

Chapter 2: Business Ethics and Social Responsibility (31-44)

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*Cirque du Soleil: A Class Act in Social Responsibility

-Community:

- One Drop Foundation: provide sanitation and access to water to countries in need
- Project Haiti: began after the 2010 earthquake
- Cirque du Monde: helps at-risk youth to regain their self-confidence

-Environment:

- Build its Montreal headquarters on a recovered landfill
- Installing rainwater collection basins in the parking lot, seventh floor
- Replacing plumbing fixture with low-flow model
- Operating in an environmentally responsible manner in the cities it visits

-Workplace:

- No dress code
- Staff can watch the practice and result of their effort behind the scenes
- Relax on couches, have lunch from low-cost cafeteria

-Suppliers:

- Reduced its deliveries to tour destinations
- Groups its inbound shipment to warehouses
- Ensure buyers select environmentally friendly material

-Business partners:

- Made social responsibility a requirement when selecting partners
- Built social responsibility clause into all partnership agreements

2.1. Explain the concepts of business ethics and social responsibility:

-Business Ethics: standards of conduct and moral values regarding right and wrong actions in the business environment.

-Corporate Social Responsibility (CSR): enhances society's well-being through philosophies, policies, procedures, and actions.

-Businesses have responsibilities to customers, employees, investors and society.

-Ethical conflicts arise because businesses must balance doing what is right and doing what is profitable.

2.2. Describe the factors that influence the business ethics:

-Many factors shape individual ethics, including:

- personal experience
- peer pressure
- organization culture
- family, cultural, and religious standards
- the culture of the workplace

-Factors influence the ethical environment of a business:

- Individual ethics
- Technology

-Ethics compliance officers must discourage wrongdoing and ensure that ethical standards are met

-Most common ethical challenges that businesspeople face:

- Conflict of interest: a situation in which an employee must choose between a business's welfare and personal gain
- Honesty and integrity: behaving according to one's deeply felt ethical principles in business situations
- Loyalty versus Truth: when the truth about a company is not favorable
- Whistle-Blowing: disclosure to company officials, government authorities, or the media of illegal, immoral, or unethical practices committed by an organization

2.3. Discuss how organizations shape ethical behavior:

-A corporate culture that supports business ethics develops on four levels:

- Ethical awareness: the foundation of an ethical climate
 - Code of conduct: a formal statement that defines how an organization expects its employees to resolve ethical issues
- Ethical reasoning (education)
- Ethical action
- Ethical leadership
 - Stakeholders: customers, investors, employees, and public affected by or with an interest in a company

2.4. Describe how businesses' social responsibility is measured, summarize the responsibilities of business to the general public, customers, and employees.

-Social responsibility: business's consideration of society's well-being and consumer satisfaction, in addition to profit.

-Social audits: formal procedures that identify and evaluate all company activities that relate to social issues, such as conservation, employment practices, environmental protection, and philanthropy.

-Business's Social Responsibilities:

- To the General Public:
 - Public health issues:
 - Tobacco, alcohol
 - Heart diseases, diabetes and obesity
 - Substance abuse

Chapter 2 Pages 45 – 57 (No Contributor) ☹

Chapter 7 Pages 183 – 195

Saadat Hussain

WHAT IS MANAGEMENT?

- **Management** is the process of achieving organizational goals through people and other resources
- The manager's job is to combine human and technical resources in the best way possible to achieve a company's goals
- Management principles apply to both for-profit and not-for-profit

The Management Hierarchy

- Loblaw is Canada's largest food distribution company
 - Operates more than 1000 grocery stores across Canada
- All managers of a corporation combine human and other resources to meet the corporations goals
 - But each managers job differs because they work at different levels of the corporation
- A firm's management usually has three levels which for the management hierarchy:
 1. Top
 - Spend most of their time developing long-range plans for the organizations
 - Decide whether:
 - Introduce new products
 - Purchase other companies
 - Enter new geographical markets
 - Set a direction for the organization
 - Inspire company's executives and employees to achieve their vision for the company's future
 - Many need to steer the firms through economic downturns, sales slumps, and a crisis in quality
 2. Middle
 - Focus their attention on specific:
 - Operations
 - Products
 - Customer groups
 - Develop detailed plans and procedures to carry the firm's strategic plans

- Are more familiar with day-to-day operations than CEOs

3. Supervisory

- Also known as first-line management
- Assign specific jobs to non-managerial employees and assess their performance
- Work directly with employees who produce and sell the firm's goods/services
- Carry out middle manager's plans by motivating employees to accomplish goals

Skills Needed for Managerial Success

- Managers in all levels of the hierarchy use three basic skills:

1. Technical

- Manager's ability to understand and use the techniques, knowledge, tools, and equipment of a specific department or area of study
- Especially important for first-line managers
 - It less important for higher level managers
 - Most top executives started out as technical experts

2. Human

- Interpersonal skills that help managers to work efficiently with people
- Human skills include the ability to communicate with, motivate, and lead employees to complete their job
- Human skills are used by managers to interact with people both inside and outside the organization

3. Conceptual

- Help managers to see the organization as a single unit and to understand how each part of the overall organization interacts with other parts
- Can see the bigger picture by acquiring, analyzing, and interpreting information
- Especially important for top-level management

Managerial Functions

Planning

- **Planning** is the process of looking forward to future events and conditions and deciding on the courses of action for achieving organizational goals
- Allows business to focus its vision, avoid costly mistakes, and seize opportunities
- Planning should be flexible and responsive to changes in the business environment
- It should also involve managers from all levels of the organization
- Planning for the future is becoming more important because competition is getting stronger, technology continues to expand, and firms are bringing new innovations to the market faster

Organizing

- **Organizing** is the process of blending human and material resources through a formal structure of tasks and authority: arranging work, dividing tasks among employees, and coordinating them to ensure plans are carried out and goals are met

Directing

- **Directing** is guiding and motivating employees to accomplish organizational goals
- Directing can include:
 - Training (or retaining)
 - Setting up schedules
 - Assigning tasks
 - Monitoring progress

Controlling

- **Controlling** is the function of accessing an organization's performance against its goals
- Has 4 basic steps:
 1. Setting performance standards
 2. Monitoring actual performance
 3. Comparing actual performance with standards
 4. Making corrections if needed

SETTING A VISION AND ETHICAL STANDARDS FOR THE FIRM

- A business begins with a **vision**
 - The ability to perceive marketplace needs and what an organization must do to satisfy them
- A company's vision must be:
 - Focused
 - Flexible enough to adapt to changes in the business environment
- The ethical standards set by top management are important to a firm's long-term relationship with its:

- Customers
- Suppliers
- General public
- Ethical standards can be created to:
 - Comply with industry or federal regulations
 - Safety or quality standards
 - Following an unethical wrongdoings by managers
 - Accounting fraud that led to the Sarbanes-Oxley Act
- Ethical tone set by top managers can lead to financial and non-financial rewards
- Setting a high ethical standard does not just keep employees from wrongdoings, but also motivates them to achieve their goals
 - This satisfaction creates a more positive and productive work environment
 - This creates a long-term competitive advantage for the firm
- Ethical decisions are not always clear
 - They require managers to make very difficult decisions
- It is harder for smaller organizations to adapt to ethical standards in comparison to larger corporations
- Mattel is named one of the World's Most Ethical Companies
- Business performance and profitability have a direct correlation with a organization's ethical code
- Organizations can suffer lost revenues and other support when taking an ethical stance on an issue

IMPORTANCE OF PLANNING

- Good planning can turn a vision into a reality

Types of Planning

- Planning can be categorized by:
 - Scope or how widely the plan affects other factors
 - Breadth or how far into the future the plan extends
- Planning can be divided into 4 categories:
 - a. Strategic
 - b. Tactical
 - c. Operational
 - d. Contingency

Strategic Planning

- The most far-reaching form of planning
- The process of deciding on the primary objectives of an organization and then taking action and setting aside resources to achieve these objectives

- Generally done by top executives of the organization

Tactical Planning

- Involves carrying out the activities set out in the **strategic plans**
- Guide the current and short-term activities required to carry out the overall strategies

Operational Planning

- Sets the detailed standards that help to carry out tactical plans
- Involves choosing specific work targets and assigning employees and teams to carry out plans
- Develops and carries out tactics in specific functional areas

Contingency Planning

- The most well developed plans may face unforeseen obstacles
- Organizations use **contingency planning** to handle these disruptions and obstacles
- Helps firms to resume operations rapidly and seamlessly following a disruption or obstacle
- Actively involves 2 components:
 - a. Continuing the business
 - b. Communicating to the public
- Usually outlines a chain of command for crisis management and assigns specific emergency functions to some or all of the management and employees

Planning at Different Organizational Levels

- Top level management (including the Board of Directors) spend time on long-range planning
- Middle-level managers and supervisors spend time on short-term, tactical, and operational planning
- Employees at all levels can help themselves and the organizations by making plans to meet their own specific goals

THE STRATEGIC PLANNING PROCESS

Defining the Organization's Mission

- The first step in strategic planning is to translate the firm's vision into a **mission statement**
 - A written description of an organization's overall business purpose and aims
 - A firm's reason for being
- A good mission statement states the firm's purpose for being and the business' overall goal
 - The most effective mission statements are those that people remember

Assessing Your Competitive Position

- The next step following the creation of a mission statement is to decide on the firm's current (or hoped for) position in the marketplace
- The **SWOT analysis** is a tool used in this stage by top managers to assess factors that can make the company prosper or fail
 - Abbreviation for strengths, weaknesses, opportunities, and threats
 - By assessing all 4 factors one by one, a firm can then develop the best strategies for gaining a competitive advantage

Setting Objectives for the Organization

- The next step in planning is to develop **objectives** for the firm
 - The targets that managers use to plan for the organization's hoped-for performance
 - These objectives can relate to such areas as new-product development, sales, customer service, growth, environmental and social responsibility, and employee satisfaction
- Objectives are more specific in comparison to a mission statement

Creating Strategies for Competitive Differentiation

- The mission statement and objectives propel the business in a certain direction
- The firm also needs to decide on the strategies it will use in order to reach its specific direction
- The basic goal of developing a strategy is **competitive differentiation**
 - The unique mix of a company's abilities and resources that set it apart from its competitors
 - For example, a firm may differentiate itself by introducing a new product to the market

Implementing the Strategy

- The middle managers and supervisors are often the ones who implement a strategy
- Studies show that many top company officials don't want to give these managers the power to make decisions that could be helpful for the company
 - Companies that are willing to empower employees, usually profit from the decision
- Many firms have a strategy of cutting costs and maintaining a high level of customer service
 - An example is cross-training call centre employees

Monitoring and Adapting Strategic Plans

- Monitoring involves gathering feedback about performance
- Managers might:
 - Compare actual sales to forecasted sales
 - Compile information for surveys
 - Interview employees that are involved
 - Listen to customer complaints
 - Review reports from various business functions
- Managers can continue to use SWOT analysis and forecasting to help adapt their objectives and functional plans as changes occur

MANAGERS AS DECISION MAKERS

Programmed and Non-programmed Decisions

- A **programmed decision** involves simple, common, and frequent occurring problems that already have solutions
 - Ordering office supplies, renewing a lease, etc.
 - Made in advance
 - Firm sets up rules, policies, and procedures to follow on a routine basis
 - Saves time and money because new decisions don't have to be made every time the situation arises

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Jessie Zhang

- 5 Turn strategy into action
 - Carried out by middle and supervisory managers
- 6 Evaluate results and refine the plan
 - a) Monitor and adapt plans when the actual performance fails to meet goals.
 - b) Gather feedbacks about performance
 - c) Compare actual sales against forecast sales

Managers As Decision Makers

Decision-making: the process of seeing a problem, assessing possible solutions, selecting and carrying out the best-suited plan, and assessing the results.

- Programed decision: frequently occurring problems that already have solutions.
- Nonprogrammed decisions: involves a complex and unique problem or opportunity and has important results for the organization
 - i.e. entering a new market, developing a new product.
- How managers make decisions
 - See problem → develop possible solutions → evaluate options → select and carry out one option → assess outcome

Managers as Leaders

Leadership: the ability to direct or inspire people to reach goals

- Manager's 3 personal qualities:
 - Empathy
 - Self-awareness
 - Objectivity
- Leadership styles
 - Autocratic: single person makes the decision, no employees involved in the process
 - Democratic: includes employees in the decision-making process
 - ◆ Outcome: **empowerment:** giving employees shared authority, responsibility, and decision-making with their managers
 - Free-rein: minimum supervision
 - ◆ Communicate with employee frequently

Corporate Culture

Corporate culture: an organization's collection of principle, beliefs, and values

- Influenced by the leadership style of its manager
- Managers sometimes use symbols, rituals, ceremonies, and stories to strengthen a corporate culture.
- Corporate cultures can be very strong and lasting. But sometimes they need to change to meet new demands in the business world.

Organizational Structures

3 elements of organization: human interaction, goal-directed activities, structure

- An effective structure is clear and easy to understand: everyone knows what their tasks are
- **Departmentalization:** the process of dividing work activities into units within the organization.
 - In this arrangement, employees specialize in certain jobs—such as marketing, finance, or design.
 - Product departmentalization: organized work units based on the goods and services
 - ◆ *The videogame publisher, Activision Blizzard Inc. is now divided in to four divisions: “Call of Duty”, “Guitar Hero” etc.*
 - Geographical departmentalization: organizes units by geographical regions with a country by region
 - ◆ *Rent-A-Car staffing 7000 rental locations in the US, Canada, Germany, Ireland and England*
 - Customer departmentalization: used by a firm that offers a variety of goods and services for different types of customers.
 - ◆ *3M: products is divided among six business units: consumer and office; display and graphics; electro and communications; healthcare; industrial and transportation; and safety. Security, and protection services.*
 - Functional departmentalization: organize work units according to business functions, such as finance, marketing, human resources, and production
 - Process departmentalization: some goods and services require multiple work processes to complete their production
 - ◆ *A manufacture may set up separate departments for cutting, heating, shaping*
- Delegating work assignments
 - **Delegation:** the managerial process of assigning work to employees
 - ◆ **Span of management:** the number of employees a manager supervises. First line managers have the widest spans of management
 - ◆ **Centralization** (keeps decision-making at the top of the management hierarchy) and **decentralization** (shifts decision-making to lower levels)
- Types of Organization Structure
 - Line organizations
 - ◆ Best for small organization and crisis situation
 - ◆ Oldest and simplest organization structure
 - ◆ Direct flow of authority from the chief executive to the employees. Effective in crisis situation
 - ◆ Downside: each manager incharges a variety of functions, the managers can’t be an expert in all.
 - Line-and-staff organizations
 - ◆ Best for middle and large size organizations
 - ◆ Staff department supports line departments
 - Staff department: engineer, accounting, human resource departments. They support the line managers by providing information. No authority outside of their own department
 - Committee organizations
 - ◆ Best for new product development as it is diverse

- ◆ Places authority and responsibility in a group of individuals, not a manager. Often appears as part of line-and-staff structure
 - i.e. a new product committee may include managers from accounting, engineering, finance, and manufacturing
 - Downside: slow, everyone in the committee has to come to consensus
- Matrix organizations
 - ◆ Best for high-technology and multinational corporations, hospitals
 - ◆ Links employees from different parts of the organization who work together on specific projects
 - ◆ Each employee reports to two managers: line and project managers. Employee receives order from project managers while continuous as employees in their permanent functional departments
 - ◆ Very flexible when it comes to adapt to rapid changes in the environment
 - ◆ Challenges project managers to make a diverse but coordinate team
 - ◆ Functional managers must adjust the employees' regular workloads

Chapter 9 Pages 239 - 257

Kayla Seto

Overview

- Teamwork and communication = essential
 - Empowers employees to perform their best
- More firms rely on teams of workers – not individuals to make decisions and carry out assignments
- Effective communication helps workers share information that improve quality of decision making

EMPOWERING EMPLOYEES

- Empowerment: giving shared authority, responsibility and decision making to employees (from managers)
 - Combines ideas of all workers to find better ways of doing job
 - Frees managers from hands-on control of workers
 - Motivates workers by adding challenges in job
 - Gives feeling of ownership to workers
 - Managers empower by sharing company information and decision making authority – and rewards for their performance (and company's)

Sharing Information and Decision Making Authority

- Most effective way of empowerment (by sharing company's financial performance)
- Intranet used to post financial information (open-book management)
- Employees can understand more about company's strategic thinking and how their work fits in
- Employees can better direct their work efforts
- Risk: private company information may reach competitors
 - Management must weigh risk

Linking Rewards to Company Performance

- Employee Stock Ownership Plans (ESOPs)
 - 7% of Canadians participate
 - gives stock ownership to employees
 - stocks can lead to profit when value of firm increases
 - employer buys shares of company stock on behalf of employee as retirement benefit
 - grows in value tax-free
 - when employee leaves company, s/he can cash in their stock shares
 - motivated to work harder/smarter b/c they are part owners (share in firm's financial success)
 - when used for retirement:
 - must follow government regulations designed to protect pension benefits
 - expensive to set up – more common in larger firms
 - RISK: If company value falls, employee lose financially
- Stock Options
 - Rights for employees to buy specified amount of company stock at given price

- Employee keeps the stock (opposed to ESOP where company keeps)
- Ex. If given price was 100 stocks at 10\$ each. Market value rises to \$20 each. Employer can sell stocks at 20\$ each and keep profits
- Studies show stock option motivates employees to perform better
- About 1/3 of stock options go to the top 5 executives
 - Remainder goes to other executives and managers (only ~2% of workforce)
 - Some may argue they should have a broader range of employees
- Same risk as ESOPs

Employee Stock Ownership Plans	Stock Options
Company – sponsored trust fund holds shares of stock for employees	Gives option to employee to buy shares of its stock
Usually covers all full time employees	Can be granted to one, few or all employees
Employer pays for share of stock	Employees pay set price
Employees receive stock share (or value of stock) when they retire/leave company	Employees receive shares of stock when they retire/leave company, usually during set pd of time

TEAMS

Team; group of people with certain skills who share a common purpose, approach, and performance goals

- All members accountable and responsible for reaching objective
- Require people learn how to work well together
- Combining of talents and ideas will achieve more

Work teams; permanent groups of employees with complementary skills who perform day-to-day work

- 2/3 of firms use this
- may include all workers in assembling and packaging of product
- designed to handle any business problem

Problem Solving teams; temporary group of employees who gather to solve specific problem and then disband

- A team may develop a permanent role within firm

Self Managed team; work team that has authority to decide how its members complete their daily tasks

- Works most effectively when employees have a range of skills and functions
- Members are cross-trained (so they can perform each other's jobs)

Cross Functional Team; team made up of members from different functions, such as production, marketing and finance

- Usually work on specific projects, but can work as permanent teams
- Pro: different perspectives and range of skills

Virtual Team; groups of geographically or organizationally separated co-workers who use telecommunications and information technologies to accomplish an organized task

- Rarely meets face to face

- Can work together regardless of location, time zone, etc.
- E-mail, video conference, group communication software

TEAM CHARACTERISTICS

- Must be appropriate size
- Can be sorted by similarities and differences
 - Level and diversity

Team Size

- Can be small (2) to very large (150+), most teams avg 12- people
 - Research shows 6 – 7 is most effective
 - Big enough for diverse skills and small enough that members can communicate easily and feel part of group
- Larger the team, more disagreements
 - Subgroups may form

Team Level and Team Diversity

Team level; avg level of ability, experience, personality, or any other factor

- Considered when:
 - Need team with particular set of skills to do job well
 - Avg level or capability on team

Team diversity; team's difference in ability, experience, personality, or any other factors

- When team has to complete a wide range of different tasks/complex tasks

Stages of Team Development

Stage 1: Forming (Orientation)

- Where team members get to know each other
- Learn what behaviors are acceptable in group
- Learn if they will fit in with group and expectations
- Effective team leader will provide time for this step

Stage 2: Storming

- Personalities begin to be known – conflicts may arise
- Subgroups may be formed b/c of common interests/concerns
- Members need to work through uncertainties and conflicts
- Team leader must encourage everyone to participate
- To achieve productivity, teams must move past this stage

Stage 3: Norming

- Members resolve differences and accept each other
 - Reaches broad agreement about roles
- Team leader can use stage to emphasize team's unity and importance of objective

Stage 4: Performing

- Members focus on solving problems, accomplishing tasks
- Interact frequently, handle conflicts constructively
- Team leader encourages all to contribute, ensures everyone is involved

Stage 5: Adjourning (Wrapping – Up after task/problem solved)

- Summarizing team's experiences and accomplishments
- Team leader may recognize w/ a celebration

- May or may not include awards, plaques
-

TEAM COHESIVENESS AND NORMS

Team cohesiveness; extent to which team members feel attracted to the team and motivated to remain part of it

- Team maximizes productivity when it is highly cohesive, unified
- Usually increases with amount of interactions within team
 - Also w/ common attitudes, goals and enjoy being together
- Lower turnover rate when teams are highly cohesive
 - Promotes cooperation, generosity, willingness to help
 - Motivated to contribute b/c they want approval of others
- Team-building retreats sometime used to encourage team cohesiveness – provides time out of workplace for team members to get to know each other
 - Team training can build cohesion
 - Cross training team members in other's roles
 - Training team to develop skills needed

Team norm; standard of conduct shared by team members that guides their Behaviour

- Not formal written guidelines
- Identifies key values and clarifies team members' expectations
- Standards of conduct during meetings
- Can be positive or negative
- Positive norms contribute; constructive work, accomplishment of team goals
- Negative norms contribute: reduced work effort, quality, poor job attendance

TEAM CONFLICT

Conflict; outcome of conflict between team members, when needs to not match others, one side may try and block intentions/goals of another

- Disagreements expected b/c of:
 - Personalities, overtired, overstressed, team diversity
 - Diversity awareness training can reduce conflict by bringing out differences and identifying unique talents of people
- Conflict may be good for team performance. Key to dealing w/ conflicts is making sure team experiences right kind of conflict
 - Cognitive conflict; disagreement that focuses on problem and issue related differences of opinion
 - Resolving can improve team experiences
 - People in this conflict have a willingness to examine, compare, and resolve their differences for best solution
 - Affective conflict; disagreement that focuses on individuals or personal issues
 - Emotional reactions instead of remaining professional
 - Can strongly decrease team performance (cohesiveness)
 - Results in hostility, anger, resentment, distrust
 - Can make people uncomfortable and withdraw

- Weakens team performance
- Important for team leader to know how to deal with conflict
 - Encouraging good communication and making it possible
 - Team members view each other accurately
 - Understand what is expected of them
 - Obtain information they need
- Employees can learn to be better team members:
 - Team building exercises
 - Listening exercises

THE IMPORTANCE OF EFFECTIVE COMMUNICATION

Communication; meaningful exchange of information through messages

- Miscommunications can result in damage of company

Managers spend 80% of their time communicating with others

- Telephone, meetings, e-mail, conversations

Effective communication:

- Most important skill when looking for employees

The Process of Communication

Six elements: Sender, Message, Channel, Audience, feedback, context

Channel; form of communication (i.e. e-mail, radio, Facebook, newspaper)

Sender composes *message* and sends it through a communication *channel*. Encoding message means that *sender* translates its meaning into understandable terms and puts it in form so *message* can be sent through *channel*. *Audience* are people who receive the *message*. Decoding is when the receiver(s) of *message* interprets meaning. Feedback encoded from *audience* sent to *sender* helps to know whether they interpreted intended meaning of *message*.

Context; powerful influence on how well process works

- Low-context cultures; relies on written and verbal messages
 - Switzerland, Austria, Germany, Canada, United States
- High-context cultures; relies on message and conditions that surround it (i.e. nonverbal cues, past/present experiences, personal relationships between parties)
 - Japan, Latin America, India
- North American business men rather sit down at a business meal and “get down to business”. Opposite for Asian countries whereas they prefer to become acquainted before discussing.
 - Relaxed meals where business-related topics are avoided

Feedback:

- Senders must pay attention – ask if none offered
- Clarifies whether or not message was clearly received (accurately)
- May fail if message contained slang or words that are unclear

Noise – interference with transmission of messages and feedback

- Poor reception for phones or static
- Can have different understandings of message
- Can be present in any point of communication process

BASIC FORMS OF COMMUNICATION

Types of Communication

Form	Description	Examples
Oral	Transmitted through speech	Speeches, meetings, voice mail
Written	Transmitted through writing	Letters, memos, formal reports, e-mails
Formal	Transmitted through the chain of command within an organization to other members or people outside organization	Internal – Memos, reports, meetings External – letters, press conferences, news releases
Informal	Transmitted outside formal channels w/o regard for organization's hierarchy of authority	Rumors spread informally among employees
Nonverbal	Transmitted through actions and behaviors rather than words	Gestures, facial expressions, posture, body language

Oral Communication

- Messages may be received more accurately
- Allows people to combine words with other cues (facial expressions, tone of voice) [Face-to-face]
- Feedback can immediately be provided
- If one is upset or nervous, it creates noise

Listening – receiving message and interpreting its intended meaning by grasping facts and feelings message conveys

- Can lead to boredom, misinterpretation
- Hard work but pays off with better learning, greater influence
- Only 50% of conversation is retained right after delivery
- Several days - -25%

Types of Listening

Cynical or Defensive; when receiver of message feels sender is trying to gain an advantage from communication

Offensive; receiver tries to catch speaker in mistake or contradiction

Polite; receiver listens to be polite. Listener does not expect to contribute to communication. Polite listeners usually do not pay attention. Usually spending time to think what to say when speaker finishes

Active; requires involvement with information and empathy with speaker's situation. Basis of effective communication

- Important goal for business leaders

Written Communication

- Permit delayed feedback and creates record of message
- Sender needs to prepare message carefully
 - Avoids misunderstandings
- Planning in advanced and carefully constructing document may be necessary for formal documents
 - E-mail considered less formal
- E-mail is effective but may be time consuming
 - Some firms provide specialized software and services to reduce time spent
 - Security and retention issues with e-mail
 - b/c e-mails are mostly informal, senders forget they are creating written copy
 - e-mails can be used as evidence in legal case or build case for disciplinary action

Formal Communication

- Messages carries from senior position -> people down below
- Forms of e-mail messages, leading discussions, bulletin boards
- Open communication:
 - Employees are valued; employees happier and more motivated when they feel they are valued and opinions heard
 - High level of trust exists
 - Conflict is invited and resolved positively – conflict encourages innovation and creativity
 - Creative dissent is welcomed – when employees express themselves, they feel that they are contributing
 - Employee input is requested – key to any company’s success is input from employees
 - Employees are well informed
 - Feedback is ongoing
- Upward communication channels; encourages communication between employees to supervisors -> top management
 - Suggestion boxes, employee surveys, things so employees can voice complaints
 - Needed to evaluate effectiveness of downward communication

Informal Communication

Grapevine; internal information channel that passes information from unofficial sources

- Spreads information with speed and economy
- Surprisingly reliable
- Can help managers in 3 ways:
 - Get a feel for morale of companies
 - To understand the anxieties of workforce
 - Evaluate the effectiveness of formal communications
- CON: gossip!
 - Can use grapevine to spread the right information

Nonverbal Communication

- People estimate 70% of interpersonal communication is conveyed through nonverbal cues (gestures, etc.)
- Personal space can be powerful messages
 - Business conversations are within “social zone”
 - 1.25 – 3.75m apart
 - if one person approaches closer than that, other will feel uncomfortable

Zone	Distance (between)	Description
Intimate	50 cm or less	** ALL Family members, close friends, sports
Personal	0.5 to 1.25 m	** Most is undetectable - less touching than Intimate - more emphasis on visual cues
Social	1.25 to 3.75 m	- more formal exchange between business associates - limited touching - visual cues more important
Public	3.75 m +	- formal communication or brief to those who are standing - loud voices - facial expressions hard to see

** Body heat and odour

- cultural ideas of personal space should be taken into consideration
 - Latin America -> Sees distance as a gesture of cold and unfriendly as opposed to -> North Americans who like a distance
- Can show person’s true feelings and thoughts (nonverbal cues)
- When hiring people, they look for nonverbal cues

EXTERNAL COMMUNICATION AND CRISIS MANAGEMENT

External communication; meaningful exchange of information through messages sent between an organization and its major audience

- Uses to keep their operations going, supplying information for customer relationships, maintain position in marketplace
- Important: informing public about new initiatives
 - i.e. environmentally friendly processes, community projects

public relations crisis – threatens company’s reputation

- when crisis occurs, firm should respond quickly

- 1) executives should prepare written statement and stick to it. Statement should mention time, place, and initial description of what occurred, number and status of people involved
- 2) ASAP, top company management should appear in public with news media present
- 3) When answering questions at initial press conference, management rep must stick to facts. S/he should not speculate or create theories.
- 4) If question unanswerable, executive can offer to find answer. It should be found ASAP.
- 5) Firm should recognize problem exists, explain solutions, and welcome feedback. If answer is bad, executive should state how firm is correcting it
- 6) Press conference or interview will be most effective if executive speaks briefly and clearly and provide visual images.

Chapter 10 Pages 263 – 272

Sophie Howe

Businesses produce and market goods that people want, creating utility. There are 4 basic types of utility: time, place, ownership and form.

Production creates form utility by converting raw materials and other inputs into finished products.

Production utilizes both manufacturing and nonmanufacturing industries.

Production takes the inputs (resources and raw materials) and puts them through the conversion process (adding value) and creates an output (the good or service).

Types of Production

Mass production begins with specialized labour, a division of work separating jobs into small tasks creating high efficiency and productivity. Mechanization states that machines do much of the work and standardization produces identical and replaceable parts. These three principles led to the development of an assembly line.

Flexible production is more cost-effective for producing smaller runs. It uses three resources: information technology to share details with customers, programmable equipment to complete the orders, and skilled people to carry out orders. An example of this is personalized automobiles.

Customer-driven production assesses customer demands to make the connection between products manufactured and the products that are sought-after. A method is setting up computer links between retailers and factories. The sales data creates short termed forecasts and helps design production schedules to meet those forecasts.

Production Processes

Production process use either an analytic or synthetic system, time requirements with a continuous or intermittent process. An analytic production system reduces raw material to its components ex petroleum refinement. A synthetic production system combines two or more raw materials/parts to produce finished products ex making chemicals. A continuous production process creates finished products over a long period of time ex steel. An intermittent production process creates products in a short production run ex McDonalds.

Technology and the Production Process

Green Manufacturing Processes: manufacturing firms are investing resources into developing processes that result in less waste, lower energy use and little or no pollution. LEED is a voluntary certification program offered by the Canada Green Building Council aiming to promote the most sustainable construction processes available.

Robots are meant to replace boring and dangerous jobs. They are programmed to perform tasks that require repeated use of materials and tools. They were typically used in the automotive and electronics manufacturing but they have been added to many more industries since then.

Computer Aided Design (CAD) is a process used to design parts and products on the computer. Engineers using CAD can work faster and make fewer mistakes. Computer Aided Manufacturing (CAM) analyzes steps a machine must take to produce a needed part or product. Both CAD and CAM are used together in most modern production facilities.

Flexible Manufacturing System (FMS) is a production facility that workers can quickly change to manufacture different products. This uses computer controlled machines to produce parts, robots to handle the parts and remote controlled carts to deliver the materials.

Computer Integrated Manufacturing (CIM) is an integration of CAD CAM FMS, computers and other technologies. The key to CIM is a centralized computer system running softwares that integrate and control separate processes and functions.

The Location Decision

transportation: closeness to markets, raw materials and availability of transportation options

physical factors: water supply, energy and hazardous wastes

human factors: labour supply, local zoning regulations, community living conditions and taxes

Chapter 10 Pages 273 – 284

Nikson Nagendram

The job of production managers

- Production and operations managers perform the **four major tasks** of:
 1. Planning the production process.
 2. Selecting the best layout for the firm's facilities.
 3. Carrying out the production plan.
 4. Controlling the production process.
- It also includes continuous assessment of results. If problems occur, managers must return to the first step and adjust.

Planning the production process

- **Production planning** begins by choosing the goods and services to offer the customer. This is the core reason for every company's existence. Other tasks include: machinery purchases, pricing decisions, and selection of retail stores.
- Products must satisfy customers and be produced as efficiently and inexpensively as possible.
- **Market research** is used to gather consumer reactions and estimate profitability.
- Production department focus on planning the **production process in two ways**:
 1. Converting original product ideas into final plans.
 2. Designing the most efficient facilities to produce these products.
- In the traditional method, each production manager has a specific area of authority and responsibility. Some managers may be in the position of competing against each other.
- More organizations have moved toward team-oriented structures. Each team has authority and is responsible for the quality of the products.
- Teamwork has the benefits of: all workers are responsible for their output and teamwork avoids the competition between managers that are found in the traditional method.

Selecting the facility layout

- An **efficient layout** reduces material handling, decreases costs, and improves product flow through the company.
- The **three common layout designs** are process design, product design, and fixed-position layouts. Service organizations use a customer-orientated layout design.
- A **process layout design** groups machinery and equipment according to their functions. Work is moved around to different workstations. This process is easier to produce different items in small batches. (Laundry company -> Labeling and sorting -> Washing and drying -> Pressing -> Delivery -> Loading -> Order assembly ->)
- A **product layout design** groups sets up production equipment along a product flow line. It is also called an assembly line. Work moves along many workstations. This layout produces large numbers of similar items and is not flexible with only few adjustments possible. Auto manufacturers use this layout but with robots instead of humans.
- A **fixed-position layout design** places the product in one spot and all resources go to the product's location. This is for large and heavy products. The nature of the product dictates a fixed-position layout. Examples would be construction and aerospace.
- In a **customer-orientated layout** a service firm arranges its facilities to enhance the interactions between customers and the services. Examples would be hospitals, banks, libraries, dental offices, etc.

Carrying out the production plan

- Carrying out the **production plan** involves:
 1. Make, buy, or lease decisions.
 2. Selection of suppliers.
 3. Inventory control.

Make, buy, or lease decisions

- A **make, buy, or lease decision** is choosing whether to make a part in house, buy if from an outside supplier, or lease it.
- This is critical in many business decisions.
- There are many factors that affect this decision. The cost of parts from outside suppliers compared to the cost of producing it in house. The supplier's ability to meet quality standards. Time period of the parts required.
- When a firm buys goods from outside sources, production managers should still have a relationship with other suppliers for backup situations.
- The downsides of outsourcing are the possibility of layoffs and decrease in quality of the firm's products.

Selection of suppliers

- To choose a good supplier, **manages must compare**: quality, prices, dependability, and services offered by other companies as well. The final decision often depends on: previous experiences, speed of delivery, warranties, and other services.
- If there is a major purchase going on negotiations can take several weeks or months. Several managers must look at the options before finally deciding.
- **Ariba** is online software that firms use to source \$120 billion worth of goods and services from suppliers worldwide.
- Firms often buy raw materials and parts on long-term contracts in order to ensure a continuous supply of materials. Today, many firms build long-term relationships with suppliers and reduce the number of companies dealt with.
- Networking is used to learn about suppliers and getting to know them personally. Other places to meet suppliers are at trade shows, conferences, and seminars.

INVENTORY CONTROL: function that balances the costs of storing inventory with the need to have stock on hand to meet demand.

- When firms miss delivery dates or turn away orders, they lose business.
- Efficient inventory system can save money.
 - Most stores have databases linked to a perpetual inventory system which automatically orders more when inventory falls below a certain level.
 - Some hand over inventory control to suppliers, known as vendor-managed inventory.

JUST IN TIME SYSTEMS: broad management philosophy that reaches beyond the narrow activity of inventory control to affect the entire system of production and operations management.

- Provides the right part, at the right place, at the right time, just before it is needed in production.
- Saves money and time, used in medical supplies field.
- Shifts most of the inventory carrying responsibility to suppliers, they decide how much to carry and keep stock on hand to respond to manufacturer needs.

MATERIALS REQUIREMENT PLANNING: a computer based production planning system that ensures firm has all the parts and materials it needs to produce its output at the right time and place and in the right amounts.

- Production managers use this to create schedules that list the specific parts and materials needed to produce an item.
- Small company may get by without this MRP system.

CONTROLLING THE PRODUCTION PROCESS

- Production control: creating well-defined procedures for coordinating people, materials, and machinery to provide the greatest production efficiency.
- Five steps: planning, routing, scheduling, dispatching, follow-up

PRODUCTION PLANNING

- Managers decide amount of resources needed to produce certain output.
- Purchasing staff can compare list with firm's perpetual inventory system to identify which items need to be purchased.
- Employees/automated systems set up delivery schedule.

ROUTING

- Managers decide on the sequence of work throughout the facility, who will perform each part of the work, and where the work will be done.
- Depends on two factors: nature of the good or service and the facility layout.
- Some routing decisions make sense while other decisions may need for more study.

SCHEDULING

- Managers develop timetables that show how long each operation in the production process takes and when workers should perform it.
- Production managers use several analytical methods
 - Gantt chart: tracks projected and annual work progress over time.
 - PERT (program evaluation and review technique) chart: tries to reduce delays by coordinating all parts of production process
 - Complex computer program help managers develop this network.

Dispatching:

- The dispatching phase of production is when the manager instructs the department what jobs/tasks they need to accomplish as well as informing them how long they have to finish the job.
- The dispatcher in this case may be the manager or team lead, where they authorize performance, give instructions and list the job priorities.
- The follow-up phase of production is when the managers identify and analyze for any possible errors in the production phase and come up with solutions to solve those problems

Importance of Quality:

- In the production process, quality is referred to as the state of being error free or imperfections.
- Quality is important, because if a product is imperfect it becomes very costly to replace repair or redesign the products.
- Most companies, the costs needed to fix the poor quality goods can equal to 20% of the sales revenue.
- Low quality goods and services can result to loss of sales and poor company image.
- Benchmarking is when a company looks at another company's production process, (successful companies) and uses that as a guideline to produce their products. This way it ensures that the company always produces high-quality products.
- When a firm wants to benchmark, it has to decide what it wants to accomplish, which company can provide the most useful information, and what it wants to measure.

Quality Control:

- Quality control involves measuring output against quality standards.
- Firms use quality control to spot defective products and to avoid delivering poor quality products to customers.
- Manufacturing firms can check on quality levels by using visual inspections, and electronic sensors.
- Service organizations can gather quality control information from surveys
- Firms that outsource their operations face a greater challenge in checking on quality levels.
- A typical factory can spend up to half its operating budget identifying and fixing mistakes.
- The six sigma concept to achieving quality goals is used by more and more large organizations.
- When a company uses this concept, it tries to make error-free products 99.9997 percent of the time. (3.4 errors per million products)

ISO Standards:

- International Organization for Standardization, known as ISO for short, is an organization whose mission is to develop and promote international standards that businesses can aim to accomplish on a global level.
- The aim for this organization is to promote global trade and cooperation because the standards are the same on an international basis.
- The ISO 9000 helps organizations to ensure their products and services are:
 - o Products are high quality
 - o Provide a basis for continual improvement
- The ISO 14000 standards for environmental management help organizations to ensure that their operations:
 - o Cause as little harm as possible to the environment
 - o Continually improve their environmental performance
- The ISO develops these standards but does not carry out the auditing and certifications.
- Firms may chose to follow these standards without getting the certification, but shareholders, customers, and suppliers prefer to deal with certified organizations.

CHAPTER 11 (Pg. 293 – 306) + (Pg. 307 – 318)

Marketing; an organizational function and set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders

- Good marketers anticipate what consumers want even before they know it themselves
 - Creating new need for customers
- Discovering what consumers need and continues:
 - Researching potential market
 - Producing goods/services that satisfy targeted customer
 - Promoting, pricing, and distributing good/service
- Exchange process; an activity in which two or more parties trade something of value that satisfies each other's needs

Utility: the power of a good or service to satisfy a want or need

- Form utility: created by converting raw materials, and other inputs into finished good/service
- Time utility: created by making a good/service available when customers want to purchase it
- Place utility: created by making a product available in a location convenient for customers
- Ownership utility: organized transfer of goods/services from seller to buyer

Evolution of Marketing:

- Production era; stressed efficiency in producing quality goods
- Sales era; assumed that consumers would buy as a result of energetic sales efforts
- Marketing era; focused stronger on consumer needs/wants
- Relationship era; focused on customer satisfaction and building long-term business relationships

Marketing concept; companywide consumer focus on promoting long term success

- Begins with customer – firm should analyze each customer needs and then work backwards to fulfill the needs
- Starts with sellers' market -> market shortage of goods -> buyers' market -> too many goods

Not for Profit and Non Traditional Marketing

- Canada leads the world in contributions to its gross domestic product by not for profit organizations
- They apply marketing techniques to accomplish overall mission
- They operate in both public and private sectors
 - Government unites/agencies that receive tax funding
 - i.e. swimming pools may be run by volunteers

Non Traditional Marketing:

- Person marketing
 - Efforts that are designed to attract the attention, interest, and preference of a target market toward a person
 - i.e. using a celebrity to advertise product
- Place marketing

- Attempt to attract people to particular area, such as a city, region, or country
- Event marketing
 - Marketing or sponsoring of short-term events
 - i.e. athletic competitions, cultural performances
- Organization marketing
 - Marketing strategy that influences consumers to accept the goals of an organization, receive the services of an organization, or contribute in some way to an organization
 - i.e. Oprah Winfrey's *The Angel Network* is to "encourage people around the world to make a difference in the lives of others."
- Cause marketing
 - Marketing that promotes a cause or social issue
 - i.e. preventing child abuse, anti-littering

Developing a Marketing Strategy

Selecting a Target Market: "find a need and fill it"

- Consumer products (B2C): goods and services purchased by end user (i.e. GPS, tomato sauce, and haircut)
- Business products (B2B): good or service purchased to be used, either directly or indirectly, in the production of other goods for resale (i.e. computer)
- Target market: group of people that an organization markets its goods, services, or ideas toward, using a strategy designed to satisfy this group's specific needs and preferences
- Marketing mix: blending of the four elements of marketing strategy – product, distribution, promotion, and pricing to satisfy chosen customer segments
 - Product strategy involves more than just designing good/service – it also include package design, brand name, trademarks, warranties, product image and customer service
 - Distribution strategy ensures customers receive their purchases in the proper quantities at right time and location
 - Promotional strategy: blends advertising, personal selling, sales promotion, and public relations to achieve goals of informing, persuading, and influencing purchase decisions
 - Pricing strategy – to set a profitable yet justifiable price or product

Marketing Research: process of collecting and evaluating information to support marketing decision making

- Generates internal data within organization – financial records, inventory sales
- External data includes previously published data, advertisements, people
- Secondary data are low cost and easy to obtain – government publications are excellent data sources and available online!
 - Census data most frequently used; contains population's age, gender, education level, household size, etc.
 - Sometimes not specific enough
- Primary data – data collected firsthand through observations/surveys
- Focus group: 8- 12 people in room or over internet
 - Discusses specific topic i.e. customer needs, new ideas, etc.

- Business intelligence: field of research which uses various activities to gather, store, and analyze data to make better competitive decisions
- Data mining: broader field of business intelligence and it uses computer-based technology to evaluate data in databases and identifies useful trends
 - Uses a data warehouse; sophisticated customer database that allows managers to combine data from several different organizational functions

MARKET SEGMENTATION: process of dividing market into several similar groups

- Based on results from research
- Attempts to isolate traits that set certain group of customers apart
 - Criteria: measurable (\$ or # of purchases), accessible for communication (Internet) , and large enough to offer profit potential (locating large market)
- Consumer Markets:
 - Geographical = divides market into similar groups on basis of their locations (i.e. more snow = more snow related products) , job growth, migration patterns
 - Demographic = divides market into characteristics i.e. gender, income, age, occupation
 - Psychographic = divides market into groups of similar psychographic characteristics, values, and lifestyles
 - Product Related = divides consumer market into groups based on byers' relationships to the good or service
 - most popular: benefits, usage rates, brand loyalty
- Business Markets:
 - Geographical = similar to consumer market
 - Targets concentrated industries
 - End-Use = marketing strategy that focuses on precise way a B2B purchaser will use product
 - Demographic = begins with good or service being designed to suit specific organizational market
 - Example: University students showed they like a international taste in food court, so they adapt that
- North American Industry Classification System (NAICS) provides common classification system for subdividing business marketplace
 - Divides industries into broad categories such as forestry, fishery, and agriculture -> manufacturing, transportation, retail/wholesale

Customer Behaviour: consumers' activities that are directly involved in obtaining, consuming, and disposing of products, and the decision processes before and after these activities

- Personal/interpersonal factors; individual needs, motives, etc.
- Cultural, social, and family influences

Recognition of Problem/Opportunity -> Search -> Evaluation of Alternatives -> Purchase Decision -> Purchase Act -> Post purchase Evaluation

Relationship Marketing: developing and maintaining long-term , cost-effective exchange relationships with partners (individual customers, suppliers, employees)

- Benefits: protect themselves from competitors,

- Long term customers usually buy more, require less service, refer other customers, and provide valuable feedback
- Lifetime value of a customer: revenues and intangible benefits (referrals/customer feedback) minus amount company spent to acquire and serve customer
- Frequency marketing: marketing initiative that rewards frequent purchases with cash, rebates etc
- Affinity program: marketing effort sponsored by an organization that targets people who share common interests and activities
 - i.e. credit card w/ your favourite company on it
- Comarketing: cooperative arrangement where two businesses jointly market each other's produce
 - Cobranding: cooperative arrangement where two or more businesses team up to closely link their names on a single product (i.e. Nike + iPod)
 -

Customer Relationship Management (CRM) software technology to help businesses build and manage their relationships with customers

CHAPTER 12 (Pg. 325 – 337)

By: Adil Mansoor

2 Elements of the Marketing Mix: Product and Distribution

Product Strategy

Product: To marketers, a product is a bundle of physical, service, and symbolic characteristics designed to satisfy consumer wants. Marketing conception of a product includes decision about package design, brand name, trademarks, warranties, product image, new-product development, and customer service.

Classifying Goods and Services: Marketers classify goods and services as either B2C or B2B depending on whether the purchasers of the particular item are consumers or businesses.

Classifying Consumer Goods and Services

- Consumer goods and services – goods and services used by end consumers who purchase products for their own use and enjoyment, not for resale – are usually classified on the basis of how consumers buy them:
 - **Convenience products:** Items that consumers purchase frequently, immediately, with little effort. For example, such convenience products as newspapers, snacks, candy, bread and coffee are usually for sale in gas-station stores, vending machines, and local newsstands.

- **Shopping products:** Those products that are usually purchased only after the buyer as compared competing products in competing stores.
- **Specialty products:** These are products that a purchaser is willing to make a special effort to obtain. The purchaser is already familiar with the item and considers it to have no reasonable substitute. For example, the nearest MINI Cooper dealer may be 75km away, but if you decide that you want one, you will make the trip
- Each product's classification is based on the buying patterns of most people who purchase it

Classifying Business Goods

- Business products are goods and services such as paycheque services and huge multifunction copying machines used in operating an organization. They also include machinery, tools, raw materials, components, and buildings used to produce other items for resale. While consumer products are classified by how consumers buy them, business products are classified by their basic characteristics and by how they are used
 - **Capital items:** Products that are long-lived and relatively expensive
 - **Expense items:** Less costly products that are consumed within a year
- B2B products have five basic categories
 - **Installations:** Major capital items such as new factories, heavy equipment and machinery, and custom-made equipment. Installations are expensive and often involve buyer and seller negotiations that may last for more than a year before a purchase is made. Purchase approval often involves the agreement of many different people – production specialists, purchasing department representatives, and members of top management.
 - **Accessory equipment:** Also includes capital items that are usually less expensive and shorter lived than installations, and involve fewer decision-makers
 - **Component parts and materials:** Finished business goods that become a part of the final product, such as disk drives that are sold to computer manufacturers
 - **Raw materials:** Farm and natural products used to produce other final products. Examples include milk, wood, leather, and soybeans.
 - **Supplies:** Expense items used in a firm's daily operation that do not become part of the final product

Classifying Services

- Services can be classified as B2B or B2C
 - Examples of services to consumers (B2C) include child-care and eldercare centers and auto detail shops
 - Examples of services to businesses (B2B) include security patrols at a local factory
- A service can sometimes work for both, the consumers and businesses
- Services can also be convenience products, shopping products, or specialty products
 - Which type of product it is will depend on buying patterns of the consumers
- Services can be distinguished from goods through several ways
 - Services are intangible
 - Services are perishable, or short-lived, because firms cannot store them in inventory

- Services are difficult to standardize because they must meet individual needs
- From the buyer's standpoint, the service provider *is* the service; the two are inseparable in the buyer's mind

Marketing Strategy Implications

- Classifying products gives marketers a better idea of how it should be marketed
- Each group of business products needs a different marketing strategy
 - Installations and many component parts are marketed directly to business buyer (emphasis on personal selling rather than advertising)
 - Marketers of supply and accessory equipment rely more on advertising because their products are often sold through an intermediary, such as a wholesaler

Product Lines and Product Mix

- Few firms do business with only a single product
- If their first market entry is successful, they tend to increase their chances for profit and growth by adding new offerings
- A company's **product line** is a group of related products that share physical similarities or are targeted towards a similar market
- A **product mix** is the assortment of product lines and individual goods and services that a firm offers to consumer and business users

Product Life Cycle

Product life cycle: The four basic stages to the development of a successful product:

- **Introduction:** The firm takes on several activities:
 - 1) Promoting demand for its new offering; informing the market about the product; 2) Offering free samples to interest consumers in making their first purchase; 3) And explaining the product's features, uses, and benefits.
 - Sometimes companies partner to promote new products.
 - New-product development costs are high. However developing and promoting the product are both important to support later success. These high costs tend to cause losses in the introductory state
- **Growth stage:** In this stage, sales climb quickly as new customers join the early users who now are repurchasing the item
 - Word-of-mouth referrals and continued advertising and other special promotions encourage consumers to make their first purchases
 - At this stage, the company begins to earn profits on the new product
 - The success encourages competitors to enter the field with similar offerings.
- **Maturity stage:** Industry sales first increase, but then reach a saturation level when further expansion is difficult
 - Competition also gets much stronger, increasing the availability of the product
 - Firms focus on capturing competitors' customers, often dropping prices to increase the attractiveness of their product.
 - Late in this stage, sales volume fades and some of the weaker competitors leave the market

- **Decline:** Sales continue to fall. Profits decrease and may become losses, as the reduced overall market for the product leads to further price-cutting. Competitors gradually leave the market, making some profits possible for the remaining firms in the shrinking market.

Product life cycles are not set in stone; not all products follow this pattern precisely, and some products may spend different amounts of time in each stage

Marketing Strategy Implications of the Product Life Cycle

- Product life cycle is a useful concept. Marketers can use it to design a flexible marketing strategy that can adapt to the changing marketplace. A firm's competitive activities may involve developing new products, lowering prices, increasing distribution coverage, creating promotional campaigns, or any combination of these approaches.
- A common strategy for extending the life cycle of a product is to increase customer's frequency of use (Wal-Mart and Shoppers drug mart added grocery sections)
- Another strategy is to find new uses of the product

Stages in New-Product Development

- New-product development is expensive, time-consuming, and risky. Only about one third of new products become success stories. Even successful products eventually reach the end of the decline stage and need to be replaced.
- There are six steps to developing a product:
 - *Generating new product ideas:* Ideas come from many sources including customer suggestions, suppliers, employees, research scientists, marketing research, inventors outside the firm, and competitive products
 - *Screening:* Removes ideas that do not work with overall company goals, or that cannot be developed given the company's resources.
 - *Concept Development and Business Analysis:* Further screening occurs. The analysis involves assessing the new product's potential sales, profits, growth rate, and competitive strengths.
 - Some companies use *concept testing*: Marketing research designed to attract consumer's first reactions to new-product ideas. For example, potential consumers might be asked about proposed brand names and other methods of product identification.
 - *Focus groups* are formal sessions where customers meet with marketers to discuss what they like or dislike about current products
 - *Product Development:* An actual product is developed and subjected to a series of tests, and revised. At this stage, developers may create functioning prototypes or test models, or detailed descriptions of the product.
 - *Test Marketing:* The introduction of a new product and a complete marketing campaign to a selected city or TV coverage area. When marketers look for a test area, they prefer a location or television coverage area with a manageable size, where residents match their target market's demographic profile. This product is sold to the limited area while the company examines both consumer responses to the new offering and the marketing

effort used to support the product. Some firms skip this step with fear that competition might learn about the marketing strategies.

- *Commercialization*: The product is made available in the marketplace. This stage is also known as a product launch. Much planning goes into this stage. The firm's strategies for distribution, promotion, and pricing must all work together to support the new product.

Product Identification

Brand: A name, term, sign, symbol, design, or some combination that identifies the product of one firm and shows how they differ from competitors' offerings.

Brand name: The part of the brand that is made up of words or letters that form a name. It is used to identify a firm's products and show how they differ from the products of competitors.

Trademark: A brand that has been given legal protection. The protection is granted only to the brand's owner. Trademark protection includes the brand name, design logos, slogans, packaging elements, and product features such as color and shape.

Selecting an Effective Brand:

- Good brand names are easy to say, recognize, and remember
- Brand names should also send the right image to the buyer

Brand Categories:

- A *manufacturer's brand* is offered and promoted by a manufacturer
- A *private brand* identifies a product that is not linked to the manufacturer; instead, it carries a wholesaler's or retailer's label
- A *family brand* is a single brand name used for several related products
- An *individual branding* strategy is employed by firms through giving a different brand name to each product within a product line

Brand Loyalty:

- Marketers measure brand loyalty in three stages:
 - *Brand recognition*: brand acceptance that is strong enough that the consumer is aware of the brand, but not enough to lead a customer to prefer it over other brands
 - *Brand preference*: When a consumer chooses one firm's brand over a competitor's. At this stage, the consumer usually uses his or her previous experience when selecting this product.
 - *Brand insistence*: The ultimate degree of brand loyalty. Consumers who have brand insistence will look for a product at another outlet, special-order it from a dealer, order by mail, or search the Internet.

Brand Equity:

- The added value that a respected and successful name gives to a product
- Brand loyalty is at the heart of brand equity

- This value results from a combination of factors: awareness, loyalty, perceived quality, and feelings or images the customer associates with the brand. High brand equity offers financial advantage to a firm because the product represents a large market share
- *Brand awareness* is high when the product is the first one that comes to mind
- Large companies usually assign the task of a brand's marketing strategy to a *brand manager*, also called a *product manager*. This marketing professional plans and puts in place other promotional, pricing, distribution, and product arrangements that lead to strong brand equity. A *category manager*, a newer type of professional, oversees an entire group of products. Unlike traditional brand managers or product managers, category managers have profit responsibility for their product group. These managers are assisted by associates called *analysts*.
- **Category advisor:** the individual that business customer assigns as the major supplier to deal with all other suppliers for a project. The category advisor also presents the entire package to the business buyer.

Packages and Labels:

- Packaging and labels are needed for product identification. They also play an important role in a firm's overall product strategy. Packaging affects an item's durability, image, and convenience. It is also one of the biggest costs in many consumer products. Consumer demand has led to smaller, more environmentally friendly packages.
- Choosing the right package is especially important in international marketing. Marketers need to be aware of language variations and cultural preferences.
- Labelling is another important part of packaging process. In Canada, companies must abide by labelling laws by providing enough information so that consumers can compare competitive products. In case of food packaging, labelling must include nutrition facts.

CHAPTER 12 (Pg. 338 – 351)

By: Saadat Hussain

Distribution Strategy

DISTRIBUTION STRATEGY: a plan that deals with the marketing activities and institutions that gets the right good or service to the firm's customers.

DISTRIBUTION CHANNELS: the paths those products - and their legal ownership - follow from producer to consumers or business users.

PHYSICAL DISTRIBUTION: the actual movement of products from producer to consumers or business users.

- Distribution strategies involve choosing suitable transportation, warehousing, inventory control, order processing, and marketing channels

- Market channels are usually made up of intermediaries such as retailers and wholesalers
- Physical distribution covers a whole range of activities including:
 - Customer service
 - Transportation
 - Inventory control
 - Materials handling
 - Order processing
 - Warehousing
- Distribution Channels
 - The first step is to choose a distribution channel that best suits the firm's marketing objective as well as the needs of their customers
 - Two main categories of marketing intermediaries are:
 - Wholesalers
 - Retailers
 - No one distribution channel suits every product
 - Main types of distribution channels:
 - Direct distribution
 - Most commonly used in the B2B market
 - Shortest and simplest way to connect producers and consumers
 - Usually found in the market of expensive and complex products that may require demonstration
 - The Internet has made direct distribution an attractive option for many retail companies
 - Distribution channels using marketing intermediaries
 - Direct distribution is not the ideal method for all products
 - Intermediaries ensure that the demanded product is available when and where consumers want

Wholesaling

WHOLESALE: a distribution channel member that sells primarily to retailers, other wholesalers, or business users.

- Manufacturer-Owned Wholesaling Intermediaries
 - Firms operate two main types of manufacturer-owned wholesalers:
 - Sales branch
 - Stock the products they distribute and fill orders from their inventories
 - Provide office for sales representatives
 - Sales office
 - Office for producer's salespeople
 - Set up in various regions to support local selling efforts and improve customer service

- Do not store any inventory
 - Independent Wholesaling Intermediaries
 - Independent wholesalers can be the following, depending on whether they take the legal ownership of the products they are handling:
 - Merchant wholesalers
 - They take legal ownership of the goods they handle
 - Within this category, there are further classifications:
 - Full-function merchant wholesaler
 - Provides an assortment of services
 - Rack jobbers stock, display, and services specific retail goods in a drugstore or supermarket
 - Limited-function merchant wholesaler
 - Provides fewer services
 - Drop shippers provide access to many related goods by contracting numerous producers and negotiating the best price
 - Agents and brokers
 - They never take legal ownership of the products
 - They may or may not take physical possession
 - Work mainly to bring buyers and seller together
- Retailer-Owned Co-operative and Buying Offices
 - Retailer work together to form a wholesaling organization
 - These organizations take the form of either a buying group or a co-operative
 - This is done to reduce costs or provide some service that is not already available in the market

Retailing

- Non-Store Retailers
 - Include 4 forms:
 - Direct response retailing
 - Reaches consumers through catalogues, telemarketing, magazines, newspapers, and television ads
 - Products are ordered and delivered
 - Internet retailing
 - Set up online shops
 - Automatic merchandising
 - Provides convenience through the use of vending machines
 - Direct selling
- Store Retailers
 - The Wheel of Retailing

- This refers to the constant change as new stores replace older stores
- New retailers enter the market by reducing services so they can offer cheaper prices
- Look at diagram in textbook (pg. 344)
- How Retailers Compete
 - Retailers must develop marketing strategies that are based on goals and strategic plans
 - Successful retailers use images that alert customers to their stores' identity and shopping experience they provide
 - To create that image retailers must:
 - Identify a target market
 - Select a product strategy
 - Shape a customer service strategy
 - Select a pricing strategy
 - Choose a location
 - Build a promotional strategy
 - Create a store atmosphere

Distribution Channel Decisions and Logistics

- Selecting Distribution Channels
 - Market factors are the most important consideration when choosing a distribution channel
 - The product is also important when considering distribution channels:
 - Most standardized products or items with low unit values use relatively long distribution channels
 - More expensive and complex products move through shorter distribution channels
 - Some producers offer a broad product line and have the financial and marketing means to distribute and promote their own products
 - These manufacturers are more likely to use shorter distribution channels
 - Financially strong manufacturers typically use their own sales representatives, warehouses, and credit departments to serve both retailers and consumers
 - Start-up manufactures turn to direct channels for two different reasons:
 - They can't get intermediaries to carry their product
 - They want to extend their sales reach
 - Competitive performance is another factor to consider when you are choosing a distribution channel:
- Selecting Distribution Intensity
 - Distribution intensity is the number of intermediaries or outlets a manufacturer uses to distribute its goods
 - Market coverage has 3 different intensity levels:
 - Intensive distribution
 - Placing product in nearly every available outlet
 - Usually common with low priced goods
 - Selective distribution
 - Manufacturer selects only a limited number of retailers to distribute its products

- Can reduce total marketing cost and develop strong working relationships within the channel
- Exclusive distribution
 - Limits market coverage in a specific geographic region
 - Suits expensive products
 - Retailers are carefully selected to enhance the product's image
- Logistics and Physical Distribution

SUPPLY CHAIN: the complete sequence of suppliers that help to create a good or service and deliver it to business users and final consumers.

LOGISTICS: the process of coordinating the flow of goods, services, and information among members of the supply chain.

- Physical Distribution
 - Refers to the activities aimed at efficiently moving finished goods from the production line to the consumer or business buyer
 - Effectively managed physical distribution systems can increase customer satisfaction by ensuring reliable movements of products through the supply chain
 - Radio-frequency identification is a technology that helps retailers better manage their inventory, maintain stock levels, reduce loss, cut costs, and track lost goods
 - This chip emits a low-frequency radio signal to identify the item

VENDOR-MANAGED INVENTORY: the process in which the producer and the retailer agree that the producer (or the wholesaler) will decide how much of a product a buyer needs and automatically ship new supplies when needed.

- Customer Service
 - Major part of product and distribution strategy
 - Customer service standards measure the quality of service a firm provides for its customers
 - Customer service of product strategy includes:
 - Warranty
 - Repair service programs

CHAPTER 13 (Pg. 357 – 368)

By: Katie McLeod

Promotional and pricing strategies

- **Promotion** – the function of informing, persuading, and influencing a purchase decision.

- Promotion is equally as important to not-for-profit organizations as it is to for-profit organizations.
- Some promotional strategies try to develop primary *demand (or consumer desire)* for a general product category. Objective: stimulate sales for an entire industry. Ex: “got milk?” uses print and television messages about the nutritional benefits of milk featuring celebrities.
- In contrast, *selective demand* tries to stimulate desire for a specific brand. Ex: TD bank versus other banks.
- Integrated marketing communications (IMC) – the coordination of all promotional activities – media advertising, direct mail, personal selling, sales promotion, and public relations – to produce a unified customer focused promotional strategy.
- IMC focuses on customer needs to create a unified promotional message in the firm’s ads, in-store displays, product samples, and presentations by company sales representatives.
- To gain competitive advantage, marketers that use IMC need a broad view of promotion, cannot rely on traditional broadcast, print media, and direct mail anymore
- Marketing managers use the organizational objectives, marketing goals and set the goals and objectives for the firm’s promo strategy. With these objectives, marketers use all of the elements of the strategy (personal selling, advertising, sales promotion, publicity, and public relations) for a communications plan.
- *Communications plan* = central focus of the firm’s marketing strategy to reach target market.
- *Marketing mix* – combination of product, distribution, promotion, and pricing strategies.
- **Promotional mix** – the combination of personal and non-personal selling that marketers use to meet the needs of a firm’s target customers and to effectively and efficiently communicate its message to them.
- **Personal selling** – the most basic form of promotion: a direct person-to-person promotional presentation to a potential buyer.
- **Non-personal selling** – forms of selling such as advertising (the best known and most visible form of non-personal selling), sales promotion (accounts for half of money spent on non-personal selling), direct marketing, and public relations. Consumers see 4000-5000 marketing messages per day.
- *Promotional objectives* are a firm’s most effective combination of promotional mix elements

Comparing the elements of the promotional mix

Element	Advantages	Disadvantages
Advertising	Reaches large audience @ low cost, strong control of message, message can be modified	Difficult to measure effectiveness
Personal selling	Message is individual, immediate response, effectiveness measurable	High cost, expensive to employ effective sales people
Sales promotion	Brings attention and awareness, measurable effectiveness, short-term	Differentiation is difficult, non-personal appeal

	sales increase	
Public Relations	Improves trust, instills positive attitudes of company	Difficult to measure effectiveness, often devoted to non-marketing activities
Sponsorships	Viewed positively by consumers, enhances brand awareness	Difficult to control message

5 Major Promotional Objectives

Differentiate the product – By using **positioning**, marketers establish their products in minds of customers. Ex: TV ad. Comparing 2 different detergents showing differences in price, quality, or attributes.

Provide info – A major portion of advertising is information-oriented. Ex. Print ad. Describing features & availability of new cereal

Stabilize sales – Ex. Even out sales patterns by promoting low weekend rates for hotels, holding contests during slow sales periods for customers and contests to motivate sales people. Jiffy lube puts sticker on windshield to remind for the next oil change to keep sales stable.

Increase sales – Most common objective. Ex. Keep old customers and attract new customers by changing product. Another ex. End of aisle grocery displays

Highlight product value – Explaining hidden benefits improve product's value. Ex. Warranty programs that make a product more attractive than major competitors, improves image, and makes it more desirable.

Promotional planning

Lines between different elements of promotional mix are blurring. Consider **product placement**. Firms pay placement fee's to have their product showcased in media, ex. Coco-cola is featured on American Idol.

- Product placement has increased with:
 1. growing number of reality TV shows
 2. new technology that allows viewers to fast-forwards through commercials
- Product placement spending (brand entertainment spending) totaled more than 3.5 billion in one year.
- Type of promotional planning for small budgets – guerilla marketing. This is innovative, low-cost marketing efforts designed to get customer's attention in unusual ways.

Major promotional mix elements of ADVERTISING

Advertising – paid non-personal communication usually targeted at large numbers of potential buyers.

- More than 10 billion is spent per year in Canada.
- In North America, automotive (20 billion), retail and telecommunications spend most on advertising

- 2 types of ads
 1. **Product advertising** – consists of messages designed to sell a particular good or service. Ex. Ad for blackberry, iPod, etc.
 2. **Institutional advertising** involves messages that promote concepts, ideas, or philosophies. Ex. “Walk for the Cure” fundraising event by juvenile Diabetes Research Foundation.
- **Cause advertising** (advocacy advertising) is institutional advertising that’s growing in importance. A form of institutional advertising that promotes a specific viewpoint on a public issue as a way to influence public opinion and the political process on issues like literacy, hunger and poverty.
- **Advertisement either performs, persuades, or reminds. Product advertising and institutional advertising belong to one of the 3 categories depending on the advertising objectives.**
- 1. *Informative advertising* builds interest or demand in the beginning stages of the PRODUCT LIFE CYCLE. The buyers then look for product advantages.
- 2. *Persuasive advertising* tries to improve competitive status of a product, institution, or concept. Needed in growth and maturity stages of product.
- 3. Comparative advertising one of the most popular types of persuasive product advertising. Compares Tylenol to generic aspirin.
- 4. *Reminder-oriented advertising* is used in late-maturity or decline stages of product life cycle.
- How marketers choose to distribute their advertising budgets
 - Television – 43%
 - magazines – 21%
 - newspapers – 19%
 - internet – 8%
 - radio – 7%
 - outdoor – 3%
- Traditional ad campaigns now make use of new media.

Television – include network ads, national ads, local ads, or cable ads – ads reach 10-20 million in a single commercial. 90% Canadian households have cable, (58% in US), 60% of north American homes has video game consoles (downloading apps, & video on demand)

- TV is most expensive form of advertising

Newspaper – most popular type of local advertising. Easy to combine with promotional efforts like discount coupons. Disadvantage – short life span. Retailers and automobile dealers are biggest newspaper advertisers.

Radio – average North American household owns 5 radios, aka it is an important advertising medium. Internet radio offers more opportunities for more focused targeting. Satellite stations have commercial free radio but have commercials on news and talk shows.

Magazines – consumer publications (sports illustrated), and trade publications (oil & gas journal). Magazines are a natural choice for targeted audience. Media buyers study demographics of subscribers

and select magazines that attract the desired readers, ex. Pac Sun clothes and Clearasil skin medication are advertised in teen vogue.

Direct Mail – average north American household receives 550 pieces of direct mail each year. Even though it's expensive per person, a small business could afford a few direct pieces of mail instead of a television ad (to costly). Canadian Marketing Association (CMA) helps marketers by offerings its members guide lines on ethical business practices. The American-based Direct Marketing Association (DMA) also provides consumer information at its website. The DMA and Canada post offer services for consumers to opt out of receiving unsolicited direct mail.

Outdoor Advertising – such as billboards, signs in transit stations, stores, airports, sports stadiums (in the future possible computerized paintings, video billboards, etc.) Disadvantages: requires brief messages and billboards often attacked by preservation and conservation groups.

Internet Advertising – sales from online advertising and marketing are not greater than sales from print media.

Widgets or gadgets are miniature television screen images that carry marketing messages only a few inches high on a website, blog, or desktop display. These images contain embedded links to their home sites.

Viral advertising creates a message that is novel or entertaining enough for consumers to forward it to others, spreading it like a virus. Spreading the word online relies on social networking sites like Facebook and twitter. Advantage: this costs nothing for the advertiser. Example of an effective viral video ad: T-Mobile dance, a film of dancing flash mob in London's Liverpool street railway station. Ethical questions are raised when consumers are recruited as "brand ambassadors" or "buzz agents" for pay. Ex. "BzzAgent" gives its members products instead of money, and these ambassadors cant tell others they're being paid.

Sponsorship – involves providing funds for a sporting or cultural even in exchange for a direct association with the event. Sports sponsorships are 2/3 of all sponsorships in North America. Firms may also sponsor fundraisers and other not-for-profit events (CIBC-sponsored Canadian Breast Cancer Foundation's Run for the Cure).

- Sponsors benefit in 2 ways
 1. Gain exposure to event's audience
 2. Gain association with image of the activity

Other Media Options –

- Many firms use major media but some firm promote through other means, such as infomercial and specialized media.

Infomercials (direct response television) are a form of broadcast direct marketing; 30-minute programs resemble regular TV programs, but sell goods or services. The most effective infomercials are for auto-care products, beauty and personal care items, investing and business opportunities, collectibles, fitness and self-improvement products, and housewares and electronics.

- A more recent development is the use of ATM's displaying advertisements. Some display advertisements, or print ads on receipts.
- Directory advertisement includes the familiar Yellow Pages listings in telephone books.

MAJOR PROMOTIONAL MIX ELEMENTS OF SALES PROMOTION –

- Traditionally viewed as an add-on to a firm's sales or advertising efforts, but sales promotion is now an important part of the promotional mix.
- Promotion is more than half as many marketing dollars as are spent on advertising, and promotion spending is rising faster than ad spending
- **Sales promotion** – forms of promotion such as coupons, products samples, and rebates that support advertising and personal selling. S.P. leads to short term advantage of increased sales. S.P. can help marketers build brand equity and improve their customer relationships.
- Retailers and manufacturers use sales promotions to offer consumers extra incentives to buy.

CHAPTER 13 (Pg. 357 – 368)

By: Ziyue Wu

Sales Promotion

- Has emerged as an important part of promotional mix, as it accounts for more than half as many marketing dollars as are spent on advertising
- Sales promotion: forms of promotion such as coupons, product samples, and rebates the support advertising and personal selling
- It is a strategy used by both retailers and manufacturers to offer consumer extra incentives to buy
- The goal of a consumer-oriented sales promotion is to get new & existing customers to try products, and ultimately, to buy products
- Spending on consumer-oriented promotions:
 - i. 57% - premiums
 - ii. 23% - point-of-purchase displays
 - iii. 9% - coupons
 - iv. 7% - promotional products (specialties)
 - v. 2% - Games, contests, and sweepstakes
 - vi. 2% - Samples

- Premiums are items given away for free or at a reduced price (when another product is purchased)
- Coupons are redeemable small price discounts when consumers purchase the promoted products
- Rebates offer cash back to consumers who mail in required proofs of purchases
- Sample is a gift of a product distributed through a variety of ways
- Special advertising: Sales promotions that involve the gift of useful merchandise carrying the name, logo, or slogan or a profit-seeking business/not-for-profit organization. Since people use them often, they are repeatedly exposed to that business/organization
- Trade promotion: Sales promotions that are geared to marketing intermediaries, not to consumers. It is used to encourage retailers to continue their stream of supplies, which should bring quick results and improve retail sales
- Point-of-purchase advertising: Displays or demonstrations that promote products when and where consumers buy them, such as in retail stores (I.e. In-store Swiffer floor cleaner demonstrations). There are also trade shows that companies demonstrate and promote their goods or services at
- Personal selling describes a presentation which involves a person-to-person discussion involving a promotion and a potential buyer
- Firms are likely to focus on personal selling instead of advertising or sales promotion under 4 conditions:
 1. Customers are relatively few in number & are geographically concentrated
 2. The product is technically complex, involves trade-ins, or requires special handling
 3. The product carries a relatively high price
 4. The product moves through direct-distribution channels
- Today's sales people are more concerned with creating long-term buyer & seller relationships and acting as consultants to their customers

Sales Tasks

1. Order processing: A form of selling used mostly at the wholesale and retail levels; involves identifying customer needs pointing out products that meet those needs, and completing orders
2. Creative selling: A persuasive type of promotional presentation; it promotes a good/service to someone who cannot identify its benefit directly, or requires a close look at other options. It often involves intangible goods/services such as insurance
3. Missionary selling: An indirect form of selling where the representative promotes goodwill for a company or provides technical or operational assistance to the customer. They often use easily-accessible devices so they can access the internet or make calls. This allows the service providers to assist their customers whenever they are and wherever they are at
4. Telemarketing: Personal selling by telephone, which provides marketers with a high return on their expenses, and immediate response, and an opportunity for a personalized two-way conversation.
 - Outbound telemarketing refers to a situation when a sales representative calls you
 - Inbound telemarketing occurs when you call a toll-free phone number to get product information or place an order
 - Calls are limited between 9 AM to 9:30 PM on weekdays, and 10 AM to 6 PM on weekends
 - Telemarketers must stop calling registered numbers within 31days

The Sales Process

1. Prospecting, qualifying, and approaching:
Companies first identify and qualify prospects (possible consumers) by using a variety of techniques such as emails, electronic newsletters and social media, virtual trade shows, podcasts, and videos
2. Presentation and demonstration:
Then, salespeople communicate promotional messages, which might include the major features and advantages of their products. The demonstration process thus reiterates and reinforces what the salespeople stated in their promotional messages
3. Handling objections:
Salespeople must now know how to handle customer objections, and use it as an opportunity to answer potential questions or clarify their products. Remember, the key is to sell the benefits, not the features

4. Closing:

If all went smoothly, then the prospect will buy and the closing will thus come naturally. However, if there were some bumps in the process, the sales person can try offering alternative products, offering a special incentive for purchase, or restating the product benefits. The key here is to begin a relationship where the customer builds loyalty to the brand/product

5. Follow-up

This is an important part of building a long-lasting relationship. The salesperson must process the order efficiently, tell the customers that they made the right decision, and correct any problems

Public relations

- This includes publicity and supports advertising, personal selling, and sales promotion
- This can improve a firm's image with the public by distributing specific messages or ideas to target audiences
- This also helps a firm to increase awareness of goods and services and then builds a positive image of those goods and services (I.e. green-energy products)
- Public relations: An organization's communications and relationships with its various public audiences

Publicity

- Publicity: The non-personal stimulation of demand for a good, service, place, idea, event, person, or organization by unpaid placement of information in print or broadcast media
- For example, creating a public "fuss" about your product in the media (I.e. HP selling their tablets for \$50 for one-day-only)

Pushing And Pulling Strategies

- There are two general promotional strategies:
 1. Pushing strategy: Personal selling to market an item to wholesalers and retailers in a company's distribution channels
 2. Pulling strategy: Promotion of a product by generating consumer demand for it, mainly through advertising and sales promotion appeals

- Cooperative advertising: Allowances that marketers provide to share with channel partners the cost of local advertising of their firm's product or product line
- Consumer products usually depend more heavily on pulling strategies; and B2B products usually favour pushing strategies

Pricing Objectives In The Marketing Mix

- Price: The exchange value of a good or services

Four basic categories of pricing objectives are:

1. Profitability objectives: Common goals that are included in the strategic plans of most firms. Profit and revenue are two different terms and companies try to maximize their profits by reducing costs instead of increasing prices. (I.e. using less paper/materials to create paper card-boxes)
2. Volume objectives: Pricing decisions that are based on market share, the percentage of a market controlled by a certain company or product. Markets such as PC are oversupplied and as a result, companies have to lower prices to remain competitive and make profits
3. Pricing competition objectives: Meeting competitors' prices so that price becomes a non-issue. Many companies set their own prices based on what the established market price is, but they cannot all agree on a unanimous price. There have been various "price wars" in marketing history. Marketers try to avoid price wars by using other strategies, such as adding value, improving quality, educating consumers, and building relationships
4. Prestige pricing: Setting a relatively high price to develop and maintain an image of quality and exclusiveness. Marketers recognize the role of price in communicating an overall image for firms and their products. (I.e. Louis Vuitton hand bags, Lexus, Burberry). Another prestige factor is scarcity (I.e. short supplies of Apple products on the first day of sale; diamonds)

Pricing Strategies

Prices are determined in 2 basic ways:

1. By applying the concepts of supply and demand discussed in Chapter 3
2. By completing cost-oriented analyses

Market price is where the amount of product (desired) is equal to the amount that suppliers will offer; when supply & demand equal

Price determination in practice

- Cost-based pricing: calculating total costs per unit and then add markups (any unexpected or overlooked expenses) to cover overhead costs and generate profits
- Cost-based pricing totals all costs associated with offering a product in the market

Breakeven Analysis

- Breakeven analysis: The pricing-related technique used to calculate the minimum sales volume a product must generate at a certain price level to cover all costs
- This method involves looking at various costs and total revenues
- Total cost = sum of total variable costs & total fixed costs
- Variable costs = prices that change with the level of production (I.e. labour & raw materials)
- Fixed costs = insurance premiums and utility rates charged by water, electricity
- Total revenue = quantities sold * price of each good

Finding the breakeven point

- Breakeven point: The level of sales that will generate enough revenue to cover all of the company's fixed and variable costs; the point where total revenue = total costs
- Sales above the breakeven point will generate profits, whereas sales below it will result in losses
- Breakeven point (in units) = Total fixed costs / Contribution to fixed costs per unit
- Breakeven point (in dollars) = Total fixed costs / (1 – Variable costs per unit/Price)

Alternative Pricing Strategies

Four alternative pricing strategies:

1. Skimming pricing: A strategy that sets an intentionally high price relative to the prices of competing products. This pricing strategy often works when introducing a distinctive good or service that has little or no competition, and is used to separate a firm's high-end product from competitors'.
2. Penetration pricing: A strategy that sets a low price as a major marketing tactic (I.e. Wal-Mart). After some market success, through purchases encouraged by its low price, marketers may increase the price to the level of competing products

3. Everyday low pricing: A strategy of maintaining continuous low prices instead of using short-term price-cutting tactics such as cents-off coupons, rebates, and special sales. It has been made famous by Wal-Mart and GNC, since they consistently offer low prices. However, discounting must be done carefully or profits can disappear. For example, businesses should offer discounts only for a specified period of time.
4. Competitive pricing: A strategy that tries to reduce the emphasis on price competition by matching other firms' prices and by focusing on their own marketing efforts on the product, distribution, and promotional elements of the marketing mix. This is more relied upon than pricing tactics.

Consumer Perceptions of Prices

Price-quality relationships

- Consumer's perception of product is closely related to an item's price
- As a result, low price products have less credibility. High price items are perceived to be associated with words like prestige, and quality

Odd pricing

- Odd pricing: A pricing method that uses uneven amounts to make prices appear to be less than they really are
- I.e. \$1.99 instead of \$2.00, and \$9.95 instead of \$10.00
- Some retailers also use this method to identify items that are on sale

CHAPTER 16 Pages 447 – 457

Adil Mansoor (awesome flow chart !)

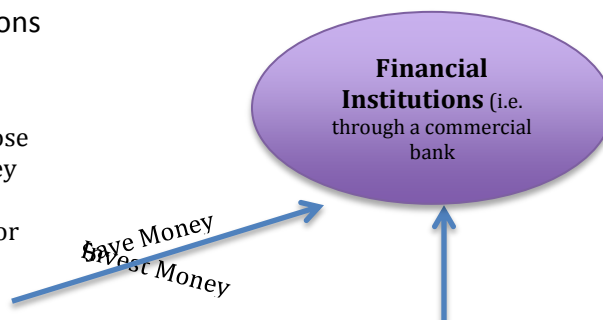
FINANCIAL SYSTEM: The mechanism, by which money flows from savers to users. Almost all businesses, governments and individuals participate in the financial system.

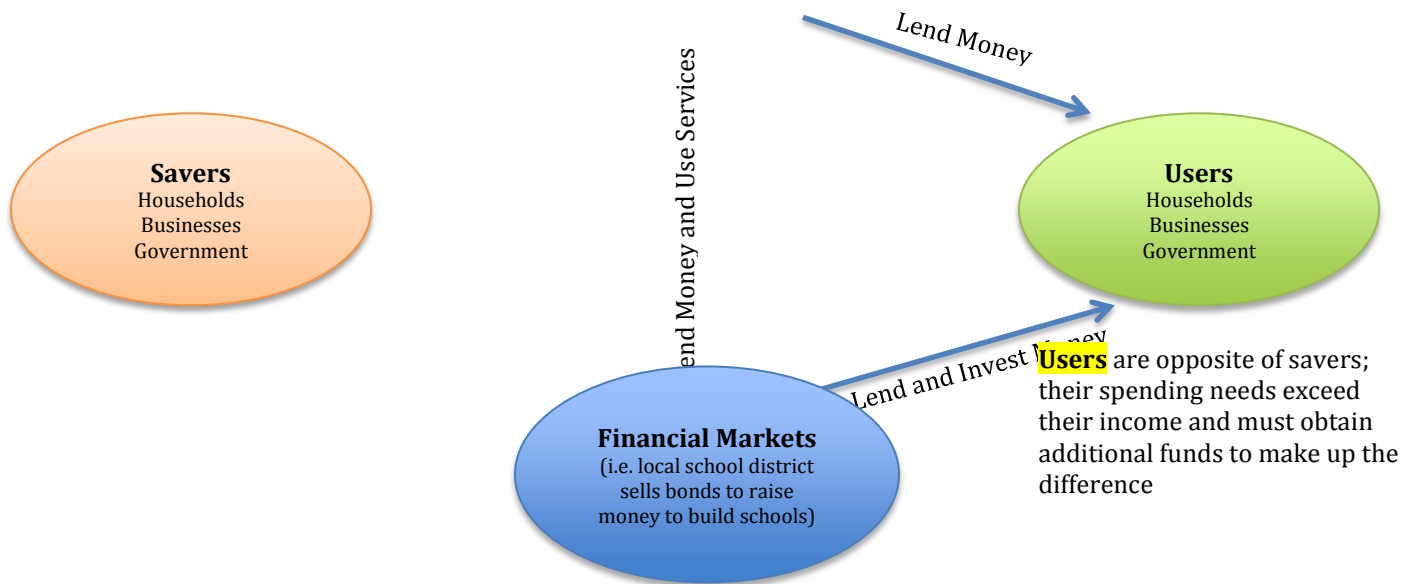
UNDERSTANDING THE FINANCIAL SYSTEM

The Financial System is mainly formed by:

- Households, Businesses, and Governments → Tend to either be the savers or users
- Financial Institutions
- Financial Markets

On the left are **savers** – those who have excess funds; they tend to either invest their money for greater profits, or save their money for latter usage





Households (net savers) generally tend to save more than businesses (net users); Households also provide most of the net savings in the Canadian financial system

**Age is one of the most important factors regarding how much people save → As you transition from being a student to early worker, you have small savings (or may even have debt), but as you grow, and your earnings rise, you can start saving more and more money

**Funds can be transferred between users in two ways:

- **Direct:** When a saver directly transfers money to a user (i.e. A friend giving you a loan)
- **Indirect:** When most funds from savers flow through either financial markets or financial institutions before reaching users

TYPES OF SECURITIES

Securities: Financial instruments, that represent the obligations of the issuers – businesses and governments – to provide the purchasers with the expected or stated returns on the funds invested or loaned

- Securities can be grouped in three categories:
 1. Money Market Instruments
 2. Bonds
 3. Shares (also known as stocks)

Money Market Instruments:

- Short-term debt securities issued by governments, financial institutions, and corporations
- Mature within one year from date of issue

- Low-risk

Bonds:

- Bondholders are creditors of a corporation or government body
- A firm may sell bonds to obtain long-term debt capital
- Bonds are issued in various denominations and each issue indicates interest rate and the date of maturity
- The maturity date is the date when the bondholder will be paid the bond's full face value.
- Bondholders are creditors, meaning that their claims on the firm's assets must be satisfied before any claims of shareholders if the firm enters into bankruptcy, reorganization, or liquidation
- **Types of Bonds:**
 - *Government Bonds:* Sold by the federal government and are backed by the full faith and credit of the federal government
 - *Municipal Bonds:* Issued by municipal government.
 - Two types of municipal bonds:
 - **Corporate bonds:** include a diverse group of bonds, such as
 - *Secured Bond:* Backed by a specific pledge of company assets that are held as collateral
 - *Debentures:* Backed only by the financial reputation of the issuing corporation
 - **Mortgage Backed Securities:** Backed by a pool, or group, of mortgage loans purchased from lenders
- **Quality Ratings for Bonds**
 - Two factors affect a bond's price: its risk and its interest rate
 - **Risk**
 - Bonds vary in terms of their risk
 - Bond investors use a tool called a *bond rating* to assess the risk of a bond
 - Investment firms assess bonds and give it ratings (high rating = low risk)
 - **Interest Rate**
 - The higher the interest rate, the higher the price of a bond (if all else is equal)
 - Often everything else is not equal: the bonds may not be equally risky, or one bond may have a longer maturity date

Shares:

- The basic form of corporate ownership
- Purchasers of common shares are the true owners of a corporation, who get a return on their investment usually through dividends, and expectation of increase in the value of the shares
- Investors who hold common shares benefit from a company's success but also risk losing their investment if the company fails
- **Preferred Shares**
 - Holders of preferred shares receive preference in the payment of dividends

- If a company is dissolved, holders of preferred shares have claims on the firm's assets that are ahead of the claims of the holders of common shares
- However, holders of preferred shares rarely have voting rights
- **Convertible Shares**
 - Shares or bonds offered by a company that can be converted into other kinds of shares (i.e. a firm may allow holders of a preferred share to trade it for a fixed number of common shares)

FINANCIAL MARKETS

Financial Markets: Markets where securities are issued and traded. They include primary and secondary Markets

Primary Market: Markets in which firms and governments issue securities and sell them initially to the general public.

- In a share offering, investors are offered the opportunity to purchase ownership shares in a firm and to participate in a firm's future growth, in exchange for providing them the firm's current capital
- When a company offers shares for sale to the general public for the first time, it is called an *initial public offering*
- Securities are sold to the investing public through two ways: in open auctions (done by governments usually) and through investment bankers (done by profit-seeking corporations)

Secondary Market: A collection of financial markets where previously issued securities are traded among investors.

UNDERSTANDING STOCK MARKETS

Stock Markets (Exchanges): Markets where shares of stock are bought and sold by investors.

Toronto Stock Exchange: TSX is Canada's largest stock exchange. For a company's shares to be traded on the TSX, the firm must apply for a listing and meet certain listing requirements, and must continue to meet requirements to remain enlisted on TSX.

Foreign Stock Markets

- *The New York Stock Exchange (NYSE)* is sometimes referred to as the "Big Board". The NYSE is the most famous stock market and one of the oldest stock markets in the world.
- *The NASDAQ Stock Market* is the world's second largest stock market.

ECNS and the Future of Stock Markets:

- For years, a so-called *fourth market* has existed. The fourth market is the direct trading of exchange-listed stocks of the floor of the exchange. Until recently, trading in the fourth market was limited to institutions investors who were buying or selling large blocks of shares.

Investor Participation in Stock Markets

- Many investors are not members of TSX or any other stock market, but rather they use of brokerage firms to buy or sell shares
- The requirements for setting up an account vary from broker to broker
- The most common type of order is *market order*: this order instructs the broker to obtain best possible price – highest possible price when selling, and lowest possible price when buying

CHAPTER 16 Pages 457 – 467

Beslan Borshchikov

Financial Institutions

Financial Institutions- intermediaries between savers and borrowers that collect funds from savers and then lend the funds to individuals, businesses, and government.

Financial Institutions are classified into **depository** institutions and **non-depository** institutions.

Depository accept deposits that customers can withdraw on demand. Examples: commercial banks, such as CIBC, RBC, TD. **Non-depository** include life insurance companies, such as Manulife Financial; pension funds, such as the Ontario Teachers' Pension Plan; and mutual funds.

Commercial Banks (largest financial institutions) - provide chequing and saving deposit accounts, consumer loans, credit cards, home mortgage loans, business loans, and trust services, sell securities and insurance. 1) **How Banks operate**: raise funds by offering a variety of chequing and savings deposits (charge fees), lend funds in form of loans to consumers and businesses (charge interest rate). 2) **Electronic Banking**- move of funds through electronic funds transfer system (ATM- automated teller machine), **Online Banking**- internet banking, two types: Internet-only banks, such as PC Financial, and traditional bricks-and-mortar banks, such as RBC and CIBC. 3) **Deposit Insurance**- insured by CDIC. **Canada Deposit Insurance Corporation**- the federal agency that insures deposits at commercial and saving banks.

Credit Unions - offers many of the same services as commercial banks. They are co-operative financial institutions that are owned by their depositors, all of whom are members, and designed to serve consumers, not businesses. They usually pay higher rates on deposit, charge less on loans, and charge fewer fees.

Non-depository Financial Institutions- accept funds from businesses and households, and then invest most of these funds (no demand deposits). Examples, insurance companies, pension funds, and finance companies. 1) **Insurance companies**- transfer risk from buyer of insurance to the insurance company in return for series of payments (premiums). 2) **Pension funds**- provide retirement benefits to workers and their families. Pension funds have predictable long-term inflow and outflow. 3) **Finance companies**- offers short-term loans to borrowers. Examples, Ford Credit and John Deere Capital Corporation. FC supplies short-term funds to businesses that use their tangible assets as collateral for the loan.

Mutual Funds- are financial intermediaries that raise money from investors by selling shares.

The Role of the Bank of Canada.

Bank of Canada- the central bank of Canada, has 4 responsibilities: regulating monetary policy, designing and issuing bank notes, regulating the financial system, and managing funds for the federal government and other clients.

Monetary policy- controlling the supply of money and credit. The bank's job is to make sure that money supply grows at a suitable rate, allowing the economy to expand and inflation to remain in check. If money supply grows slowly- economy will grow slowly, if the money supply grows too rapidly- inflation will occur. Bank pushes interest rates up or down. Money supply measured by M1 (in circulation+chequing accounts), and M2= M1 + savings accounts. Bank has two tools for controlling the growth in the supply of money and credit: **the discount rate** (interest rate at which chartered bank makes short-term loans to member banks) and **open market operations** (buying or selling Canadian government securities).

Regulation of the financial system.

Bank regulation

Purpose: ensure public confidence in safety and security of the banking system. Regulated by Department of Finance, the Bank of Canada, the Office of the Superintendent of Financial Institutions (OSFI), and the CDIC.

Government Regulation of the Financial Market

Financial markets are regulated by organizations such as the Manitoba Securities Commission or the Ontario Securities Commission. Pay attention to insider trading.

Insider trading- use of material nonpublic information about a company to make investment profits.

Industry Self-Regulation

The securities markets are also heavily self-regulated by professional associations and the major financial markets. Two examples of self-regulation are the rules of conduct established by professional organizations and the market surveillance techniques used by the major securities markets. Example, IIROC's surveillance functions include real-time monitoring of trading activity.

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Katie Mc

A business must perform 3 basic functions:

1. Produce a good/service or contract with suppliers to produce good/service
2. Firm must market good/service to prospective customers
3. Finance – **planning, obtaining, and managing the company's funds to accomplish its objectives as effectively and efficiently as possible (definition from text)**

Financial objectives: meeting expenses, investing in assets, maximizing overall worth

Responsibilities of these positions include....

1. Financial managers: the executives who develop and carry out their firm's financial plan and decide on the most appropriate sources and uses of funds.

2. Vice president for financial management/planning: responsible for preparing financial forecasts and analyzing major investment decisions related to new products, new production facilities, and acquisitions

3. Treasurer is responsible for company's financing activities, including cash management, tax planning and preparation, and shareholder relations.

4. Controller (chief accounting manager) is responsible for keeping the company's books, preparing financial statements, and conducting internal audits.

The Risk-Return Trade Off – the process of maximizing the wealth of the firm's shareholders by striking the right balance between risk (uncertainty of gain/loss) and return (gain/loss resulting from an investment over a specified period of time).

- Financial managers try to maximize the wealth of their firm's shareholders by striking the right balance between risk and return.

Financial plan – (developed by the financial managers of an organization) is a document that specifies the funds needed by a firm for a period of time, the timing of cash inflows and outflows, and the most appropriate sources and uses of funds.

Operating plans are short-term financial plans that focus on no more than a year or two in the future.

Strategic plans are financial plans that have a much longer time horizon, up to five or 10 years.

A financial plan is based on forecasts of these items: production costs, purchasing needs, plant and equipment expenses, and sales activities for the period covered.

A financial plan is based on 3 steps:

1. Forecast of sales/revenue over period of time – an accurate sales forecast is needed to estimate other variables such as production costs and purchasing needs. Forecasting sales depends on the type of business (analyze current sales & possible sales growth in the future i.e. planned store openings, selling merchandise through another channel such as online).
2. Develop profit forecast. Use sales forecast to develop expected level of profits for the future. Projection involves estimating expenses such as purchases, employee compensation and taxes.
3. Estimate how many additional assets the firm will need to support the projected sales also called **asset intensity** (increased sales means the company needs additional inventory, or a new plant and equipment).

Short-term assets are also called current assets. They consist of cash and assets that can be, or are expected to be, converted into cash within a year. The major current assets are cash, marketable securities, accounts receivable, and inventory.

Most firms invest their excess cash in **marketable securities**. These are the low-risk securities that either have short maturities or can be easily sold in secondary markets. Money market instruments are popular choices for firms that have excess cash.

The cash budget shows expected inflows and outflows for a period of time and it shows which months the firm will have surplus cash and will be able to invest in marketable securities and which months when it will need additional cash.

Accounts receivable are uncollected credit sales. The financial managers job is to collect the funds owed to the firm. A more liberal credit policy means higher sales but also increased collection expenses, higher levels of bad debt, and a higher investment in accounts receivable.

- Management of account receivable is composed of two functions
 1. Creating an overall credit policy
 2. Deciding which customers will be offered credit and what will the terms of credit be (will a discount be offered to customers who pay cash?)
- To assess how well receivables are being managed: calculate accounts receivable turnover for two or more time periods in a row using the ratio calculated in ch 15. If the receivables turnover shows signs of slowing, it means on average credit customers are paying later.

Inventory management – includes not only the cost of inventory, but also the ordering, storing, insuring and financing inventory. Trends in the inventory turnover ratio (ch. 15) can be early warning signs of difficulties ahead. When inventory turnover has been slowing or several quarters in a row, inventory is rising faster than sales (this insinuates customer demand could be slowing).

Long-lived assets often involve a large amount of money and are expected to produce economic benefits for more than one year.

Capital investment analysis is the process financial managers use when deciding whether to invest in long-lived assets. Firms make 2 basic types of capital investment decisions: Expansion and replacement. Expanding refers to things such as expanding a business into Canada (Target buying out Zellers) and replacement refers to upgrading assets (Walmart replacing old store for Supercenter).

Managing international assets creates challenges for financial managers such as dealing with exchange rates. Some activities can reduce or eliminate the risks associated with exchanges rates.

When the equation “Assets = liability + owners’ equity” is viewed from a financial management perspective, it shows there are only two types of funding: debt and equity.

- **Debt capital** consists of funds obtained through borrowing

- **Equity capital** consists of funds provided by the firm's owners when they reinvest their earnings, make additional contributions, liquidate assets, issue shares to the general public, or raise capital from outside investors.
- The mixture of a firm's debt and equity capital is the **capital structure**.
- Debt is the least costly method of raising additional financing dollars, which is why it's so frequently used.
- The mixture of debt and equity a company uses is a major management decision

Leverage is increasing the rate of return on funds invested by borrowing funds. The key: company's earnings remain larger than its interest payments (which increases the leverage on the rate of return on shareholders' investment). If the company earns less than its interest payments, shareholders lose money on their original investments.

Downsides of equity capital:

- When equity is sold, the control of the existing shareholders is weakened, and the outcome of these votes could potentially change.
- Equity capital is more expensive than debt capital. Creditors have a senior claim to the assets of a firm before the shareholders' claims. This advantage allows creditors to accept a lower rate of return than shareholders. Also, the firm can deduct interest payments on debt, reducing its taxable income and its tax bill.

Financial managers must decide the suitable mix of short-term (current liabilities) and long-term funds (long-term debt and equity). Short-term are unstable and generally less expensive but come with more risk because short-term funds need to be renewed frequently. Due to the risk of short-term funding, most firms finance long-term assets and some short-term assets by using long-term funds.

Dividends are periodic cash payments to shareholders. Most common type: paid quarterly and often called a **regular dividend**. Earnings that are paid in dividends are not reinvested in the firm and don't contribute additional equity capital.

- Firm's are under no legal obligation to pay dividends to shareholders. Some companies pay generous dividends, others pay none.
- These factors are considered when deciding on a company's dividend policy:
 - investment opportunities – if there are numerous investment opportunities and the firm wants to finance some or all of them through equity funding, little or none of the earnings will go to dividends. A firm with more limited investment opportunities generally pays more if its earnings in dividends.
- In addition to dividends, some companies buy back their shares (purpose: raise market value of the remaining shares)

The three major sources of short-term funds are:

1. Trade credit
2. Short-term loans
3. Commercial paper

Trade Credit is extended by suppliers when a firm receives goods or services and agrees to pay for them at a later date, common in retailing and manufacturing. To record trade credit, the supplier enters the transactions as an account receivable, and the retailer enters it as an account payable. Main pro: easy availability. Main con: the amount a company borrows is limited to the amount it purchases.

- If suppliers don't offer a cash discount, trade credit is free. Some suppliers offer discounts if they are paid in cash. If a discount is offered, trade credit can get expensive.

Short-term loans

Businesses often use loans to finance inventory and accounts receivable. For example: a ski manufacturer has highest sales in late fall-early winter, therefore they will build inventory in summer using a short-term loan. The manufacturer also needs to finance accounts receivable (credit sales to customers) during the fall and winter. It takes out a bank loan during the summer. As the inventory is sold & accounts receivable is collected, the firm repays the loan.

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An Nguy

Short-Term Funding Options

- helps a firm meet current needs (cash or inventory)
- repaid within one year
- mostly used by retailers (building up inventory during off seasons to save up for holiday then using holiday revenues to repay the loan)
- 3 major sources of short-term funds:
 - 1. trade credit
 - 2. short-term loans
 - 3. commercial paper
- large firms use a combination of all 3 sources

1. Trade Credit: when a firm receives goods/services and pays the *supplier* at a later date

- common in retailing and manufacturing
- without trade credit: retailing sector would have fewer selections
- how to record: supplier enters transaction as *account receivable* and retailer enters as *account payable*
- main advantage: easy availability
- main disadvantage: the amount a company can borrow is limited to the amount it purchases
- cost of trade credit: if suppliers do not offer a cash discount, the trade credit is effectively free (net # means # days to pay)
 - ex. \$100 net 30 = company borrows \$100 and repaying \$100 in 30 days (effective rate of interest is 0)
- some suppliers offer a discount if they are paid in cash (if a discount is offered then trade credit can get expensive)

ex. 2% discount offered to cash buyers, if the discount is not taken by the buyer they have 30 days to pay. If the buyer does not pay cash there is annual interest rates (24%+)

2. Short-Term Loans: loans from commercial banks

- used to finance inventory and accounts receivable (credit sales to customers)
- during the off season the bank loan is taken and when inventory is sold and as accounts receivable are collected the firm repays the loan
- 2 types of short term bank loans:
 - 1. lines of credit:
 - specifies the maximum amount the firm can borrow over a period of time (bank is under no obligation to lend the money, it will lend only if funds are available)
 - original amount + interest
 - 2. revolving credit agreements:
 - a guaranteed line of credit (bank guarantees that the funds will be available when needed)
 - original amount + interest + *fee*
- cash budget is important (helps when deciding on the size of a line of credit): shows the months when additional financing will be needed or when borrowed funds can be repaid
- main difference between *commercial finance companies* and bank: bank loans are unsecured (no specific assets are pledged as collateral or security while loans from commercial finance companies are secured by accounts receivable or inventory as collateral)
- *factoring*: uses accounts receivable
 - business sells its account receivable at a discount to a bank or finance company (factor)
 - cost of the transaction depends on the size of the discount

allows the firm to convert its receivables into cash quickly without worrying about collections

3. Commercial Paper: short-term IOU sold by a company

- sold in multiples of \$100k - \$1 million, maturity date from 1 – 270 days, unsecured
- advantage: large amounts of money can be raised at interest rates that are 1 – 2% less than the interest rates charged by banks
- only a small % of businesses can issue it (access to the commercial paper market is limited to large financially strong corporations)

Sources of Long-Term Financing

- used for large projects (buying another company, investing in real estate, buying equipment) (repaid over many years)
- 3 major sources of long-term financing:
 - 1. financial institutions (commercial banks, life insurance companies, pension funds)
 - 2. bonds (certificates of indebtedness sold to investors)
 - 3. equity financing (selling shares in the firm or reinvesting company profits)

Public Sale of Shares and Bonds

- share purchaser: sales provide cash inflows for the issuing firm and either a share in its ownership

- bond purchaser: specified rate of interest and repayment at a stated time
- shares and bonds are traded in the secondary markets = shareholders and bondholders can easily sell the securities
- can vary year to year depending on conditions in the financial markets
 - ex. bond sales are higher when interest rates are low
- *underwriting* – companies sell securities publicly (through investment bankers)
- *underwriting discount* – issuer pays a fee to the investment banker

Private Placements: new shares or bond issues offered to a small group of major investors (pension funds, insurance companies) (not sold publicly)

- involves corporate debt issues
- cheaper for a company to sell a security privately than publicly
- subjected to fewer government regulations (registration with Canadian securities administration is not required)
- institutional investors (insurance companies, pension funds) buy private placements because they have higher interest rates than publicly issued bonds
- terms of the issue can be designed to meet specific needs of the issuer and the institutional investors
- institutional investor gives up liquidity (ease of cashability) (privately placed securities do not trade in secondary markets)

Venture Capitalists: business firms or individuals that invest in new and growing firms in exchange for an ownership share (they become part owners of the business)

- important to new companies*
- raise money from wealthy individuals and institutional investors and invest these funds in firms
- also provides management consulting advice and funds

Private Equity Funds: investment companies that raise funds from wealthy individuals and institutional investors (invest those funds in public and privately held companies)

- similar to venture capitalists (difference is venture capital funds focus on small start-up companies while private equity funds invest in all types of businesses)
- invest in transactions that take public companies private (leveraged buyouts ~ LBOs): public company reverts to private status
- *sovereign wealth fund* – variation of the private equity fund (owned by governments)
 - they invest in a variety of financial and real assets (real estate)
 - investments based on the best risk-return trade-off
 - investment decisions influenced by political, social and strategic considerations

Hedge Funds: private investment companies that are available only to qualified large investors

- hedge fund providers sell funds (form of mutual funds) to smaller investors
- makes large investments in non investment-grade bonds (junk bonds)
- (unlike venture capitalists and private equity funds) did not make direct investments in companies (they preferred to purchase existing shares and bond issues)

Mergers, Acquisitions, Buyouts, and Divestitures

- definition recap:

- *merger* – transaction where 2+ firms combine into one company
- *acquisitions* – one firm buys the assets of another firm and assumes that firm's obligations
- merger:
 - seller is referred to as the “target”
 - to acquire another company the buying firm needs to offer a premium for the target's shares (a price higher than the current market price)
 - *tender offer* (buyer) – proposal made by a firm to the target firm's shareholders specifying a price and the form of payment
- *synergy* – benefits produced by a merger or acquisition (idea that the combined firm is worth more than the buyer firm and the target firm are worth individually)
- *leverage* – financing of many of these transactions with high degrees of debt (more than 75%)

APPENDIX D

Lucy Jiang

Residents under Water without insurance

- If flood insurance is not required by a lender, it's an added expense to homeowners. Insurance rates can vary greatly, and flood insurance doesn't cover everything
- Flood insurance is a gamble both for the homeowner and the insurer. It's also a gamble for the mortgage holder
- FEMA's (Federal Emergency Management Agency) assistance is designed to get people back on their feet (渡过难关), not bring people to their pre-disaster conditions

[Risk is a daily fact of life for both individuals and businesses. Business people must understand the types of risk they face and develop ways to deal with risk. One approach to risk is to shift it to the specialized expertise of insurance companies. The appendix concludes with an overview of the major types of insurance]

❖ The concept of risk

- Risk [Uncertainty about loss or injury]
- Speculative risk (投机风险) gives the firm or individual the chance of a profit or a loss
- Pure risk (纯风险), in contrast, involves only the chance of loss. Motorists, for example, always face the risk of accidents. If an accident occurs, the result may be both financial and physical losses. But if an accident doesn't occur, drivers do not profit

❖ Risk management

[Calculations and actions a firm takes to recognize and deal with real or potential risk to its survival]

- In general, businesses have four alternatives in handling risk; avoid it, minimize it, assume it, or transfer it
- International businesses are typically exposed to less risk in countries that have stable economic, social and cultural, and political and legal environments
- Avoiding risk

- Some of the pure risks facing people can be avoided by living a healthful life
- Not smoking and not swimming alone are two ways of avoiding personal risk
- Businesses can also avoid some of the pure risks they face. E.g. a manufacturer can locate a new production facility away from an area that is at risk of hurricanes or tornadoes

○ Reducing risk

- Managers can reduce or even eliminate many types of risk by removing hazards, or by taking preventive measures
- Many companies develop safety programs to educate employees about potential hazards and the proper methods of performing certain dangerous tasks
- The training and monitoring reduce risk and can help insurance the bottom line. In addition to the human tragedy of accidents, accidents cost companies time and money
- Many actions can reduce the risk involved in business operations, but they cannot do away with risk entirely
- Most major insurers help their clients avoid or minimize risk by offering the services of loss-prevention experts, who conduct thorough reviews of the clients' operations
- These health and safety professionals evaluate customers' work environments and recommend procedures and equipment to help firms minimize worker injuries and property losses

○ Self-insuring against risk

- Instead of purchasing insurance against certain types of pure risk, some companies accumulate funds to cover potential losses
- These self-insurance funds are special funds created by periodically setting aside cash reserves that the firm can draw on in the event of a financial loss resulting from a pure risk
- A firm makes regular payments to the fund, and it charges losses to the fund. Such a fund typically works side-by-side with a risk reduction program aimed at minimizing losses

○ Shifting risk to an insurance company

• Insurance

[A contract in which the insurer, for a fee, agrees to reimburse an insured firm or individual a sum of money if a loss occurs]

- A premium (保险费) is the insured party's fee to the insurance company for coverage against losses
- Insurance substitutes a small, known loss—the insurance premium—for a larger, unknown loss that may or may not occur
- It is important for the insurer to understand the customer's business, risk exposure, and insurance needs

❖ Basic insurance concepts

- The insurer (the insurance company) collects premiums from policyholders (consumers or business) in exchange for insurance coverage
- The insurance company uses some of these funds to pay current claims and operating expenses
- The remaining funds are held in the form of reserves, which are invested
- Reserves can be used to pay for unexpected losses. The returns from insurance company reserves may allow the insurer to reduce premiums, generate profits, or both

- By investing reserves, the insurance industry represents a major source of long-term financing for other businesses
- Four basic principles underlie insurance: the concept of insurable interest, the concept of insurable risk, the rule of indemnity, and the law of large numbers
- Insurable interest (保险利益)
 - To purchase insurance, an applicant must show an insurable interest in the property or life of the insured
- Insurable risk (可保风险)
 - Insurable risk refers to the requirements that a risk must meet for the insurer to provide protection
 - Only some pure risks are insurable. No speculative risks are insurable.
 - A pure risk must meet four requirements to be considered an insurance risk
 - The likelihood of loss should be reasonable predictable. If an insurance company cannot reasonably predict losses, it has no basis for setting affordable premiums
 - The loss should be financially measurable
 - The loss should be accidental, or fortuitous, the result of chance
 - The risk should be spread over a certain geographic area
 - This process of setting these standards, and deciding what to charge, is known as underwriting (承保)

○ Rule of indemnity (赔偿)

[The requirement that the insured cannot collect more than the amount of the loss and cannot collect for the same loss more than once]

○ The law of large numbers

[The idea that seemingly random events will follow predictable patterns if enough events are observed]

- Insurance is based on the law of average, or statistical probability
- Insurance companies cannot afford to sell insurance policies unless they can reasonably predict losses
- From their investigations, insurance companies develop actuarial tables. These tables predict the number of fires, automobile accidents, or deaths that will occur in a given year
- Actuarial tables are based on the law of large numbers
- Losses from such hazards as automobile accidents and weather events are much more difficult to predict

❖ Source of insurance

○ Public insurance agencies

- A public insurance agency is a government unit established to provide specialized insurance protection for individuals and organizations
- It provides protection in such areas as job loss (employment insurance) and work-related injuries (workers' compensation)
- The biggest public insurance program in every province is the health insurance that provides health services

○ Private insurance companies

- Some private insurers are owned by shareholders and must be run like any other business
- Other insurers are so-called mutual associations. Most but not all mutual insurance companies specialize in life insurance
- Technically, mutual insurance companies are owned by their policyholders, who pay receive premium rebates in the form of dividends
- In recent years, some mutual insurance companies have reorganized as shareholder-owned companies, including Prudential, one of the world's largest insurers

❖ Types of insurance

- **Four basic tips** to remember when buying insurance:
 - Buy insurance against large losses, not small ones. It is usually much more cost effective to self-insure against small losses
 - Buy insurance with broad coverage, not narrow coverage
 - Shop around. Premiums for similar policies can vary widely from company to company
 - Buy insurance only from financially strong companies. Insurance companies occasionally go bankrupt. If that happens, the insured have no coverage and little hope of getting their premiums back
- **Life insurance >160/ 140 <private auto <160/accident and health >140**
- **Property and liability insurance**

[A general category of insurance that protects against losses due to number of perils, such as fire, accident and theft]

 - Most property and liability policies are subject to deductibles.
 - **A deductible (免赔额) is the amount of the loss the insured pays out of pocket**
 - **Homeowners' insurance**
 - Homeowners' insurance protects homeowners from damage to their residences due to various perils
 - Homeowners in coastal areas are finding it increasingly difficult to obtain insurance because of the growing number of claims related to erosion, hurricanes, and floods
 - Although standard policies cover a wide range of perils, most policies do not cover damage from widespread catastrophes such as floods and earthquakes. Homeowners must purchase separate policies to protect damage caused by these perils
 - **Auto insurance**
 - At more than \$150 billion in total annual premiums, automobile insurance is North America's largest category of property and liability insurance
 - Automobile insurance policies cover losses due to automobile accidents or theft, including personal and property claims
 - **Commercial and business insurance**
 - Commercial and business insurance protects firms from financial losses resulting from the suspension of business operations (business interruption insurance) or physical damage to property as a result of destructive events

