The salaries of owners and managers
 - b. The salaries of the office staff
 - c. The salaries of the sales staff
 - d. All of the above
 - e. None of the above
3. Markup is the amount of money needed to cover direct costs and indirect costs, plus:
 - a. Profit
 - b. Loss
 - c. Capital gains
 - d. All of the above
 - e. None of the above

1. _____
2. _____
3. _____

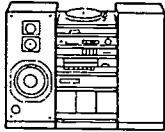
4. Indirect costs are items that are included in the production of a product or service and also include: 4. _____
- a. The salaries of management
 - b. The salaries of the office staff
 - c. The salaries of the sales staff
 - d. All of the above
 - e. None of the above
5. Included among a business's operating expenses are expenditures for such things as: 5. _____
- a. Rent or mortgage payments, and utilities
 - b. Wages, salaries, and supplies
 - c. Advertising and insurance
 - d. All of the above
 - e. None of the above

USING MARKETING INFORMATION

PROJECT 13-1: Graphing the Price of a Repair Service

Owners of repair-service businesses need to build a profit percentage into the prices they charge for providing repair services. The tabular data that appears in the figure below shows how to calculate figures to cover the costs of materials, direct labor, and operating expenses.

Assume that your business specializes in repairing stereo sound systems. Based on the percentage formula in the figure below, you charge \$48 per hour on average. The last stereo sound system you repaired took three hours. Recalculate the price of the repair service. Then prepare a bar or pie chart to show the percentages for materials costs, direct labor costs, and operating expenses based on your recalculation of the repair price.

Building a Profit Percentage Into Repair-Related Service Pricing (Hourly Figures)				
Cost Factor	Cost	Percent	Price	Profit
Materials cost	\$20	10%	\$22	\$2
Direct labor cost	10	30%	13	3
Operating expenses	10	30%	13	3
TOTALS	\$40	—	\$48	\$8

PROJECT 13-2: Using Marketing Information From Packaged Products

1. Find some familiar packaged products that interest you from home or school. Get two or more of each, representing different competitors. Some packages should be left unopened. Examples: record albums, cassette tapes, VCR videos, cosmetics including cologne, snack foods in their containers or wrappings, and so on.
2. In the space provided, record similarities and differences between two competing brands, in relation to the packaging, as follows:
 - a. Attractiveness of the package and/or container.
 - b. Clear communications used in the label instructions and messages; that is, you can understand what to do and how to use the products from what is written.
 - c. Consumer use. Try opening the unopened packages and make comparisons.

Names of products and their companies:

Comparison—analysis notes:

3. On the basis of the above analysis, which of the product packages analyzed appeals to you most?

4. Why? _____

5. As a marketer for the "losing" product, what changes do you recommend?

6. Use the same products as for no. 1 above and/or consider these options: apparel—sweaters, shirts, blouses, shoes; accessories—jewelry; belts, ties, scarves. You need to use the price tag, though, or the price on a packaged product must be evident.

Compare competing brands of the same products on the basis of price in relation to your perception of quality, value, and durability:

Names of products and their companies:

Comparison—analysis notes:

7. On the basis of the above analysis, which of the products analyzed appeals to you most?

8. Why? _____

9. As a marketer for the "losing" product, what changes do you propose?

CASES FOR ANALYSIS AND DECISION

CASE 13-1: Heroes and Celebrities Promote Products and Services

Douglas Henning, the star of eight TV specials and three Broadway hits including "The Magic Show," has found a new audience. Corporate marketers pay him anywhere from \$10,000 to \$1 million to introduce products "magically" and entertain at sales conventions.

A self-taught magician, Henning introduced a new line of cars at an annual Chrysler dealers' trade show by "floating" the cars across the stage.

Companies want to excite and entertain people and make them remember their products and services. By using celebrities, famous people who customers can identify with and recognize, marketers promote both familiarity with the product or service and the patronage motive for their companies.

1. Watch for and identify your heroes or potential heroes who appear in TV commercials and/or in magazine ads to promote a product. In TV commercials and magazine ads, locate competing ads for the same or similar type of product.

Examples of heroes: stars of TV sitcoms and adventure shows, game shows, and soap operas; movie stars; rock-band singers, players, and composers; sports heroes; and heroes from government and business

2. Compare your responses to the competing products with respect to those advertised by your heroes versus those advertised by nameless and anonymous models. Keep notes about your emotional and rational reactions to these comparative advertisements.

Names and types of your own heroes:

Names of the products services and the companies these heroes advertise:

Names of the products/services advertised by nameless models:

Comparison—analysis notes:

3. On the basis of the above analysis, which ones of the hero advertised the nameless model advertised products appeal to you most?

4. Why? (Consider whether a patronage motive is involved in your decision.)

5. As a marketer for the "losing" product, what changes do you recommend?

CASE 13-2: Pricing Policies for New Businesses

Many new entrepreneurs charge less for their products and services than the oldtimers charge. It's a no-miss formula, and one designed to win points with customers who look for bargains.

For the uninitiated, however, this simple pricing formula of selling more for less can be a fatal trap. Patricia Langiotti, a market researcher and consultant with Creative Management Concepts (CMC), says that new entrepreneurs too often measure progress in terms of sales volume. They believe, erroneously, that more sales means a healthier business. However, the profit margin is the key data.



One of Patricia's CMC clients, after zooming from zero to \$725,000 in annual sales, found that his printing company was losing more money each year. Langiotti helped him identify his direct and indirect costs. The figures surprised the print-shop owner. Here's an example: The selling price of one product was \$100. Direct costs, including production and labor, were 53 percent of the selling price (or \$53). Indirect costs were \$40, leaving a \$7 profit margin on each unit sold. However, the print-shop owner had often discounted the price of the product to \$80 in order to attract customers away from the competition. Thus, he was losing out every time he sold a unit.

Sources: Patricia Winters, "Magic Shows Promote New Products," *Venture*, November 1985, p. 14; and, from the same issue, Mary Rowland, "Pricing: Avoiding the Discount Trap," pp. 33-34

1. Debate or take the roles of the print-shop owner and the marketing consultant. As the consultant, help the owner to work out the above figures and to adjust the price so as to realize a profit.

Price for the unit: \$ _____ Profit percentage: _____%

2. Debate or take the roles of the print-shop owner and one or more of his old-time customers. As the owner, explain to your customer why you have established the new price.

3. As a member of the audience, evaluate the performance of the people who played the above roles on the basis of the following criteria and using this code: Good = +; Fair = \checkmark ; Poor = -

- a. Business dress and businesslike behavior _____
- b. Use of correct language and vocabulary _____
- c. Figures correctly calculated _____
- d. Figures explained so concepts are clear _____
- e. Intelligent questions asked _____
- f. Questions intelligently answered _____

CHAPTER 14

*Advertising and Sales
Promotion*

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below:

- | | | |
|---------------------------------|-------------------------------|---------------------------------|
| a. advertising | g. logotype (logo) | m. public relations (PR) |
| b. advertising budget | h. market segmentation | n. publicity |
| c. commission (sales) | i. market share | o. sensitivity |
| d. cooperative promotion | j. news release | p. telemarketer |
| e. goodwill | k. promotion | q. trademark |
| f. jargon | l. promotional submix | |

- | | |
|---|----------|
| 1. The value of a business's reputation, beyond tangible assets. | 1. _____ |
| 2. The abbreviations and terms that people in any given industry or field often use as a shortcut to communicating. | 2. _____ |
| 3. That part of the market that buys a firm's products, often expressed as a percentage of the market. | 3. _____ |
| 4. An established percentage of revenues from sales, which can substitute for receiving a fixed salary or be added to the salesperson's salary. | 4. _____ |
| 5. A registered name, symbol, or design. The U.S. government registers such names and brand marks to protect their sponsors. | 5. _____ |
| 6. A plan or forecast using financial data. | 6. _____ |
| 7. The activity that seeks to get favorable news printed or broadcast at no cost to the advertising firm or identifying sponsor. | 7. _____ |
| 8. Copy that are submitted to newspapers and magazines for publication as articles, or to radio and television to be broadcast as news or public-service announcements. | 8. _____ |
| 9. A person who sells goods and services using the telephone and computer to take orders, check accounts, and so on. | 9. _____ |

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

1. Cooperative promotion is the practice whereby workers cooperate with owners to be productive. 1. T F
2. "Logo" is the abbreviation of logograph. 2. T F
3. Marketers need to spend money according to the budget. 3. T F
4. When salespeople have sensitivity to the customers' needs, it means they show courtesy and consideration. 4. T F
5. Successful salespeople find out what customers need and want, and then try to satisfy these needs by showing respect, interest, and selling their company's products and services. 5. T F

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

1. _____ is any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor. 1. _____
2. _____ _____ is that part of the market that buys a firm's products, often expressed as a percentage of the market. 2. _____
3. Signs and billboards are representative of advertising that's placed with _____ media. 3. _____
4. Advertisers write copy, called _____, that are submitted to the print and broadcast media for the purpose of getting free news or public-service announcements. 4. _____
5. A person who sells goods and services using the telephone and computer to take orders, etc., is a _____. 5. _____

Multiple Choice Write the letter for the best answer in the space provided at the right.

1. The advertising budget is used to: 1. _____
 - a. Make a profit for the business.
 - b. Keep marketers from spending money.
 - c. Forecast needs and plan expenditures.
 - d. Tell management what marketers are doing with their time.
2. Public relations is a business activity designed to: 2. _____
 - a. Get public understanding and acceptance of a firm's goods, services, ideas, and contributions to society.
 - b. Convince customers to buy low-quality goods and services.
 - c. Get people to contribute to charity.
 - d. Hide the real truth about a company or person.
3. The wise and successful salesperson does *not*: 3. _____
 - a. Get the customer's attention and listen.
 - b. Ignore the customer's needs and objections.
 - c. Speak the customer's language.
 - d. Sense when the customer is ready, and then close the sale.
4. The wise and successful salesperson does *not*: 4. _____
 - a. Show the customer respect.
 - b. Demonstrate courtesy and consideration.
 - c. Try to see the customer's viewpoint.
 - d. Show irritation with irate customers.

5. Salespeople who like working on commission usually: 5. _____
- a. Make a lot of sales
 - b. Watch a lot of TV during business hours
 - c. Are timid and dislike making their own customer contacts
 - d. Have health problems because they work too hard

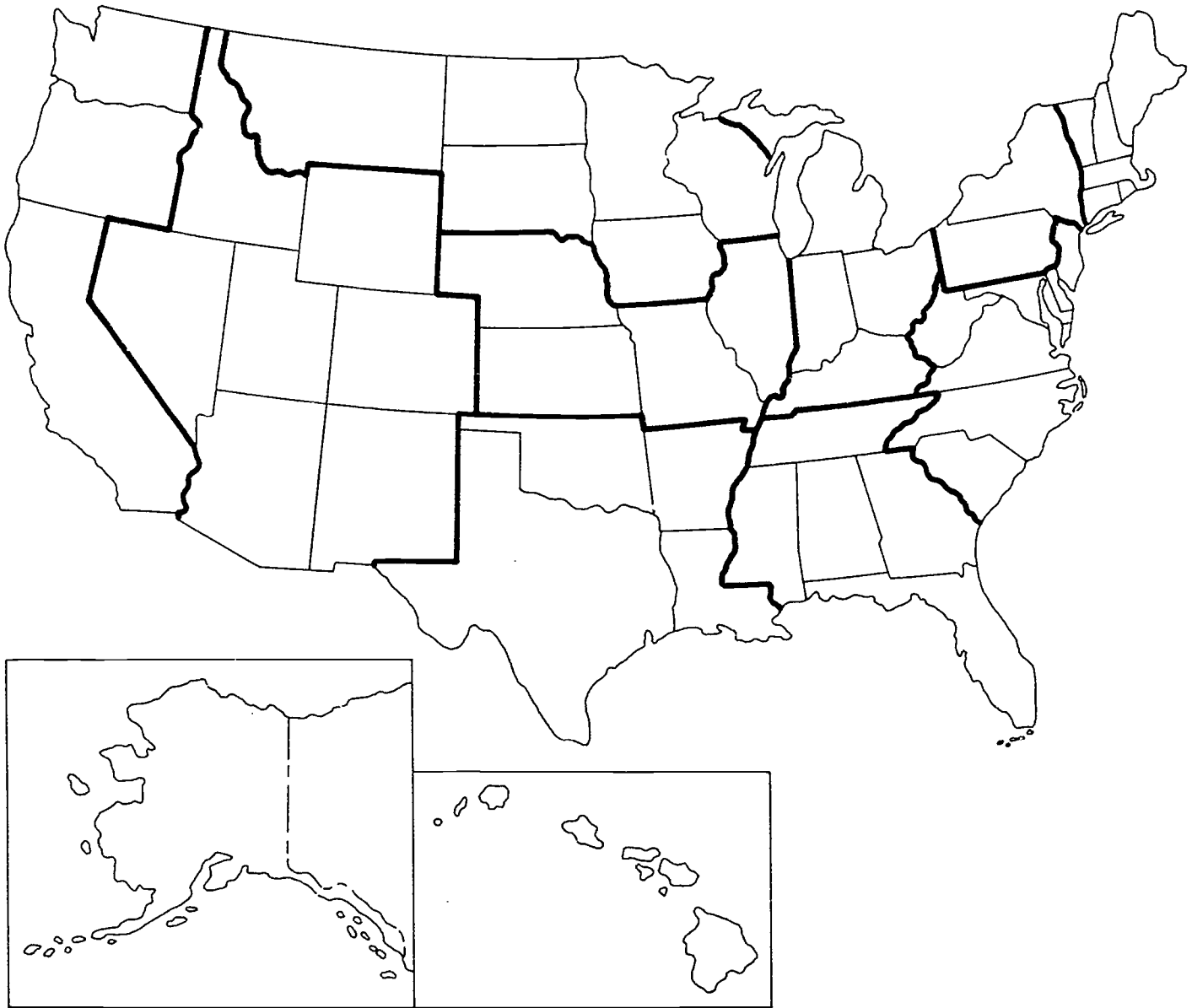
USING MARKETING INFORMATION

PROJECT 14-1: Identifying Megalopolis Areas

A megalopolis is a densely populated area with one or more metropolitan areas at the focal point(s). Some rules are changing in competition and promotion among American cities to keep and attract new business. The tactic of offering grants and tax breaks has lost its promotional edge because many areas are doing it.

Market research conducted by North Carolina sociologist John Kasarda produced the following findings:

- Sparse population is an important element in an area's economic development.
 - Warm weather and relaxed pollution regulations don't mean as much as they used to.
 - The ability of information and technology businesses to draw on the marketing and economic research capabilities of universities gives cities a good promotion technique.
1. On the map, shown on page 110, locate the following representative megalopolis areas, each of which has several universities:
- a. *Atlantic Seaboard*: Boston, Massachusetts, in the north; south through New York City; New York, Philadelphia, Pennsylvania, Baltimore, Maryland, Washington D.C., and Richmond, Virginia.
 - b. *North-Central "Industrial Heartland"*: Chicago, Illinois, Gary, Indiana, and surrounding environs; and the Detroit, Michigan, Windsor, Canada, and Toledo-Cleveland, Ohio, areas.
 - c. *South-East and Texas*: Dade County and Miami, Florida; and the Dallas-Fort Worth, Texas, area.
 - d. *North-Central and Mid-West*: Minneapolis-St. Paul, Minnesota, area; and the Kansas City, Missouri, and Kansas City, Kansas, areas.
 - e. *Rocky-Mountain and Desert States*: Denver, Colorado, and surrounding environs; the Salt Lake City, Utah, area; and the Phoenix, Arizona, area.
 - f. *Far West*: Los Angeles and San Diego, California, areas; the San Francisco Bay, California, area; the Seattle-Tacoma-Olympia, Washington, area; and the Honolulu, Hawaii, area.
2. Record the correct two-letter abbreviations for the states listed above on the unlabeled map. Then record the central city(ies) for each megalopolis named above. (You may label all of the states, and record additional cities with which you are familiar, if you like. Also, you might want to study a topographical map, such as the one that appears daily in *USA Today*; to help familiarize yourself with mountain ranges, rivers, and so on.)



3. Assume that you are a marketer employed in the economic development department of a town or city with which you are familiar. Your area is trying to attract new businesses to your state. Marketers in your department plan to write promotional copy to describe the advantages of moving to your locale. These promotional pieces will be sent to businesses currently located in the Atlantic Seaboard and the Industrial Heartland.

What tactics would you recommend to promote your locale? _____

4. Why? _____

PROJECT 14-2: Writing Promotional Copy

Write a news release to submit to your local newspaper to publicize one of your school's student organizations. See the model news release shown on page 112.

Follow these guidelines and procedures:

1. Read and analyze articles of similar content, found in a school or local newspaper, as well as the model.
2. Note in your analyses that the third-person writing style is used. That means that you will omit the use of first-person (singular or plural) pronouns of: "I," "me," "mine," and "myself," or "we," "us," "our," and "ourselves."
3. Note also in your analyses that what's called "editorializing" or "editorial opinion" is not permitted either. For example, don't use phrases like:
"Everyone had a good time."
"Interestingly enough . . ."

Opinion and reactions are used only when the public relations writer actually interviews people and then quotes what they say, using quotation marks and crediting the interviewees by name and title, as follows:

Elaine Carlotti, spokesperson for a New York critics' group who was present for the drama, said, "It seemed to me that everyone was having a good time."

According to Louis Johnson, high school principal, "the program was very interesting."

4. If available and you have the skills, compose a rough draft of a news release on a word-processing program on a computer (or a dedicated word processor or an electronic typewriter with storage capacity).
5. Read and review the copy to ensure that the grammar, punctuation, spelling, and writing style is as complete and accurate as possible. Verify that you have followed the guidelines given in points one, two, and three above.
6. Edit and revise the rough-draft copy as many times as needed until, in your opinion, the writing is at a quality level to be accepted by a newspaper editor.
7. Give the news release a title.
8. Prepare a single-spaced heading, to appear in the upper left-hand corner, that is modeled after the following:

Submitted by _____ (your name, and title; e.g., club reporter)
Name of club or organization
Name of school
School address
City, state, and ZIP
Telephone number (of school and/or of your club's advisor)
Date: Specific or "For immediate release"
9. Format the body of the document (or prepare the typewriter settings) to the following specifications: Double-spaced, 1-inch margins on both sides and the bottom, and a 2-inch top margin.
10. If the news release is long enough to run to two double-spaced typed pages, type: (More) at the bottom of the first page.
11. Close the news release by typing, on a separate line, one of the following: (End) or # # # # #.

PRESS RELEASE

Submitted by: Jay Collins, FBLA Reporter
Future Business Leaders of America (FBLA)
Smith-Cotton High School
Sedalia, MO 65301
555-6568

For immediate release

FBLA HOSTS OPEN HOUSE

All high school students, parents, friends, and the public are invited to attend an open house at Smith-Cotton High School on Thursday, February 16, from 6 to 8 p.m. Hosting the open house will be members of Future Business Leaders of America (FBLA), who have planned and created displays for this event as a means of promoting FBLA, recruiting new members, and describing how FBLA benefits its members as well as the business community.

During the current school year, for example, FBLA provided information processing and accounting services to the Lion's Club for their various fund-raising projects. In December, FBLA members served as Big Brothers/Big Sisters in chaperoning skating parties for area youngsters. FBLA hosted a careers fair in January, where local business leaders described to all interested high school students the career opportunities available in selected business fields.

Current and new FBLA members will travel to Central Missouri State University in Warrensburg next month to represent Smith-Cotton High School in state-wide competitions covering business knowledge and skills. Besides serving refreshments at Thursday night's open house, the student hosts will be ready to answer questions about FBLA activities. A short film will also be shown.

#

12. Print the news-release document. Proofread again, edit and revise once more, if needed. Reprint and submit.

CASES FOR ANALYSIS AND DECISION

CASE 14-1: Scoring Big in Information

Here's a multiple choice question for you to take regarding a type of information service. Question: Which of the following has contributed to the success of the Princeton Review (an information-coaching firm that helps students pass tests)?

1. Relying heavily on word-of-mouth promotion
2. Offering test-taking tips to student customers who need and want this type of information service

- 3. Taking in revenues of \$10 million
- 4. All of the above

If you responded with number four, you were correct. John S. Katzman is the youthful founder and president of Princeton Review. His customers come from the market segment of the 1.5 million college-bound high school students who sit for the Scholastic Aptitude Test (SAT) every year.

Katzman started his firm with 15 student clients and a \$3,000 loan from his parents. Unlike other information-coaching firms, John does not try to help students plug the holes in their knowledge. He uses computer programs to pinpoint students' weaknesses on sample tests. Then he teaches the logic behind the types of questions a specific student typically misses.

Katzman promotes his business service by claiming that his methods can increase a student's score on the three-hour SAT by an average of 150 points. His first year's revenues were \$5,000. Two years later revenues shot to \$75,000. At that point, Katzman started franchising. Recently, the company topped the \$3 million mark.

However, the company has not proceeded without problems. The NJ Educational Testing Service (ETS) that administers the SAT sued Katzman. They charged Katzman with copyright infringement and breach of contract pertaining to some questions used on his practice exams. John claims he uses only similar questions, and suspects that ETS feels that their own business is being threatened. (In a recent year, \$141 million of their \$163 million business came from testing.) ETS might also have worried about the public image of their company's tests, the value of SAT scores, and the validity of the ETS tests. According to Katzman, "The SAT doesn't measure intelligence or how well you'll do in college. It only measures how well you do on the SAT."

Although Katzman wishes his company had not been sued, he does appreciate all the free publicity. Articles about his company, ETS, and the lawsuit have appeared in *Time* and *Newsweek*.

Source: Jeannie Ralston, "Scoring Big by Raising Scores on the SAT," *Venture*, May 1986, pp. 128-29

- 1. Debate or take the roles of John Katzman's Princeton Review Management Co. versus ETS. Or, as a member of the audience, take the role of a juror hearing the case. Which side will you rule for, the defendant (Katzman's company) or the plaintiff (ETS)? _____

- 2. Why? _____

CASE 14-2: Ad Agency Revenues Down as Business Customers Turn to Promotions

Advertising agencies throughout the country, but especially on Madison Avenue (in New York City), are cutting back. Many agencies are handing out fewer bonuses and giving smaller raises, as well as firing employees. Other cost-cutting measures, to reduce overhead expenses, are also the norm.

Plagued by slow growth in mature product categories, many of the biggest business advertisers balk at high rates for television time or space on a magazine page. At the same time, the growth of less expensive options, such as cable TV, offer new alternatives to marketers responsible for advertising. The big networks, in fact, were forced to slash prices, which is especially painful for the ad

agencies. The typical 15 percent commission that ad agencies get on a \$250,000 TV-network spot is a very profitable business.

Businesses no longer want to pay that stiff 15 percent commission rate. Besides, many companies are shifting their marketing dollars out of advertising and into promotions, such as coupons and sweepstakes.

According to Donnelley Marketing, a market-research firm, consumer-related promotion's share of the marketing dollar grew from 24 to 30 percent over a recent five-year period. During the same time, advertising's share declined from 42 to 35 percent.

A number of ad agencies are now getting into the promotion business of selling a business client a total package of advertising plus promotion. Since clients want "more for less," however, marketers have to prove that they can be more productive.

Sources: Christine Dugas, "How Adversity is Reshaping Madison Avenue," *Business Week*, September 15, 1986, pp. 142-50, and Robert J. Shapiro, "Cities' Comeback Strategy," *U.S. News & World Report*, July 18, 1986, p. 24.

1. Debate or take roles to present arguments about the role of advertising versus promotion in marketing an individual and his or her ideas, and a company and its goods, services, and public image. Or, as a member of the audience, which type of marketing activity do you prefer—advertising or promotion?

2. Why? _____

3. If advertising works better in some situations, and promotion works better in others, discuss under what conditions you would use one type of marketing activity and in what situations you would use the other:

a. Use advertising: _____

b. Use promotion: _____

CHAPTER 15

Channels of Distribution

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below.

- | | |
|---|--|
| <p>a. agents</p> <p>b. brokers</p> <p>c. bulk breaking</p> <p>d. channels of distribution</p> <p>e. consumer</p> <p>f. consumer goods</p> <p>g. convenience stores</p> <p>h. department store</p> <p>i. exclusive distribution</p> | <p>j. industrial goods</p> <p>k. intermediaries</p> <p>l. manufacturer's outlets</p> <p>m. mass merchandisers</p> <p>n. off-price stores</p> <p>o. producers</p> <p>p. retailers</p> <p>q. specialty stores</p> <p>r. wholesalers</p> |
|---|--|

- | | |
|---|-----------|
| 1. It consists of breaking down large quantities of goods purchased from producers into smaller quantities. | 1. _____ |
| 2. This strategy results in a producer selecting only one dealer in a geographic area. | 2. _____ |
| 3. Also called middlemen, these companies or people help to move products and services from producers to consumers. | 3. _____ |
| 4. Sometimes called manufacturers, these firms create products and services which are distributed through the marketing channels. | 4. _____ |
| 5. Businesses that are usually small and offer specific goods and services to select end-users. | 5. _____ |
| 6. Intermediaries who sell products to companies or individuals who are not the final consumers or users. | 6. _____ |
| 7. The system that producers use to get their products to the consumers who want them. | 7. _____ |
| 8. Products and services that are used to meet the needs of individuals or families. | 8. _____ |
| 9. Salespeople who represent a number of different companies and who specialize in the food area. | 9. _____ |
| 10. Stores that are open 24 hours a day and usually offer staple items of merchandise at relatively high prices. | 10. _____ |

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

- | | | |
|--|------|---|
| 1. Agents are salespeople who represent a number of different companies that produce similar, competing products. | 1. T | F |
| 2. The most common channel of distribution for industrial products is from the producer directly to the industrial user. | 2. T | F |
| 3. Retailers are more likely to have current information about the best supplier than wholesalers. | 3. T | F |
| 4. One reason why producers use the services of intermediaries is because of the ability to maintain a smaller number of products on hand. | 4. T | F |
| 5. Mail order is an example of a producer to consumer channel of distribution. | 5. T | F |

Fill-Ins Write the missing word or words that best completes each statement in the space provided at the right.

- | | |
|---|----------|
| 1. Alterations, gift wrapping, store credit, and personal sales attention are examples of services provided by _____. | 1. _____ |
| 2. _____ are retail stores owned and operated by producers and manufacturers. | 2. _____ |
| 3. Bonn and Co. is an accounting firm which provides accounting services including tax preparation services. These services are considered _____ goods. | 3. _____ |
| 4. K mart, OSCO, and Service Merchandise are examples of _____ stores. | 4. _____ |
| 5. _____ help buyers and sellers to get together, without actually purchasing the products themselves. | 5. _____ |

Multiple Choice Write the letter for the best answer in the space provided at the right.

- | | |
|--|----------|
| 1. Which of the following does not belong in this group?
<i>a.</i> Wholesalers
<i>b.</i> Producers
<i>c.</i> Retailers
<i>d.</i> Agents | 1. _____ |
| 2. Which of these retail stores depend on higher sales volume rather than higher profits per sale?
<i>a.</i> Supermarkets
<i>b.</i> Specialty stores
<i>c.</i> Department stores
<i>d.</i> Convenience stores | 2. _____ |
| 3. Batik Inc. is a retail store which sells highly priced leather attire such as leather shoes and leather hats. Batik is an example of a:
<i>a.</i> Convenience store
<i>b.</i> Specialty store
<i>c.</i> Supermarket
<i>d.</i> Department store | 3. _____ |
| 4. An intermediary loses money because goods it just purchased became obsolete. Which of the following services has this intermediary performed or assumed?
<i>a.</i> Bulk breaking
<i>b.</i> Buying and selling
<i>c.</i> Financing and risk bearing
<i>d.</i> Transporting and storing | 4. _____ |

5. Which of the following channels of distribution is a door-to-door sales representative employing?
- Producer to consumer
 - Producer to retailer to consumer
 - Producer to wholesaler to retailer to consumer
 - Producer to agent to wholesaler to retailer to consumer

5. _____

USING BUSINESS INFORMATION

PROJECT 15-1: Reaching Out to the Customer

About eight years ago, Tom and Donna Sanders started an apparel manufacturing business which they named Vivace (pronounced Vee-*vah*-chee) Sportswear. The company specializes in pants, tops, skirts, and jackets for women ages 13 to 25. Not long ago it added a children's wear division, followed shortly by a men's division. Vivace Sportswear is known for its bold colors and cheerful designs. In fact, Vivace's marketing department—in full-color ads of its own employees at work and play—depicts a relaxed and happy lifestyle typified by those who wear Vivace clothing.

Tom and Donna are not new to the apparel business. For several years before marrying Tom and going into business with him, Donna had designed dresses for a successful dress manufacturer. Tom had extensive experience in the production and sales divisions of several apparel manufacturing firms.

In the beginning, to get their new Vivace line into retail stores, Tom would carry the new season's fashions to the sportswear buyers of well-known specialty shops and department stores. Donna's styles were timely and the store buyers, knowing they would sell, purchased the lines in increasing numbers.

Soon, Tom found that he needed to hire a staff of salespeople and find a showroom adequate for out-of-town store buyers to visit as the line became more popular. Before long, he opened Vivace showrooms in apparel centers across the country and staffed them with sales representatives to work with local department store and specialty shop buyers.

Throughout the country, customers in the stores began clamoring for Vivace Sportswear. Tom suggested to the larger stores that they set aside a definite space within their stores to be called the Vivace Sportswear department. He agreed to supply them with complete assortments and often exclusive Vivace styles. He even provided plans for department design and layout to cooperating stores. Because of the attractiveness and appeal of the clothing, sales began to skyrocket in these stores' Vivace departments.

At the same time, many customers who could not get to the fashionable stores in New York, Los Angeles, and Chicago also wanted to wear the Vivace clothes they saw in their fashion magazines. Tom thought of preparing a catalog each season for these customers to enable them to buy directly from the manufacturer. He prepared sketches for a sample catalog and is contemplating the size of the initial mailing.

Recently, several groups of business friends of Tom and Donna's have approached them about opening stores specializing in Vivace Sportswear. They seem to be interested in a kind of franchise arrangement or possibly a joint venture (partnership) with Vivace.

Finally, Tom is realizing that certain times of the year the factory has surplus goods. These may include overruns—that is when more of a certain style is produced than is needed—goods returned from stores for one reason or another, and occasionally some irregular or damaged merchandise. He has been

selling these goods to someone else but is beginning to wonder if he might do better selling them to the public through Vivace's own outlet stores.

1. At present, what is the main channel of distribution for Vivace Sportswear?

2. If Tom decided to open Vivace Sportswear retail stores as a joint venture, what would the channel of distribution be for the line?

3. If you owned several retail stores carrying Vivace Sportswear and then received a Vivace catalog in the mail at home, what would you do?

4. If you were Tom, what three or four factors would you need to consider in opening an outlet store?

5. Using Figure 15-2 on page 329 of your text, draw a chart showing the four existing and proposed channels of distribution for Vivace Sportswear.

PROJECT 15-2: Changing Channels at Dependable Office Supply

Dependable Office Supply, Inc., is a wholesaler of office supplies whose customers are both small- and medium-sized businesses in the midwest. The company handles all office supply needs including office furniture, computers, and stationery and supplies. Headquarters are located downtown in the state's largest city.

The company opened with three stores in three cities, each designed to serve the 200 business customers in the immediate area. Combined sales of the stores totalled \$600,000, with Store A accounting for \$300,000, Store B \$100,000, and Store C \$200,000. The costs of purchasing the inventory for each of the stores runs to around 50 percent of sales, while expenses of running the stores, including rent and payroll, amounts to around 48 percent of sales, leaving the remainder as profit.

Mark Edelman, president of Dependable Office Supply, began to wonder if there might be a better way to operate the business. He decided to sell to the larger accounts himself. During the first year, his sales amounted to \$190,000. He also hired two sales representatives to cover about the same territories—with the possibility of expanding—that each of the three stores had served. He then closed down each of the stores.

1. Complete Table 15.1, page 119, showing the dollar amount of the costs and expenses for the stores at the time Mark decided to close them.

For all products sold, Mark paid the sales representatives 10 percent commission. During the first year, they sold a total of \$350,000. Sales rep John Barker sold \$200,000 and Sarah Dowling sold \$150,000. While the cost of goods sold rose to 55 percent because they included printing a glossy catalog of all of the items for the reps to carry to customers, expenses only amounted to 30 percent of sales since building rent and other store expenses were no longer necessary.

TABLE 15-1			
	Store A	Store B	Store C
Total sales	\$300,000	\$100,000	\$200,000
Cost of goods sold			
Expenses	_____	_____	_____
Total costs and expenses	_____	_____	_____
Profit	_____	_____	_____

2. Complete Table 15-2 below, showing the costs and expenses of using sales representatives. Determine the first year's income of each sales representative, and calculate the dollar profit and the percent of profit to sales for each representative and for Mark.

TABLE 15-2			
	John Barker	Sarah Dowling	Mark Edelman
Total sales	\$ _____	_____	_____
Commission earned	\$ _____	_____	_____
Cost of goods sold	_____	_____	_____
Expenses	_____	_____	_____
Total costs and expenses	\$ _____	_____	_____
Dollar profit	_____	_____	_____
Percent profit-to-sales	_____ %	_____ %	_____ %

3. If you were Mark, after reviewing the results shown above, how would you feel about the change you created in the channel of distribution? Does this seem to be a wise decision? Why or why not?

4. What course of action would you recommend for Mark at this time? Cite one or two suggestions for him to follow and give your reasons.



CASES FOR ANALYSIS AND DECISION

CASE 15-1: Moving Through the Channel of Distribution

Vince Cantini and his sister, Teresa, own Cantini, Inc., a wholesale produce business in Kansas City. The business buys fresh fruits and vegetables from throughout the country and sells them to local grocery store chains and specialty food shops.

One early June morning, California Plum Growers Cooperative announces that the first plums are ripe and ready for shipping. Teresa has been talking on the phone with George Simms, the owner of several gourmet food stores. His customers are asking for early plums and he wants some shipped immediately via air.

Vince has been talking with the chain store buyers in the area and they are also interested in early plums, but not in large quantities because of their higher cost. What the chains really want is the next variety, which are lower-priced and ready for shipping by the following week. The chain stores want to run a promotion on plums and hope to bring them into the stores at the lowest possible cost.

"I've just talked to George," Teresa tells Vince, "and he wants a large shipment of early plums sent via air because his customers are clamoring for them."

"I'll call California Plum Growers now," says Vince. "I want a few early plums, too, for the chain stores, and I want to talk to them about a big plum promotion for next week. Some local chains want to feature plums next weekend, but at a lower price than they'll get for the early variety. For these first plums I'll order a full truckload of 1400 boxes, at the lower full-truckload cost. Then I'll have the truck drop off 300 boxes at each chain and bring the rest in here for our other customers."

"I know the most direct way to ship the plums for the chains is by truck, but didn't you tell me that the railroad is lowering its freight rates about now?" asks Teresa.

"That's right," Vince answers. "Maybe the chains can take advantage of the lower freight rates on the promotion and pass that along to their customers through lower prices, but the truck is more convenient for this first shipment because it can deliver directly to each chain."

Vince calls the California Cooperative, places both of their orders for the early variety, and then asks about the availability of the next plums for the chain stores' promotions. He then calls the truckers and the railroad. On his second call to the Cooperative, he is told that the second variety of plums for the chains would be ready next week and could be shipped by truck. A mid-morning return call from the railroad reveals that the plums could be shipped by rail much less expensively but not until a week later when the new lower rates would go into effect. Fortunately, the Cooperative would have a large enough crop to ship the following week, enabling the chain stores to offer the plums at much lower prices, but a week later than planned.

As Vince is working out these details, Teresa looks up from the computer. "Oh, Vince. Look at this. We haven't had a payment from George for anything he's ordered from us for the last month! What should we do?"

"I think we'd better call him," Vince replies. "Will you do it? I've got to talk to the chain buyers and see what they want to do about timing their plum promotion."

1. Identify, with examples for each, four or five functions of intermediaries that the Cantinis are performing.
-
-

2. When Teresa calls George, what should she say to him?

3. If George refuses to pay his bills, what action would you suggest on the part of Cantini, Inc.?

4. What should Vince say to the chain store buyers about their plum promotion?

5. If you were a chain store buyer, what would you do about the plum promotion?

CASE 15-2: Building a Channel of Distribution

Marnie Blacker lives in the suburbs of a medium-sized western city. She and her husband, Paul, have two children, Chuck, age 12, and Mindy, age 8. The Blackers have lived in Sunnyside for six years. Up to now, Marnie has stayed home taking care of Chuck and Mindy while Paul is a supervising engineer for a toy manufacturer. Both are active in the community school and church organizations and the scouts. Paul plays handball once a week and Marnie is enrolled in an aerobics class and belongs to the garden club.

Recently, Marnie has become interested in the real estate business. She wanted to become a real estate salesperson so she asked for an interview with the manager of a major real estate firm. One of the first questions the manager asked her is how she would go about finding customers, the prospective buyers and sellers of local homes and apartments.

1. From what you have learned about Marnie, what do you believe her response would be?

2. What additional recommendations would you have for Marnie to help her locate potential customers?

CHAPTER 16

Employment of Human Resources

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below:

- | | |
|-------------------------------------|--|
| a. affirmative action plan | k. orientation |
| b. apprenticeship training | l. pension |
| c. compensation | m. performance appraisals |
| d. human resources | n. profit sharing |
| e. human resources manager | o. promotion |
| f. job analysis | p. salaries |
| g. job description | q. seniority |
| h. job rotation | r. transfer |
| i. layoffs | s. vestibule method of training |
| j. on-the-job training (OJT) | t. wages |

- | | |
|--|-----------|
| 1. Responsible for the size and nature of the company's work force. | 1. _____ |
| 2. Steps that companies take to increase the hiring and promotion of women and other minorities. | 2. _____ |
| 3. The study of the characteristics and activities required by a specific job. | 3. _____ |
| 4. Everything of monetary value that employees receive for their work. | 4. _____ |
| 5. A fund that provides for retirement income for employees. | 5. _____ |
| 6. Money paid to workers based on the number of hours worked or the amount produced. | 6. _____ |
| 7. Helping new employees learn about and adjust to the company. | 7. _____ |
| 8. Placing new employees in a job situation to learn by working with skilled employees. | 8. _____ |
| 9. Regularly checking and evaluating the work of an employee. | 9. _____ |
| 10. Temporary separation of an employee from an organization. | 10. _____ |

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

- | | | |
|--|------|---|
| 1. Throughout history, organizations have paid a great deal of attention to managing human resources. | 1. T | F |
| 2. To determine what qualities are needed in an employee, the manager should analyze the job to be done. | 2. T | F |
| 3. In an employment interview, it is all right for the interviewer to ask if the job seeker is married. | 3. T | F |
| 4. Salaried employees always receive a share of the company's profits as part of their compensation. | 4. T | F |
| 5. All else being equal, the employee with more seniority is likely to be the one laid off. | 5. T | F |

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

- | | |
|---|----------|
| 1. The people who work for an organization make up its _____. | 1. _____ |
| 2. At his job, Hank Jurich is developing a list of tasks for cashier-checkers, such as operating the cash register, and also noting that checkers need good math skills and a pleasant personality. Jurich is probably preparing a _____. | 2. _____ |
| 3. To simplify the hiring process, every organization asks job seekers to fill out a preprinted form developed by the company; this form is known as a(n) _____. | 3. _____ |
| 4. When hiring, to avoid future problems, a company wants to learn whether a job applicant is providing accurate information, and so it conducts a process known as a(n) _____. | 4. _____ |
| 5. Training in driving a semi-trailer or in operating a crane is an example of _____. | 5. _____ |

Multiple Choice Write the letter for the best answer in the space provided at the right.

- | | |
|---|----------|
| 1. To fill a job opening, the first source most human resource managers look to is:
<i>a.</i> Present employees
<i>b.</i> Employment agencies
<i>c.</i> Labor unions
<i>d.</i> Schools | 1. _____ |
| 2. If you are applying for a job, usually you can expect to go through all of the following steps <i>except</i> :
<i>a.</i> A job interview
<i>b.</i> Employment testing
<i>c.</i> An employer home visit
<i>d.</i> A physical exam | 2. _____ |
| 3. Andy works as a sales representative for a major chemicals manufacturer. Most likely, his compensation is in the form of:
<i>a.</i> Salary
<i>b.</i> Wages
<i>c.</i> Commission
<i>d.</i> Bonus | 3. _____ |

4. To help managers broaden their skills and experience, they are most likely to be given:
- a. Vestibule method of training
 - b. On-the-job training
 - c. Apprenticeship training
 - d. Job rotation
4. _____
5. Leanne has just been given the job of manager of the jewelry department for a local store; previously, she had been manager of the accessories department. Her move is termed a:
- a. Performance appraisal
 - b. Transfer
 - c. Promotion
 - d. Layoff
5. _____

USING BUSINESS INFORMATION

PROJECT 16-1: Developing a Job Description/Specification for a New Business

Christie Winger is human resources manager for Cardinal Clothing, a retail business selling men's and women's apparel. Up to now, Cardinal has sold its goods through glossy catalogs that it sends to customers several times a month. The clothing is fashionable, well-made, and fairly priced. Over the past 10 years, Cardinal's catalog business has blossomed from the four-state region to the entire nation. Strategically placed ads in the fashion sections of newspapers and magazines have helped Cardinal grow, but its sustained growth has come from word-of-mouth of satisfied customers who praise the company's styles, its prompt and polite service, and its liberal return policies.

Recently, management decided to open its own retail stores, and as the first few succeeded, to expand nationwide. One of the most important jobs in the new stores is that of retail salesperson. In a recent meeting with top management, Christie was asked to develop a job description/specification for that job. The main duties of the salesperson, she was told, would be to sell clothing, but she would also be responsible for arranging stock, keeping the department in order, displaying merchandise, transferring it to other stores, and taking inventory. Management was particularly concerned that special attention be given to finding salespeople who could be trained to give outstanding customer service and who would be able to sell merchandise throughout the store including men's and women's coats and suits, sport-wear, shoes, and accessories. Future growth of the business would take place, Christie believed, only if Cardinal could offer in its store the same caliber of customer service for which its catalog business is renowned.

1. Using the sample job description/job specification, Table 16-1 on page 346 of your text, write a suitable job description/specification for an apparel retail salesperson in the form shown on page 126. Make certain that the need for customer service is emphasized, as management requested. Estimate the amount of time needed for each task.

Job Description/Specification

Position: Retail Salesperson

Job Summary

Working Conditions

Education

Experience

Duties Performed

1. The following represent ____ percent of working time:

- a. _____
- b. _____
- c. _____

2. The following represent ____ percent of working time:

- a. _____
- b. _____
- c. _____
- d. _____

3. The following represent the balance of working time:

- a. _____
- b. _____
- c. _____
- d. _____

Supervision Received

Relationships

Equipment

2. Management has asked you to provide information for a new job application for employment. Based on the information you developed above in the job description specification for a retail apparel salesperson, cite three or four questions that you would want included in the company's application for employment:

3. From your understanding of management's goals, describe the type of supervision these employees should receive. Who should supervise them? What and how should they be told about working with customers, new merchandise, and career opportunities?

4. With what people do these retail salespeople deal with on a daily basis? What preparation or training do they need to work effectively with these people?

PROJECT 16-2: Improving the Hiring Process

After preparing a useful job description-specification for a retail salesperson, Christie met again with Cardinal's top managers to determine the best ways of finding and selecting qualified employees to meet Cardinal's needs. During the meeting, the executives determined the steps of the hiring process most suitable to Cardinal. Christie listed the steps at the left of her meeting notes as shown below. As various executives discussed possible procedures to accomplish each step, she listed them to the right of the steps as shown below.

Meeting Notes

<i>Hiring Steps</i>	<i>Suggested Procedures</i>
<i>Recruiting</i>	<i>Present employees, newspaper ads, employment agencies</i>
<i>Selecting</i>	<i>Résumé, employment application, testing</i>
<i>Interview Questions</i>	<i>School record, work experience, outside interests</i>
<i>Investigating</i>	<i>Schools, former employers, personal references</i>
<i>Determining Fitness</i>	<i>Physical examination, employee-signed statement, employee's word</i>

1. For each of the hiring steps, Christie has asked you to rank each procedure in order of usefulness to Cardinal Clothing, Inc. Then, circle the procedure that you believe would be most effective for the company to use first.
2. State why you believe each of the procedures you have circled is most useful for each step.

3. In refining the hiring process, additional procedures need to be incorporated. Now, for each of the hiring steps, write the next procedure you would add, giving your reason.

4. Christie would like you to develop a list of questions for the employment interviewer to ask those people seeking jobs as salespersons. Remembering the company's goals, as well as the kinds of questions that are not permissible to ask, write four or five questions that would assist the interviewer in finding individuals who would most likely be competent salespersons.

CASES FOR ANALYSIS AND DECISION

CASE 16-1: Training the Sales Force

Seacoast Marine is a large marine supply store on the West Coast. It serves the boaters in several marinas as well as two boat dealers by carrying all kinds of boating equipment and supplies. These include anchors and chains, boat soap, deck chairs, engines and parts, sails, and sophisticated electronics gear.

Seacoast sells at two price levels: at wholesale to the boat dealers, and at retail to the many boat owners in the area. To be helpful to customers, the sales force must have a working knowledge of several forms of boating, including sailing, powerboating, and even windsurfing and canoeing.

Some customers know exactly what they want, asking for an item by name and number; more often, however, customers only know what they want to do, not necessarily how to get the job done. For example, not long ago, one boat owner decided to run all of the lines of his sailboat aft, that is, to set up a system for raising and lowering all sails safely from the cockpit. This way he would no longer face that job on a tossing deck in rough weather. The Seacoast salesperson had to know which blocks and pulleys were required and how to set up the system.

To simplify the search for the right items, Seacoast recently decided to set up a computerized inventory system. A few of the sales staff were sent to the computer manufacturer's classroom for a week's training. Their technical knowledge was missed at work, but on return they were able to operate the computers rapidly and competently.

The summer boating season is approaching and Seacoast's management wants to hire additional salespeople. Management is wondering whether to send more staff to the manufacturer's classroom for vestibule training. Some consider it expensive and time-consuming. Or, should Seacoast have new employees work with an experienced employee in a kind of apprenticeship training to learn about the business and then stay after work to learn the computer system?

1. What is the major advantage for Seacoast in sending the new sales staff to the manufacturer's for vestibule training?

2. What are the major disadvantages for Seacoast of vestibule training?

3. What are the advantages of a kind of apprenticeship training with computer classes after work?

4. What are the disadvantages of the kind of apprenticeship training proposed here?

5. In your opinion, what is the best way for Seacoast to train these salespeople?

CASE 16-2: Appraising Job Performance Accurately

Andrea Darven is secretary to Dr. Barbara Levinson, staff physician for a large pharmaceutical firm. The firm maintains its own medical department. It has also established an employee wellness program, encouraging employee physical fitness to promote long life, reduce absences from work, and lower company health costs.

As secretary, Andrea's tasks include arranging appointments for employees wanting to see Dr. Levinson, screening telephone calls from pharmaceutical suppliers and others to make sure only the important calls get through, and typing and filing employee medical records for the doctor.

Andrea has been on the job about a year and is due for her second performance appraisal. Her first occurred six months after she was hired. At that time Andrea was told that the quality of her work was acceptable but that she should try to get more done. Several times each month she had not been able to keep up with the typing and filing of employee records and had to ask for help from another department. During the past six months, however, the quantity of her work increased and she has had to ask for help less frequently.



A significant problem for Andrea, though, is the kind of impression she has made on some of the executives of the company. For example, on several occasions the company's human resources manager has telephoned Dr. Levinson only to be told briskly by Andrea that the doctor was busy or out of the office, circumstances which happened to be true. The doctor later returned those calls. Twice the telephone calls of a company vice president were cut off because Andrea was just learning how to operate a newly-installed telephone system. Several times employees found it hard to arrange appointments because Andrea would say haughtily that the doctor had meetings or other appointments.

Company policy states that once a year department managers, such as Dr. Levinson, will review their appraisal of the work of their department's employees with the human resources manager before talking with the employee. During Dr. Levinson's discussions with the human resources manager about Andrea's work, she noted that Andrea had been accomplishing more recently and that she believed Andrea deserved a raise. "What? A raise for that rude young lady?" responded the manager. "From what I've heard, there are serious doubts that she really fits into our company's way of doing things. Do you really think she belongs here?"

1. On what basis is Dr. Levinson reviewing Andrea's work and appraising her job performance?

2. On what basis is the human resources manager reviewing Andrea's work?

3. Which of these views is more important? Why?

4. If you were Dr. Levinson, what would you say in response to the human resources manager's questions?

5. What course of action would you recommend here? What should Dr. Levinson and or the human resources manager do now?

CHAPTER 17

Management of Human Resources

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below:

- | | |
|---------------------------------|----------------------------------|
| a. arbitration | i. lobbying |
| b. autocratic managers | j. lockout |
| c. collective bargaining | k. mediation |
| d. court injunction | l. morale |
| e. group dynamics | m. participative managers |
| f. job enlargement | n. picketing |
| g. job enrichment | o. strike |
| h. labor contract | p. strike breaking |

- | | |
|--|-----------|
| 1. A person's level of satisfaction with and enthusiasm for an activity. | 1. _____ |
| 2. Executives who make decisions by themselves and then tell others what to do. | 2. _____ |
| 3. Increasing the number and kinds of activities an employee is asked to do. | 3. _____ |
| 4. Union negotiations with management to reach decisions affecting employees' pay and working conditions. | 4. _____ |
| 5. A written agreement concerning employment conditions, specifying the rights and responsibilities of workers and management. | 5. _____ |
| 6. When all workers in a union group refuse to work. | 6. _____ |
| 7. When management refuses to allow workers into a plant to work. | 7. _____ |
| 8. The practice of hiring nonunion replacement workers to do the job of striking union workers. | 8. _____ |
| 9. Court orders forbidding workers to strike while contract negotiations take place. | 9. _____ |
| 10. A third party hears a dispute between union and management and reaches a decision that is final. | 10. _____ |

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

- | | | |
|--|------|---|
| 1. Some managers may find themselves between two groups: dedicated top managers and not very enthusiastic employees. | 1. T | F |
| 2. When employee morale is low, it is usually because the pay is low. | 2. T | F |
| 3. It is a good idea for managers to let employees help make all decisions in an organization. | 3. T | F |
| 4. The first bargaining issue between unions and management is improving working conditions. | 4. T | F |
| 5. In settling labor management disputes, arbitration is binding but mediation is not. | 5. T | F |

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

- | | |
|---|----------|
| 1. In getting employees to work well together, managers make use of _____ | 1. _____ |
| 2. Managers who emphasize job security and use threats to motivate employees are following Douglas McGregor's _____ | 2. _____ |
| 3. John Quang asks a group of assembly-line workers to find ways of keeping production running smoothly. John's leadership style is _____ | 3. _____ |
| 4. Lisa Cort, a computer data-entry clerk, has been asked recently to develop a new computer program. Lisa is experiencing a motivation strategy known as _____ | 4. _____ |
| 5. Management and the union, unable to agree on an appropriate pay schedule, met with a neutral party. However, the discussion broke off, ending the _____ process. | 5. _____ |

Multiple Choice Write the letter for the best answer in the space provided at the right.

- | | |
|--|----------|
| 1. The employees who represent the company to most of the outside world are likely to be the:
a. Managers c. Salespeople
b. Professionals d. Labor unions | 1. _____ |
| 2. Effective ways for a manager to work well with employees include all of the following <i>except</i> :
a. Establishing acceptable goals
b. Treating employees fairly
c. Communicating directions clearly
d. Reprimanding an employee in public | 2. _____ |
| 3. Darcy McGuire, the manager of her grocery store's bakery, was just made manager of the delicatessen, also. Darcy is experiencing:
a. Job enlargement c. Group dynamics
b. Job enrichment d. Mediation | 3. _____ |
| 4. Management techniques for motivating employees do <i>not</i> include which one of the following:
a. Letting employees know what is expected
b. Being sure they know how to do the work
c. Keeping quiet about the quality of their work
d. Giving a reward on completing a task | 4. _____ |

5. Of the following, the least likely to be used by management during a labor dispute is:
- a. Picketing
 - b. Lockout
 - c. Court injunction
 - d. Strike breaking

5. _____

USING BUSINESS INFORMATION

PROJECT 17-1: Building Employee Morale

Arnold Tonder recently acquired a small chain of discount stores in the south. Over the years, Tonder had gathered experience in various kinds of jobs with larger chain stores, such as Wal-Mart, but he always wanted to own his own business. The chance to own this group of stores came up suddenly and the price was right. Apparently, the previous owners had other business interests and paid minimal attention to these stores. Consequently, they were not doing well and employee morale was low.

Only after he met with the employees of the first store did Tonder begin to realize how disheartened the employees were. He sensed that many feared they would be fired, and the younger ones thought that the new organization offered no opportunity to advance. Most acknowledged that the pay and benefits were minimal. Some were unhappy about the unfair treatment they had received in the past; in general, the employees were glum about the company's future and their own.

Tonder knew that the stores had a strong base of potential customers and felt that he could provide the right goods for them so he could probably turn a profit before long. However, he was shocked at the low employee morale. He realized that the best merchandise in the world wouldn't bring a profit unless the store was a place where customers wanted to shop, and he believed that the employees needed to create such an environment. If they were motivated, the stores could become places where customers wanted to shop.

He hoped to increase sales by 10 percent each year for the next five years and to begin to turn a profit within two years. To do this, Tonder had already developed a strong network of suppliers. Now he wanted to establish an attitude of customer service among employees, develop a management training program, and reward successful performance such as sales increases.

As he considered what to do about employee morale, he wondered about the ways the company eventually could meet employee needs at various levels. Borrowing from Maslow, Tonder wrote out the chart of human needs shown in Table 17-1, page 133. Now he is asking you to give him a hand with suggestions on building employee morale based on those human needs.

1. After each human need stated on the chart above, list two or three ways the company can begin to meet employee needs that could help in building morale. An example is given.
2. To build morale and encourage the employees to work together, Tonder now wants you to help him with setting goals, communicating them, and motivating employees. He sends you a memo asking for your reactions to the following questions:
 - a. What two or three goals of the company should be communicated to the employees at this time?

TABLE 17-1

Human Needs Ways the Company can Meet Employee Needs

Physical *Example. 1. Offer decent wages and work schedules.*

Safety

Social

Esteem

Self-Realization

b. Give your reaction to each method listed below that the company could use to communicate its goals. Circle the one you believe to be most useful.

Bulletin Boards _____

Company Newspaper _____

Department Meetings _____

Paycheck Enclosure _____

c. What are the advantages of the following methods in motivating employees?

Job Enlargement _____

Job Enrichment _____

d. What additional suggestions do you have for improving morale?

3. From the information you have developed in sections one and two above, develop a plan for building employee morale that you want to use over the next month. Use the questions below as a guide.

a. What do you want to communicate to the employees?

b. What methods will you use to teach them?

c. What three or four specific techniques are most useful the first month in initiating your morale-building plan?

d. List two or three techniques that you believe are important to add in later months.

PROJECT 17-2: Managing the Manager

Anton Kokmarjer is the manager of "Edible Cactus," one restaurant in a well-known chain famous for its food with a southwest flavor. Kokmarjer had recently been promoted from managing a smaller restaurant in the chain, where he had boosted profits greatly. The restaurant he now manages had been run by one of the chain's founders, "Tex" Molinda, who recently decided to retire but still retains his substantial ownership in the company.

Tex had been popular among customers and employees alike. Seemingly always on duty, he greeted everyone cheerfully and chatted at length with customers. He preferred to let employees know their general responsibilities, but work out details among themselves. He had experienced employees train new ones by working with them until they knew the routine. Tex often asked employees for suggestions on new ideas for the menu, restaurant decor, and customer service. When an employee's suggestion proved successful, such as a new item for the menu, Tex rewarded that employee with public praise and a bonus. Over the years, people had become very fond of Tex and were genuinely sorry not to see him at his regular post.

Kokmarjer came in with high recommendations. Like Tex he spent long hours at work. He greeted customers pleasantly, but his good humor seemed to stop there. He watched the employees like a hawk, telling them exactly what to do and correcting any mistakes in a loud voice. He insisted on training everyone himself. Once, his tone startled a new busboy who dropped a tray of dishes and later left that same evening, unable to stand the manager's badgering.

Unlike Tex, Kokmarjer tried to tell the servers (waiters and waitresses) and the busing persons exactly what to do when he thought it was appropriate. At times, he would have the servers running the dishwasher to get clean plates and the busing persons taking customers' orders. One busy holiday he even called an overworked chef out of the kitchen to pour coffee! When the rush was over, he had only harsh words for the employees and no words of thanks for those who had put forth extra effort to serve the customers. When they tried to tell Kokmarjer how hard it was to work amid all that chaos, he refused to listen.

The employees were visibly discouraged. While formerly they had enjoyed coming to work, now they dreaded it and even some of the most loyal began seeking other jobs. Amazingly, however, the restaurant showed a profit. One day, Tex dropped in and an exasperated employee who had been with "Edible Cactus" a long time was able to talk with him in private.

- 1.** You are that employee. You like the company and want to stay on if conditions could improve. Write out what you would say to Tex about the present situation. Remember, although Tex is retired, he is still a significant owner of the company.

- 2.** After hearing your story, Tex listened to other employees and began to make some notes regarding Kokmarjer's work. He knew that Kokmarjer could run a profitable business, and he believed Kokmarjer could become a better manager if given some skills in dealing with employees. The notes Tex took are shown at the top of page 137. For each item given, write out one or two suggestions Tex could offer Kokmarjer to improve his motivational skills.

Leadership Style

Assigning Work

Providing Training

Supervising Employees

Rewarding Effort

3. What steps would you recommend that Tex take next?

4. How should Kokmarjer react to Tex's actions? After all, the restaurant is earning a profit.

CASES FOR ANALYSIS AND DECISION

CASE 17-1: Looking for the Union Label

The Thruwaite Kandor family has produced and marketed "Kandor Kola" throughout the country for the past 50 years. "Kandor Kola" is popular nationwide with a small but substantial market share, behind Coca-Cola and Pepsi and a few other well-known soft drinks.

For years the union has tried to organize the workers at the Kandor plants. Many competitors' plants in the industry are unionized, providing employees with insurance plans, paid sick days, and slightly higher hourly wages.

Kandor has always opposed unions. In private conversations with others he

argued that his opposition was not based on economic reasons alone. He claimed that it violated a basic tenet of freedom if workers were forced to join a union as a condition of employment. Moreover, he said that if his company became unionized, his plant supervisors and managers would be unable to run the business as they saw fit. For example, he said unions might restrict his right to dismiss those workers who proved to be unproductive.

In fact Kandor was so opposed to unions that he carefully screened employees to make certain that he was bringing in no union activists. Every time the issue of union representation came up, Kandor would encourage the plant supervisors to recommend to the employees that the union be voted down. The plant supervisors were authorized to tell the workers that if they rejected the union the company would make it worth their while. The company would do this by increasing wages and fringe benefits for plant workers within a two-year period. Some workers, however, believed that the union would bring them even better opportunities for good pay, better working conditions, and benefits in the long run.

1. In your opinion, why is Kandor against union representation?

2. Cite two or three reasons why Kandor employees would want a union.

3. Why might the employees vote against union representation?

4. In this situation, what do you think the employees should do?

CASE 17-2: Problem-Solving With the Boss

Mary Goldberg has been working for several months at "Beautiful Interiors," an exclusive gift shop in a southern resort community. The store is small and exquisite with beautiful china, place-settings, silverware, and other expensive decorative objects for homes. Mary has many responsibilities at work including selling, arranging merchandise, and writing price tags and attaching them to the items.

Because the store is small, just Mary and the owner, Mrs. Schultz, work there full-time, and they try to accomplish several tasks at once. For example, Mrs. Schultz will tell Mary to open boxes of new merchandise in the back and then bring them out to the front of the store where she can watch for and assist customers and also ticket merchandise.

While writing price tags, Mary is often interrupted to help a customer. Once, when she returned to price-ticketing, she nearly made a costly mistake in mispricing some small bronze statues. Another time, she returned to find some unticketed silver goblets had been put in stock in boxes of six with the price of one printed on the box containing all six! A third time, Mrs. Schultz was counting a shipment and could not find it all until Mary noted some had been ticketed but not recorded.

Mrs. Schultz was becoming upset with what she thought was Mary's carelessness and lack of attention to detail. Mary, on the other hand, was becoming frustrated at not always being able to keep track of what she was doing.

1. What do you think Mary should do, given these circumstances?

2. Should she approach Mrs. Schultz about this situation? If so, what should she say?

3. What suggestions do you have for Mary that could improve this situation?

4. What should Mrs. Schultz do after hearing Mary's suggestions?

CHAPTER 18

Production and Operations Management

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below.

- | | |
|--|--|
| a. breakdown maintenance | j. master schedule |
| b. capacity | k. material requirements plan (MRP) |
| c. capacity requirements plan (CRP) | l. operations |
| d. cost budget | m. operations management |
| e. cost standards | n. operations systems |
| f. demand forecast | o. overhead |
| g. fixed costs | p. preventive maintenance |
| h. inventory | q. production |
| i. maintenance | r. variable costs |

- | | |
|---|------------------|
| 1. Identifies the specific goods or services and the exact quantity of each to be produced or provided in a given period of time. | 1. _____ |
| 2. The maximum amount of goods a system can produce during a specified time period. | 2. _____ |
| 3. The facilities, processing, and people needed—and the relationships that must exist between them—to produce goods or services. | 3. _____ |
| 4. Identifies what amount and type of equipment and personnel are needed to produce the finished goods indicated in a master schedule. | 4. _____ |
| 5. Any type of activity designed to keep an organization's resources in working condition or to put them back in such condition. | 5. _____ |
| 6. Any business process used to produce either a physical good or a service. | 6. _____ |
| 7. Identifies what, how much, and when materials are needed to produce the finished goods indicated in a master schedule. | 7. _____ |
| 8. The amount of raw materials, supplies, and partially completed goods used in production and the finished goods which are produced. | 8. _____ |
| 9. Shows the estimated costs of materials, labor, and overhead to produce a certain amount of goods or services in a given period of time. | 9. _____ |
| 10. Costs which change depending on the operations' activities or the level of output. | 10. _____ |

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

1. The term production operations refers to any business process used to produce either a physical good or service. 1. T F
2. Two big decisions related to the facilities used in operations, whether goods or services are involved, are location and layout. 2. T F
3. In an operations system that uses a great deal of automated, robotic technology, the robots are the most important component. 3. T F
4. One of the tasks that is always a part of job design is deciding how things are to be done. 4. T F
5. One of the differences between producing goods and services is that services, unlike goods, cannot usually be stored in inventory and distributed later. 5. T F

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

1. _____ refers to managing the process of obtaining and transforming resources to add value to them before they are output as goods or services. 1. _____
2. The _____ component of an operations system consists of all the activities involved in transforming or combining resources to create final goods or services. 2. _____
3. _____ involves identifying what tasks are to be done, how to do them, and, if appropriate, when to do them. 3. _____
4. The costs for equipment, buildings, and other things that are not dependent upon how many goods and services an organization produces are referred to as _____. 4. _____
5. Because it is usually not possible to know exactly how much of a good or service they can sell, manufacturers and producers prepare a _____, which is a prediction of the future demand for their goods or services. 5. _____

Multiple Choice Write the letter for the best answer in the space provided at the right.

1. To be precise, a person would describe the processes used to produce a service as:
a. Operations **c.** Production operations
b. Production **d.** Operations management 1. _____
2. An operations system identifies the: 2. _____
a. Goods or services to be produced
b. Processing to be done to produce goods or services
c. Raw materials and people needed to produce goods or services
d. Facilities, processing, and people needed to produce goods or services
3. The focus is on the individual doing the job rather than the job itself when job design is done using the: 3. _____
a. Service approach **c.** Behavioral approach
b. Objective approach **d.** Manufacturing approach
4. Half (50 percent) of the total use of robots by U.S. industry involves robots doing: 4. _____
a. Assembly and machining activities
b. Assembly and spot-welding activities
c. Machining and spot-welding activities
d. Machining and painting, coating, and finishing activities

5. The value added during a production process is defined as the difference between the:
- a. Fixed and variable costs
 - b. Variable costs and overhead
 - c. Processing costs and inventory value
 - d. Costs of the inputs and value of the outputs

5. _____

USING BUSINESS INFORMATION

PROJECT 18-1: More Service Operations Systems Require More Service Workers in Our Economy

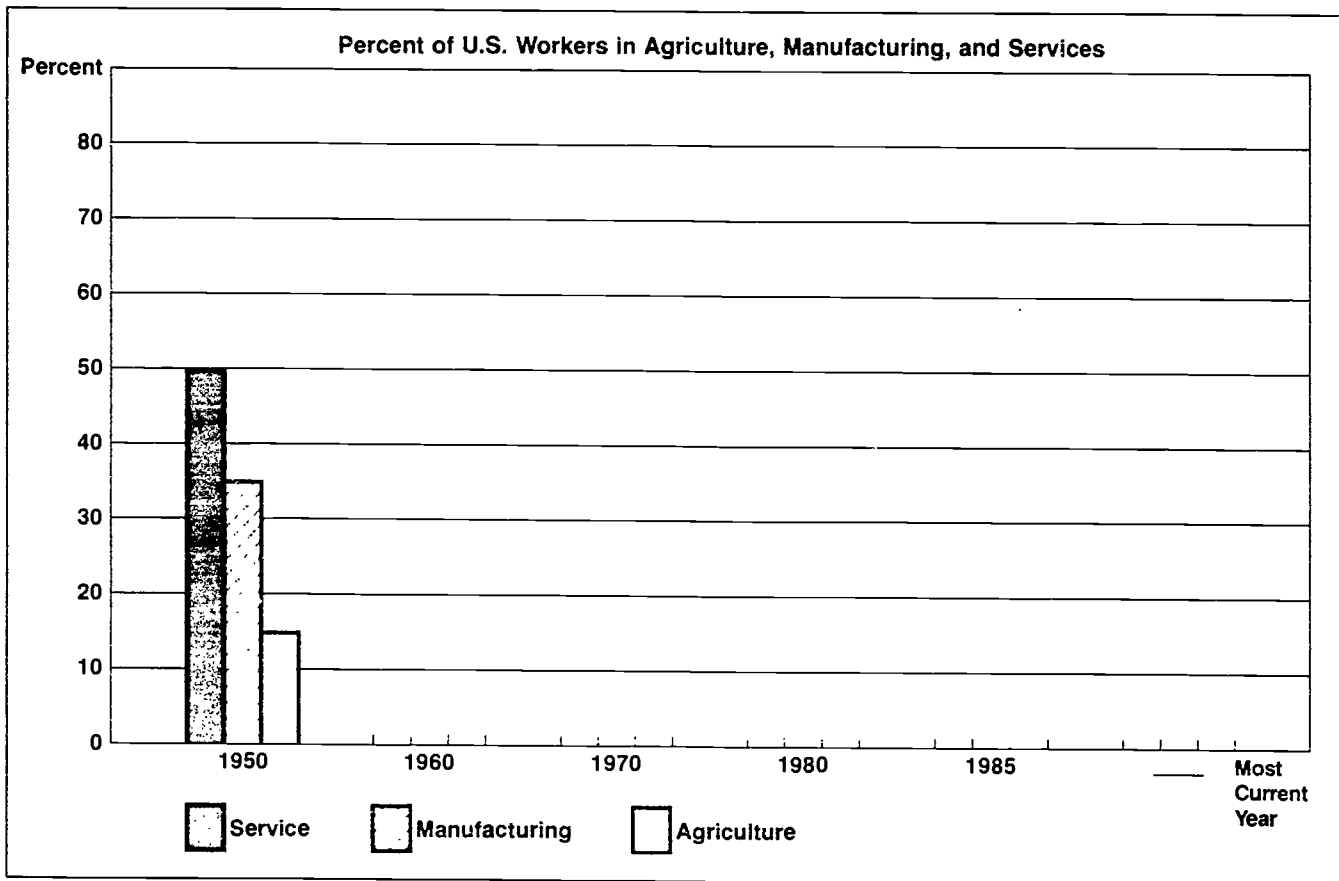
As you read in Chapter 18, organizations providing services need more human resources (people) than those producing goods. This is because the service industries usually involve transactions made more directly with individual consumers and information. Because of this and the fact that people in our society demand more services than goods today, most U.S. workers now provide services rather than produce a product. The first year that more than half of those employed in the United States worked in service jobs was 1950. Since then the percentage of service workers has grown to over 70 percent. As the percentage of service workers increased through 1980, the percentage of those working at producing goods in the manufacturing and related industries began to decline slowly. The percentage of those working at producing goods in agriculture and related industries had been declining since 1900, but it began to decline much more rapidly after 1950. From 1980 to 1985, the decline in manufacturing-related employment also quickened.

The figures for the percent of U.S. workers employed in each of three basic categories of employment are presented below for 1950, 1960, 1970, 1980, and 1985. In order to show more clearly that the service industries have needed an increasing proportion of our human resources during the past 40 years, plot these figures as a bar graph in the space provided. The figures for 1950 are plotted as an example. Then check in a current issue of *Employment and Earnings* or *Monthly Labor Review* (both are published by the Bureau of Labor Statistics) to find figures like those provided for the most current year available. Enter the year and percentage figures on the lines provided and plot the graph for these figures as well.

As shown in the example plotted for 1950, you will make a bar for each general category for each year. The Service category includes workers in all service industries such as wholesale and retail trade, finance, insurance, real estate, education, health care, and other personal and business services. The Manufacturing category includes workers in manufacturing, mining, construction, and similar goods-producing industries. The Agriculture category includes workers in agriculture, forestry, fisheries, and similar industries.

Percent of U.S. Workers in Agriculture, Manufacturing, and Services

	1950	1960	1970	1980	1985	19____ (Current)
Service	51	56	63	66	71	_____
Manufacturing	36	34	32	30	26	_____
Agriculture	13	10	5	4	3	_____



PROJECT 18-2: Supermarket Layout—Where Are the Products?

To complete this project you need to visit a supermarket in your community. Your task is to check the layout of the supermarket and draw a rough sketch showing where various things are located in the store. Your sketch should indicate where the entrance(s), exit(s), and checkout areas are as well as where any general office space and inventory storage space is located. Then you may be more detailed if you wish, but your sketch should identify where each of the following types of products are located (they may be grouped together in various ways): frozen foods, meats, dairy products, other refrigerated items, fresh fruits, fresh vegetables, bakery goods, cookies, snacks, cereals, canned vegetables and soup, canned fruit, other canned goods, spices, flour, sugars, other baking supplies, coffee, tea, pop, baby foods, pet foods, paper products, soaps, cleaners, household products, nonprescription drugs, cosmetics, and other non-food items.

When you have completed your information gathering visit, you should have a rough sketch that accurately shows the general layout of the supermarket. In the space provided in Table 18-1 on the next page, enter the supermarket's name and address on the lines at the top and then prepare a neat, carefully planned drawing showing the layout you found. Use your sketch as a guide and neatly label things, including aisle space.

Although many different types of goods are sold in supermarkets, most of the goods sold there are produced elsewhere. Therefore, supermarkets are primarily service operations that bring together products from many producers to be sold to consumers in one convenient place. Keeping this in mind, ask the

TABLE 18-1 Supermarket Layout

Supermarket Name: _____

Location: _____

Blank area for drawing the supermarket layout.



owner or a manager of the supermarket you have visited the following questions and record the answers you get in the space provided.

1. In general, why are things arranged as they are in the supermarket? Why are certain products located where they are in the store?

2. How long has the store layout been like it is now? _____
3. Has the present layout evolved slowly and gradually over a period of time or was it a major change done in a relatively short period of time?

4. What was the most recent change made in the layout of the store and why was the change made?

CASES FOR ANALYSIS AND DECISION

CASE 18-1: Introducing the Speedy Prototype Maker

An observer recently watched a new machine at work. She saw a dot of light move jerkily across the surface of a vat of liquid in a series of patterns. Several minutes later, the light disappeared and out of the liquid popped a hollow plastic ball.

The machine was developed by 3D Systems of Sylmar, California. It will let companies produce in minutes or hours models of products and parts designed by a computer. The models, called prototypes, usually take weeks or months to build.

The new prototype machine makes use of a class of plastic that solidifies when ultraviolet light strikes a liquid form of it. The process is known as photopolymerization. The plastics are currently used for such things as bathroom tiles that don't need waxing or for making report covers glossy. 3D Systems has found it can do a sort of three-dimensional printing with these new machines by using an ultraviolet laser.

The machine still has limitations. It can't produce objects larger than 1-foot square, and it can use only a limited variety of plastics. However, it produces a solid copy prototype, accurate to within 5 1,000 inch of whatever has been modeled in the computer.

With the new technology, prototypes of small items can be made in minutes; bigger ones take a few hours. Building prototypes without the new technology takes weeks or months. And, of course, if the original prototype isn't usable, it takes weeks or months to do another.

The "speedy prototype maker" has stirred excitement among some manufacturing managers. "This has the potential to revolutionize the way we do business," says Al DeWitt, an advanced manufacturing engineer at the Fisher Guide Division of General Motors Corp. He says the machine has great possibilities for making sure all the pieces of a car fit together before actual production begins. If the prototypes show that a part or tool will not fit together properly before production begins, DeWitt says "it could potentially save us months or even years and lots of dollars."

As one would expect, Ray Freed, chief executive officer of 3D Systems, is very high on the machine that will sell for about \$250,000. He hopes it will be used by companies making everything from telephones to turbines. Freed admits that a lot of software still needs to be written so that the machine can be used with all the different computer-aided design (CAD) packages on the market. Software also needs to be written so it can produce more complex models. Nevertheless, Clarence Borgmeyer, manager of computational methods at the Pratt & Whitney division of United Technologies Corp., says he thinks "it has unlimited capability."

Source: Adapted from Paul B. Carroll, "New Machine Has Possibilities as a Speedy Prototype Maker," *The Wall Street Journal*, July 31, 1987, p. 13

1. What are some advantages of creating a prototype before beginning to produce the actual product involved?

2. Do you think prototypes are created for all products? Why might they not be?

3. There were many references to cost control in Chapter 18. If operations managers are concerned with cost control, why would they be willing to pay \$250,000 for the prototype maker described in this case?

4. What factors do you think will affect the demand for the prototype maker described in this case?

5. If you were given the task of predicting the demand for the prototype maker, what would you tell Ray Freed, chief executive officer of 3D Systems?

CASE 18-2: More Interest in Operations Management Education

The operations management courses in many colleges and schools of business have been neglected and unappreciated for years. Now management education's ugly duckling is showing signs of turning into a swan.

There are several reasons for the increased interest in operations management courses. First, there are several new concepts in the field. Second, researchers are applying them in more sophisticated ways and to service industries as well as factories. And, both of these offer the promise of increased productivity—a goal that is on the minds of all business people today.

Schools have tried to update operations management material and make it more closely related to "real world" situations. To do this they have added the concepts of "just-in-time" (JIT) inventory, flexible automation such as computer-aided design (CAD) and computer-aided manufacturing (CAM), and new approaches to quality control. Guest speakers from manufacturing and service organizations are used in classes. Computer work is also a part of all classes.

The JIT approach to inventory has been used very effectively by the Japanese. It involves coordinating delivery and shipment of raw materials and finished goods with manufacturing activity to eliminate the need for carrying large amounts of expensive inventory. Reducing the need for inventory reduces costs.

Flexible automation was developed to overcome the expense and rigidity of traditional automation. New technologies such as robotics and CAD/CAM enable firms to build factories that are both flexible and automated. The automation increases their productivity, and the flexibility permits quick adjustments to changes in demand for the goods being produced.

The Japanese approach to quality control is also being emphasized. Japan has shown that producing higher quality products in the beginning actually reduces costs. The emphasis is on preventing defects from the start rather than doing a close inspection to find defects after the goods are produced. Firms that produce high quality goods do not get bogged down in costly exchanges, call-backs, or law suits that result when goods do not function properly or wear out too soon. The idea is to do it right the first time.

Finally, operations management and, therefore, operations management courses lend themselves very nicely to use of the personal computer. Today, students completing operations courses complete homework on computers and usually have personal computers in their classrooms.

"The word is getting around—you need to know operations management," says one management professor. "Operations management is not just needed in factories, the need is obvious in service industries, too," he adds. Another professor states: "Increased productivity in service industries is highly important. Seventy percent of service jobs are low pay and won't get higher pay until the jobs are made more productive. That's where management comes in."

1. What do you think is meant by the sentence "Now management education's ugly duckling is showing signs of turning into a swan?"

2. List three reasons why there seems to be an increased interest in operations management today.

3. What are three new concepts that are being introduced and discussed in operations management courses?

4. Why do you think we are borrowing ideas from the Japanese to improve operations and operations management in the United States?

5. The case reading describes what is happening in college courses in operations management. Do you think most operations managers are college graduates? Why or why not?

CHAPTER 19

Computerized Information Systems for Business

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below:

- | | | |
|---|--------------------------------|--------------------------------|
| a. application programs | g. end-users | n. information systems |
| b. central processing unit (CPU) | h. expert systems | o. input/output devices |
| c. computer program | i. expert system shell | p. program listing |
| d. data (facts) | j. hardware | q. project team |
| e. data communication | k. information | r. software |
| f. documentation | l. information center | s. system analyst |
| | m. information overload | t. systems software |

- | | |
|--|-----------|
| 1. A group of elements that work together to produce information. | 1. _____ |
| 2. The location within the MIS Department where computers and software are available for all employees in the firm. | 2. _____ |
| 3. Programs that have a specific function and are often written for a particular end-user or situation. | 3. _____ |
| 4. Contains the lines of program instructions along with comments that explain why the lines or sections were written. | 4. _____ |
| 5. Physical equipment that is used in an information system. | 5. _____ |
| 6. A condition that occurs when too much irrelevant information is generated by the information system for the problem at hand. | 6. _____ |
| 7. The heart of the computer system where the actual instructions contained in the computer program are interpreted and executed. | 7. _____ |
| 8. Programs that are not written for a specific situation but which perform general or routine functions | 8. _____ |
| 9. Information systems are built to satisfy the needs of these people. | 9. _____ |
| 10. A group of information systems personnel, who are temporarily assigned to work together on the development of an information system. | 10. _____ |



CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

1. A user manual contains the lines of program instructions along with comments that explain why the lines or sections were written.
2. A problem faced by first-line management is information overload.
3. The most common practice is to organize information management as a functional department.
4. Information system development in organizations is often backed up from three to five years.
5. Time and money have the greatest impact on the planning function of the manager of the MIS Department.

1. T F
2. T F
3. T F
4. T F
5. T F

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

1. _____ are an excellent tool for organizations that want to preserve the knowledge of retiring top-level executives.
2. Documentation can include any material that explains to the _____ how to modify or change the system.
3. The process that transmits and receives data from one device in an information system to another is called _____.
4. The _____ determines what the end-user ultimately wants to accomplish in an information system.
5. _____ is useful knowledge that is communicated accurately and understandably when it is needed.

1. _____
2. _____
3. _____
4. _____
5. _____

Multiple Choice Write the letter for the best answer in the space provided at the right.

1. Which of the following is *not* part of the hardware of an information system:
 - a. Storage device
 - b. Computer program
 - c. Central processing unit
 - d. Printer
2. "No one without a valid password can access the payroll system." is an example of a _____ found in a software system.
 - a. Rule
 - b. Procedure
 - c. Documentation
 - d. Manual
3. The following are all part of the software of an information system. Which one is responsible for handling names and addresses on a mailing list?
 - a. Systems software
 - b. Documentation
 - c. Program listing
 - d. Application program
4. All of the following are functions or tasks that exist in information system management except for:
 - a. Directing
 - b. Monitoring
 - c. Planning
 - d. Controlling

1. _____
2. _____
3. _____
4. _____

5. Which of the following describes a condition that exists at the organizing stage of information system management:
- Constant interaction with many departments
 - Information overload
 - Limited information resources but unlimited requests for systems
 - System development stays on schedule

5. _____

USING BUSINESS INFORMATION

PROJECT 19-1: Analysis of Costs Saved by Installing an Office System

Rita Jones is the office manager at the Quest Company. Last year, largely through her efforts, the Quest Company purchased the hardware and software necessary to connect all of the offices at the corporate headquarters. Rita and her office automation team analyzed the needs of the firm and targeted the software and hardware to meet the needs of the office staff in order to reduce costs. After a thorough training period, the office staff adapted quickly to the new system.

One year later Rita must gather data that will show whether the new system is indeed saving the company money. When Rita and her team first proposed the system, they targeted the main areas of saving as:

- The ability of the office personnel to communicate with customers and each other by computer rather than through letters and long telephone conversations.
- Reduction of photocopying because more files would be stored on computer disks (storage devices) rather than on hard copy (paper).
- Reduction in the number of clerical workers who formerly handled paperwork and filing.
- The reduced cost of storing records on disks instead of vast amounts of paper records.
- Reduction in paper costs.
- Lower costs of printing because the desktop publishing software would produce professional looking material without sending it to a printer.
- Reduction in the need for managers who formerly supervised the large number of clerical workers.

As Rita interviewed the various managers and staff at Quest she noted the following:

Photocopying costs have decreased from \$4,400 before the system was installed to \$3,500 today. The cost of management salaries remained the same—\$50,000. Real savings occurred in the communications area. Office staff could handle consumer orders more quickly and accurately because basic information was stored in the computer. This information could be organized in such a way that an operator could call up the customer file, answer questions, and take orders more efficiently. Costs were also reduced in the time that it would take to type interoffice communications. Messages can now be transferred from computer to computer. Reduction in errors and time expended has reduced costs from \$45,000 to \$37,000 since the system was installed. Since one person can now handle more orders and correspondence, the clerical staff costs went from \$325,000 to \$280,000. The desktop software reduced printing costs during the past year from \$10,000 to \$9,000. The cost of storage was also reduced from \$5,500 to \$5,000. This reduction occurred through the reduction in cost in filing sys-

tems and floor space which could be utilized for other purposes. Finally, there was a dramatic decrease in the amount of paper used by Quest. The cost reduction went from \$15,000 to \$11,000.

1. In the spaces provided in Table 19-1, summarize these changes in costs. The column headings have been prepared for you. Organize the material so that the percentage changes are listed from the highest to the lowest. Then answer questions 2 to 4 on a separate sheet of paper.

Area of Saving	Pre-System Cost	Post-System Cost	Dollar Change	Percent Change (rounded)

2. What is the total dollar saving for the system? The percentage?
3. Do these figures mean that the system is a good investment? Defend your answer.
4. Do these figures mean that employees are more efficient than they were before the system was installed? Defend your answer.

PROJECT 19-2: Management Level and the Need for Information

Information is useful knowledge when communicated accurately and understandably when it is needed. The characteristics of information are often called information attributes. Managers on all levels need information, but they do not need the same information in the same way. The diagram below shows some information attributes and the most effective form for each level of management. Answer questions 1 to 7 on a separate piece of paper.

Attribute of Information	Management Level		
	First Line	Middle Management	Top Level
	Range of Information		
1. Origin	Internal	←————→	External
2. Scope	Detailed	←————→	Summary
3. Accuracy	Exact	←————→	Approximate
4. Timeframe	Past	←————→	Future
5. Frequency	Often	←————→	Occasional
6. Timeliness	Current	←————→	Delayed

1. Why does the top-level manager rely on information that projects into the future?
2. Why does the first-level manager rely on detailed information in carrying out the projects initiated by top levels of management?
3. Why is current information so important to the first-level manager while top-level managers can tolerate some delay in the same type of information?
4. According to the table, how do the attribute ranges apply to the middle manager?
5. Apply the six attributes of information to a budget. Describe how the lower range of needs apply to the first-level manager. Use Table 19-2 below.

TABLE 19-2	
Origin	
Scope	
Accuracy	
Timeframe	
Frequency	
Timeliness	

6. How does the attribute of accuracy apply to a computer program which will generate a report for first-level management compared to the same report for top-level management?
7. A computer generated work schedule and a balance sheet are two reports found in a manufacturing firm. Which type of manager would find each report more useful? Why?

CASES FOR ANALYSIS AND DECISION

CASE 19-1: Tearing Down the Information Center

The Value Foods Corporation established an information center (IC) three years ago when the company bought large numbers of personal computers for its

managers. Thirty computer experts were gathered together to fulfill this function. The center was established to:

- Make sure that end-user policies, standards, and procedures were consistent throughout the firm.
- Select end-user tools for use in the organization.
- Maintain a strong connection between users and the MIS Department.
- Manage and control the efficient use of computer resources.

The IC supported 1,500 users who were employees in marketing, manufacturing, accounting, and human resources. The services of the IC were in great demand as soon as the doors were opened.

In three years, over 1,000 computers and 1,700 software packages were introduced into the business in an orderly manner. Almost 700 employees received training during this period. A very popular service was the "hotline" established by the IC. Users just had to pick up the phone and call for help with their computer problems.

After three years the IC director was asked to evaluate the progress of the department and to forecast the future. It gave him pleasure to think about the success of the IC. Many users were applying the computer to complex problems without any help from the IC. It made the manager wonder what the IC would do for an encore. The manager did prepare a plan for the next three years which included expansion of the services offered and increases in the cost of operating the IC.

When the management committee from the functional areas met to discuss the budget, they decided that the cost of the IC would not add that much more to the profits of the company. It then became the IC director's job to dismantle the IC. This meant that the functions of the IC would be transferred back to the functional areas.

Taking the IC apart is more than just dismantling the temporary walls of the department and shutting off the phones. The director had to make several key decisions to allow for a smooth transition.

1. Where will the functions of the IC be transferred to in this organization?

2. What types of services will still need to be performed after the IC is taken apart?

3. What is the best approach for handling employees who have been part of a team for the past three years?

4. How should end-users be prepared to handle the elimination of the IC?

5. How should the IC shutdown be implemented for a smooth transition from the old to the new system?

CASE 19-2: Automating the Sales Force

Meg Largo, the MIS manager for the ARCO Corporation, was given a new challenge. At its most recent meeting, the steering committee for sales and marketing decided that the sales force would be more productive if it used laptop computers.

The decision was the result of a study of sales support. Salespersons complained that they spent more time with their paperwork than they thought worthwhile. They also felt cut off from the main office when they were on the road. They wanted speedier order entries, checks on the status of orders, and a more accurate method of keeping track of sales calls. If their work in the field could be entered into computers and transmitted to the main office, they felt that time would be saved, accuracy would be improved, and reporting would take less time.

The steering committee's recommendation for \$5,000 to \$7,000 to be spent on each salesperson was approved by top management. Meg's job was to make it work to achieve the steering committee's goal—to pay off the investment in under two years.

1. Describe some of the planning steps Meg must implement in order to make the project successful.

2. Describe some of the considerations Meg must allow for in organizing the project.

3. What are some techniques Meg will use in directing the project?

4. What techniques will Meg use to control the project?

CHAPTER 20

Careers in an Information Economy

STUDY GUIDE

KEY TERMS

Matching Write the letter of the term that best fits each of the following descriptions in the space provided below.

- a. application letter
- b. attributes
- c. inquiry letter
- d. KASH
- e. knowledge
- f. résumé
- g. skills

- 1. A letter document submitted to an employer who advertises a job opening. 1. _____
- 2. A non-letter document that is enclosed with no. 1 above. 2. _____
- 3. Representative work and social values and attitudes. 3. _____
- 4. Obtained from formal and informal study in academic studies and on various issues and topics. 4. _____
- 5. The ability to do something, based on training and experience. 5. _____

CONCEPTS REVIEW

True or False Circle T or F for the correct answer.

- 1. People establish a career-goal plan to help them identify what jobs and careers they want and how to get them. 1. T F
- 2. A career self-assessment is conducted to identify what one is looking for in a marriage companion. 2. T F
- 3. The inquiry letter is another name for the application letter that job applicants write. 3. T F
- 4. The thank-you letter, following a job interview, is one means of reminding the interviewer that the interviewee is still interested in the job. 4. T F
- 5. The résumé includes much of the same data that's asked for on the job application. 5. T F

Fill-Ins Write the missing word or words that best complete each statement in the space provided at the right.

1. The _____ is an important document that job applicants prepare because it lists education, work experience and references.
2. If a person is not interested in following a career ladder or lattice, then he or she is likely to just _____ on the first job where hired.
3. Jobs in the information sector include technical and professional workers, supervisors and managers, and people handlers and information _____.

1. _____
2. _____
3. _____

Multiple Choice Write the letter for the best answer in the space provided at the right.

1. Skills that are universally needed in business by just about all employers include the ability to:

a. Use a cash register	d. All of the above
b. Use language correctly	e. None of the above
c. Repair equipment	
2. The job-search documents include:

a. The career-ladder plan	d. All of the above
b. The career-lattice plan	e. None of the above
c. The career-goal plan	
3. Attributes needed in business include:

a. Responsibility and dependability	d. All of the above
b. Organization and time management	e. None of the above
c. Poise, honesty, and loyalty	
4. Ideas you can use in the job interview do *not* include:

a. Dressing in business clothes and getting there on time
b. Practicing to use the language correctly
c. Acting like you do with close friends because that's the kind of person that they'll be hiring and will have to work with
d. All of the above

1. _____
2. _____
3. _____
4. _____

USING CAREER INFORMATION

PROJECT 20-1: Identifying Trends in the Job Market

The occupations shown in Table 20-1, on page 161, appear in no particular order. Using information provided in the table, answer the questions below.

1. Which occupation has the highest percentage of change?

2. Why do you think it is important to look at both the numbers and the percentage of change?

TABLE 20-1		
Occupation	Number of New Jobs	Percent Change
Retail sales	1,200,000	33
Nursing	612,000	44
General manager	604,000	23
Cashier	575,000	26
Office clerk	462,000	20
Paralegal	64,000	104
Data processing equipment repair	56,000	81
Systems analyst	251,000	76
Medical records processor	30,000	75
Employment interviewer	54,000	71
Computer programmer	335,000	70

Source: Hayes Cohen, "Where the New Jobs Will Be, 1988-2000," *Business Week*, August 10, 1987, p. 50.

3. Based on the information provided—both numbers and percentages—what conclusions can be drawn about the types of occupations that are growing and declining in the U.S. business economy?

PROJECT 20-2: Using Attribute and Personal Information

1. For each pair of work and social/interpersonal attributes that follow, choose the *one* you would prefer to have a reference person say about you in a letter of recommendation for your job application.

For each pair of attributes, circle the attribute of your *first* choice.

- | | |
|-------------------|---------------|
| 1. a. accurate | b. courteous |
| 2. a. honest | b. articulate |
| 3. a. organized | b. loyal |
| 4. a. honest | b. accurate |
| 5. a. courteous | b. organized |
| 6. a. articulate | b. loyal |
| 7. a. organized | b. accurate |
| 8. a. honest | b. loyal |
| 9. a. accurate | b. articulate |
| 10. a. honest | b. courteous |
| 11. a. articulate | b. organized |
| 12. a. courteous | b. loyal |

2. For each attribute listed below, count and record the number of times that this attribute was circled in the list on page 161:

Work Attributes

Social/Interpersonal Attributes

Accurate: _____

Courteous: _____

Articulate: _____

Honest: _____

Organized: _____

Loyal: _____

Total: _____

Total: _____

3. As noted above, would you say you are more work-attribute oriented or more social/interpersonal-attribute oriented?

Why? _____

Analysis and Discussion. If you circled more work attributes than social attributes, you might be content with a job that involves few if any people contacts, whether with coworkers or outsiders such as customers and suppliers. If you circled more social attributes than work attributes, you'll probably get a lot of job satisfaction from a job that brings you in frequent contact with others.

All of the attributes that appear in this project, as well as those on page 434 in the text, are important to business owners, management, and the personnel directors who read job-application documents and interview potential workers. High on the list of attributes they look for are honesty and loyalty, for a number of reasons.

In addition to being honest and loyal a good employee is accurate, organized, courteous, productive, responsible, and so on. (See the full list of work and social attributes on page 434 of the text.) Thus the honest loyal worker will also work hard to demonstrate dependability and productivity by being accurate, articulate, and organized as well.

Each year U.S. businesses lose as much as \$40 billion to employees who steal. The U.S. Department of Commerce estimates that of businesses that failed in recent years, employee theft was listed as the major cause in 34 percent of the cases. Internal (employee) theft reduces the money and other resources available on which to operate and pay expenses. Good and loyal employees make wise use of time, supplies, and information. They know these and other resources are as valuable as money; therefore they do not "steal" them.

To protect their profit margins, many hard-hit companies have resorted to routine polygraph screening of job applicants. However, the scientific validity of these devices has never been proved. Therefore, Congress has banned employers from using polygraph tests, voice-stress analysis, and other electronic methods to screen job applicants.

During a job interview, however, you could be asked to take a paper and pencil test or to submit your handwriting for analysis to determine if you are an honest person. "There's a tremendous disagreement about whether you can even measure honesty," says Wayne Camara. Mr. Camara develops testing standards for the American Psychological Association. But no one disputes that when honesty is missing, the effect on business can be extremely expensive.

Compare two sides of the honesty issue, from that of the job applicant being asked to respond to an honesty test or from the employer's view. In the space provided below, state your opinions about one or both sides of the issue.

CASES FOR ANALYSIS AND DECISION

CASE 20-1: Economic Study of Job Trends

With the United States losing its share of the world market in manufacturing, mining, and agriculture, people have started to ask questions about job trends.

To get answers, the U.S. Labor Department commissioned the Hudson Institute (Indianapolis) to conduct some research. The results were published in *Workforce 2000*. Following are some of the most striking conclusions:

- The average standard of living will be rising.
- The least skilled members of the work force will not be able to find nearly as many jobs as they once could.
- The income-distribution gap will widen between the "haves" and the "have-nots." (In this case, the "haves" are those with education and technical training; the "have-nots" are those without.)
- An estimated 25 million entrants to the labor force will be needed by the year 2000. Most of these workers will be nonwhite, female, or immigrants.
- White males, who now constitute 47 percent of the labor force, will account for only 15 percent of the entrants to the labor force by the year 2000.
- Economists estimate that the U.S. economy will grow at an annual rate of 2.9 percent, compared with 3.1 percent for the rest of the world.

The report also provided some predictions and recommendations; namely, that:

- The economic shift to information and services like health care, education, retailing, government, and information processing will have to provide most of the new jobs.
- Manufacturing jobs will continue to decline as productivity gains wipe out jobs. Thus, manufacturing can be expected to decline as a share of gross national product (GNP).
- Efforts need to be made to increase the interest in and of older workers, since senior citizens tend to be less mobile and adaptable than the young.
- Means should be found to reconcile the needs of women, work, and family, with policies on pay, benefits, time off from work, pensions, and welfare (Most of the existing policies were designed for a society in which men worked and women stayed home.)
- Black and Hispanic workers need to be fully integrated into the economy, since an investment of education and training are critical; if, that is, we are to create "real equal employment opportunity."

1. Debate issues, take roles, or work cooperatively to present a panel discussion covering the issues addressed in this case. For example, consider the following questions:

- What bearing do education and technical or information-processing training have on the ability to get a job?
- Does it matter what kind of job a person gets? Or is it important to get a job that pays enough to support one's preferred economic standard of living (lifestyle)? Also, is it important to consider what personal satisfactions can be derived from the job?
- Should young people be interested in making short- and long-range career plans when they are still in school? Why or why not?
- Should young people worry about and/or work toward getting changes made in the job place regarding such things as day-care centers and benefits for women and minorities? Why or why not?

2. As a member of the audience, evaluate the performance of the people who played the roles or made presentations on the basis of the following criteria and using this code: Good = +; Fair = $\sqrt{}$; Poor = -

- a. Business dress and businesslike behavior _____
- b. Use of correct language and vocabulary _____
- c. Logic and common sense used _____
- d. Persuasiveness of the presenter(s) _____
- e. Intelligent questions asked _____
- f. Questions intelligently answered _____

CASE 20-2: Praise, Recognition, and Job Contracts

According to a professor of management at the University of Denver, "Praising a subordinate for a job well done is one of the cheapest but most rewarding of business tools." Yet many managers seem unable to pat their employees on the back. Instead, managers often see themselves as problem solvers, with little or no time for giving praise.

Men and women in the workplace have equal needs for praise but, according to some career experts, "men are conditioned not to expect it as much." Other observers suggest that because men are more likely to get praise from their wives, daughters and secretaries, that they are not as aware of this need for recognition as are women. Some experts even suggest that women are more likely to get criticism than men; therefore praise and recognition are of more importance to them.

Back in the early 1980s, the growing numbers of women workers in the labor force—particularly at the management level—surprised a lot of career analysts. Back then, researchers had thought that what makes a woman feel good about herself are marriage and children. Not so, said a major study of women that appeared in 1983. Like men, women also thrive on work and achievement. But, they also want praise and recognition for their accomplishments.

More recently, women finally started breaking through those difficult-to-climb top rungs of the business and management career ladder. Most of these women are white; however, minority women and men alike are also climbing the ladder to success. On the other hand, with the continuation of subtle discrimination, statistics show that in entrepreneurship both women and minorities are making fast inroads. They leave big business to start their own businesses.

For those who remain in the corporate world, whether white or minority and whether male or female, career experts recommend that managers and executives get a job contract. However, a contract is a two-way street. It usually involves limitations as well as rights. So, experts recommend that you negotiate

each detail carefully. For example, if the contract limits where you can work and for whom (location and the competition), get specific details.

In considering the decision to switch jobs, ask yourself these questions:

- How much risk will I face in changing companies?
- Is the company or industry changing rapidly, so that its products or services (or I) might become obsolete?
- Will I be moving to a geographic area where other job opportunities are limited?
- Will I lose retirement benefits by changing companies?

Sources: Leonard Silk, "Job Study Foresees Wider Income Gap," *The Arizona Daily Star*, January 8, 1988, p. 9 (taken from *The New York Times*); Jeffrey Leib, "Praising Workers Often a Chore for Managers," *Denver Post*, May 8, 1988, pp. G-1 and G-7; Laurie Baum, "Corporate Women," *Business Week*, June 22, 1987, pp. 72-78, and Grace Baruch, Rosalind Barnett, and Caryl Rivers, "Happiness is a Good Job," *Working Woman*, February 1983, pp. 75-78.

1. Debate issues, take roles, or work cooperatively to present a panel discussion, covering the issues addressed in this case. For example, consider the following questions:

- a. What trends and issues are likely to face women and minorities in the job market?
- b. How do white males feel and what do they think about work trends that appear to address the needs of women and minorities as opposed to the needs of white males?
- c. What preferences are represented (by presenter members) with regard to looking for jobs in big business versus small business?
- d. What significance does a job contract have on the interests and needs of management employees compared to the interests and needs of the corporation and its executives?
- e. What are the income and job satisfactions to be derived from climbing the corporate ladder to management compared to owning one's own business?

2. As a member of the audience, evaluate the performance of the people who played the above roles on the basis of the following criteria and using this code: Good = +; Fair = √; Poor = -

- a. Business dress and businesslike behavior _____
- b. Use of correct language and vocabulary _____
- c. Logic and common sense of the presentation _____
- d. Persuasiveness of the presenters _____
- e. Intelligent questions asked _____
- f. Questions intelligently answered _____

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