

## Chapter 1- Producing Goods and Services

### Terms:

**Service operations:** production activities that yield tangible and intangible service products.

**Goods operations:** production activities that yield tangible products.

## Creating Value through Production

### Terms:

**Operation (production) management:** the systematic direction and control of the processes that transform resources into finished goods. They are ultimately responsible for creating utility for customers.

**Production managers:** managers responsible for ensuring that operations processes create value and provide benefits. As demand increases, they must schedule and control work to produce amount required. Meanwhile they must control costs, quality levels, inventory, and plant and equipment. An example of a production manager who does not work in a factory is a farmer (converting soil, seeds, human labour and gas into agricultural products, livestock and related products (eggs, milk). They have the option of employing many workers to help them with the work, or use automated machinery in order to do most of it for them.

## Examples of Production System

### Farm:

**Inputs:** land, tractors, equipment, labour, buildings, fertilizer, farmer's management skills

**Transformation:** cultivation of plants and livestock

**Outputs:** food products, profit for owner, jobs for farmer's family

### Jewellery Store

**Input:** fashion-conscious customers, merchandise, sales clerks, showroom, fixtures, equipment

**Transformation:** exchange of merchandise between buyer and seller

**Output:** satisfied jewellery customers

### Tire Producer

**Inputs:** rubber and chemical compounds, blending equipment, tire moulds, factory, and human skills

**Transformation:** chemical reactions of raw materials

**Output:** tires for autos, airplanes, trucks, trailers, and other vehicles

## Goods-Producing Processes

### Types of Transformation Technology:

- **Chemical Processes:** raw materials that are chemically altered. Such techniques are common in the aluminium, steel, fertilizer, petroleum and paint industries.
- **Fabrication Processes:** the basic shape or form of a product that is mechanically altered. Fabrication occurs in the metal form, woodworking and textile industries.
- **Assembly Processes:** put together various components. These techniques are common in the electronics, appliance and automotive industries.
- **Transport Processes:** goods acquire place utility by being moved from one location to another. An example can be seen in trucks moving finished bicycles from manufacturing plants to consumers through warehouses and discount stores.
- **Clerical processes:** transform information. Combining data on employee absences and machine breakdown into a productivity report is a clerical process. So is compiling inventory reports at a retail outlet.

### Analytic versus Synthetic Processes:

- **Analytic Process:** any production process in which resources are broken down.
- **Synthetic Process:** any production process in which resources are combined.

### Service-Producing Processes:

- **High-Contact System:** a system in which the service cannot be provided without the customer being physically in the system (example: transit systems)
- **Low-Contact System:** a system in which the service can be provided without the customer being physically in the system (example: lawn care services)

### Differences between Service and Manufacturing Operations:

- **Focus on Performance:** whereas goods are produced, services are performed, since they are more intangible, and less storable than goods.
- **Focus on Service Characteristics:** products offered by most service operations are combinations of goods and services.
- **Focus of Service Characteristics:**
  - ❖ **Intangibility:** services cannot be seen, touched, smelled or tasted. However an important value is the intangible feeling of pleasure, satisfaction and/or safety that the customer feels when they purchase the service. There are also some tangible aspects of services, (example: wills are an example of a service).
  - ❖ **Customization:** what a customer expects when they purchase and/or receive a service. For an example, a person visiting a dentist will expect the dentist to check their teeth, and if necessary, perform the required processes to clean their teeth.
  - ❖ **Unstorability:** Services such as rubbish collection, transportation, childcare and housecleaning cannot be produced ahead of time and then stored. If a service is not used when it is available, it is usually wasted. Services are typically characterized by a high degree of unstorability.

- **Focus on the Customer-Service Link:** because they transform customers or their possessions, service operations often acknowledge as part of the operations process itself. An example can be seen in a barbershop. Since a customer is a physical participant in the operations process, service consumers have a unique ability to affect that processes. In other words, the consumers expect the salon to be conveniently located, to offer needed services at reasonable prices, and to extend prompt services.
- **Focus on Service Quality Considerations:** consumers use different criteria to judge services and goods. Service managers must understand that quality of work and quality of service are not necessarily synonymous. For example although a car may have been repaired perfectly, the fact that it was finished a day late may cause some dissatisfaction for the customer.

### Operations Planning

#### Terms:

- **Forecasts:** estimates of future demand for both new and existing products.

### Capacity Planning

- **Capacity:** the amount of a good that a firm can produce under normal working conditions.
- **Capacity planning for producing goods:** capacity planning for goods means ensuring that a manufacturing firm's capacity slightly exceeds the normal demand for its product. To see why this policy is best, consider the alternatives. If capacity is too small to meet demand, the company must turn away customers- a situation that not only cuts into profits, but also alienates customers and salespeople. If capacity greatly exceeds demand, it means the firm is wasting money, by maintaining a plant that are too large, keeping excessive machinery online, and/ or by employing too many workers.
- **Capacity planning for producing services:** in low-contact processes, maintaining inventory allows managers to set capacity at the level of average demand. In high contact processes, managers must plan capacity to meet peak demand.

### Location Planning

- **Location planning for producing goods:** in goods-producing operations, location decisions are influenced by proximity to raw materials and markets, availability of labour, energy and transportation costs, local and provincial regulations and taxes, and community living conditions.
- **Location planning for producing services:** in planning low contact services, companies can be located near resource supplies, labour, customers, or transportation outlets. On the other hand, high-contact services are more restricted. They must be rated near the customers who are a part of the system.

## Layout Planning

- **Layout planning for producing goods:**
  - ❖ **Productive facilities:** workstations and equipment for transforming raw materials, for example.
  - ❖ **Non-productive facilities:** storage and maintenance areas.
  - ❖ **Support facilities:** offices, restrooms, parking lots, cafeterias, and so forth.
  - ❖ **Process layout:** a way of organizing production activities such that equipment and people are grouped together according to their function.
  - ❖ **Cellular layouts:** used to produce goods when families of products can follow similar flow paths.
  - ❖ **Product layout:** a way of organizing production activities such that equipment and people are set up to produce only one type of good.
  - ❖ **Assembly line:** a type of product layout in which a partially finished product moves through a plant on a conveyor belt or other equipment.
  - ❖ **U-shaped production line:** production layout in which machines are placed in a narrow U shape rather than a straight line.
  - ❖ **Flexible manufacturing system (FMS):** a production system that allows a single factory to produce small batches of different goods on the same production line.
  - ❖ **Soft manufacturing:** reducing huge FMS operations to smaller, more manageable groups of machines.

## Methods Planning

- **Methods Improvement in Goods**
  - ❖ Improvement of production of goods begins when a manager documents the current method.
  - ❖ **Process flow chart:** a diagram used for organizing and recording all information, and helps to identify the sequence of production activities, movements of materials, and work performed at each stage as the product flows through production. The flow can be analyzed to identify wasteful activities, sources of delay in production flows, and other inefficiencies. The final step is implementing improvements.
- **Methods Improvement in Services**
  - ❖ **Service flow analysis:** An analysis that shows the process flows that is necessary to provide a service to customers; it allows managers to determine which processes are necessary.
  - ❖ **Designing to control employee discretion:** By careful planning and sometimes even by automating to control human discretion, managers can make services more customer-oriented because they can ensure product consistency.

- ❖ **Design for customer contact in services:** In a high contact service, the demands on system designs are somewhat different. Here managers must develop procedures that clearly spell out the ways in which workers interact with customers. These procedures must cover such activities as exchanging information or money, delivering and receiving materials and even making physical contact.

### Operations Scheduling

- **Tools for scheduling:**
  - ❖ **Gantt charts:** production schedule diagramming the steps in a project and specifying the time required for each.
  - ❖ **PERT chart:** production schedule specifying the sequence and critical path for performing the steps in a project.

### Operations Control

#### Terms:

- **Operations control:** managers monitor production performance by comparing results with plans and schedules.
- **Follow-up:** checking to ensure that production decisions are being implemented.

### Material Management

#### Terms:

- **Materials management:** planning, organizing and controlling the flow of materials from purchase through distribution of finished goods.
- **Standardization:** using standard and uniform components in the production process.
- **Transportation:** the means of transporting resources to the company and finished goods to buyers.
- **Warehousing:** the storage of both incoming materials for production and finished goods for physical distribution to customers.
- **Inventory control:** in materials management, receiving, storing, handling and counting of all raw materials, partly finished goods, and finished goods.
- **Purchasing:** the acquisition of all the raw materials and services that a company needs to produce its products.

#### Purchasing Process:

- **Holding costs:** costs of keeping extra supplies or inventory on hand.
- **Lead times:** in purchasing control, the gap between the customer's placement of an order and the seller's shipment of merchandise.
- **Supplier selection:** finding and determining suppliers to buy from.
  - ❖ Investigating possible suppliers.
  - ❖ Evaluating and isolating the best candidates.
  - ❖ Negotiating terms of service with a final choice.
  - ❖ Maintaining a positive buyer-seller relationship.

- **Just-in-time (JIT) production system:** a method of inventory control in which materials are acquired and put into production just as they are needed.

#### **Material Requirements Planning:**

- **Manufacturing requirements planning (MRP):** a method of inventory control in which a computerized bill of materials is used to estimate production needs so that resources are acquired and put into production only as needed.
- **Bill of materials:** production control tool that specifies the necessary ingredients of a product, the order in which they should be combined, and how many of each are needed to make one batch.
- **Manufacturing resource planning (MRP II):** an advanced version of MRP that ties together all parts of the organization into the company's production activities.
- **Quality control:** the management of the production process so as to manufacture goods or supply services that meet specific quality standards.

## Chapter 10: Financial Decisions

### The Role of the Financial Manager

#### Terms:

- **Financial managers:** those managers responsible for planning and overseeing the financial resources of a firm.
- **Finance (corporate finance):** the business function involving decisions about a firm's long-term investments and obtaining the funds necessary to pay for those investments. Finance typically involves:
  - ❖ Determining a firm's long-term investments
  - ❖ Obtaining funds to pay for those investments.
  - ❖ Conducting the firm's everyday financial activities.
  - ❖ Helping to manage the risks that the firm takes.

#### Objectives of the Financial Manager:

- Financial managers do the following:
  - ❖ Collect funds
  - ❖ Pay debts
  - ❖ Establish trade credit
  - ❖ Obtain loans
  - ❖ Control cash balances
  - ❖ Plan for future financial needs
- The financial manager's overall objective is to increase a firm's value – thus stockholder's wealth.
- In all words, financial managers must ensure that a company's earnings exceed its costs – in other words, that it makes a profit.
- In sole proprietorships and partnerships, profits represent an increase in the owner's wealth.
- In a corporation, profits translate into an increase in the value of common stock.

#### Responsibilities of the Financial Manager:

- **Cash flow management:** managing the pattern in which cash flows into the firm in the form of revenues and out of the firm in the form of debt payments.
- **Financial control:** the process of checking actual performance against plans to ensure that the desired financial status is achieved.
- **Financial plan:** a description of how a business will reach some financial position it seeks for the future; includes projections for sources and uses of funds.

### Why do Business need Funds?

#### Short-term (operating) Expenditures:

- **Accounts payable:** unpaid bills owed to suppliers plus wages and taxes due within the next year.
- **Accounts receivable:** consists of funds due from customers who have bought on credit.
- **Credit policy:** rules governing a firm's extension of credit from customers.

### **Inventories:**

- **Inventory:** materials and goods currently held by the company that will be sold within the year.
- **Raw materials inventory:** that portion of a firm's inventory consisting of basic supplies used to manufacture products for sale.
- **Work-in-process inventory:** that portion of a firm's inventory consisting of goods partway through the production process.
- **Finished goods inventory:** that portion of a firm's inventory consisting of completed goods ready for sale.

### **Working capital:**

- Working capital is the difference between a firm's current assets and current liabilities.
- It is a liquid asset out of which current debts can be paid.
- A company calculates its working capital by adding up the following:
  - ❖ Inventories – raw materials, working in process and finished goods on hands
  - ❖ Accounts receivable (minus accounts payable)
- The benefits of reducing sums in working capital are:
  - ❖ Every dollar that is not tied up in working capital becomes a dollar of more useful cash flow.
  - ❖ Reduction of working capital raises earnings permanently.
- The second advantage results from the fact that money costs money (in interest payments and the like).
- Reducing working capital, therefore, means saving money.

### **Long-term (capital) expenditures:**

- Long term expenditures are usually more carefully planned out than short term outlays because they pose special problems.
- They differ from short-term outlays in the following ways, all of which influence the ways that long-term outlays are funded:
  - ❖ Unlike inventories and other short-term assets, they are not normally sold or converted into cash.
  - ❖ They represent a binding commitment of company funds that continues long into the future.

### **Sources of Short term Funds**

#### **Trade Credit:**

- **Trade credit:** the granting of credit by a selling firm to a buying firm.
- **Open-book credit:** form of trade credit in which sellers ship merchandise on faith that payment will be forthcoming.
- **Promissory note:** form of trade credit in which buyers sign promise-to-pay agreements before merchandise by sellers.
- **Trade draft:** form of trade credit in which buyers must sign statements of payment terms attached to merchandise by sellers.

- **Trade acceptance:** trade draft that has been signed by the buyers.

#### **Secured Short-term Loans:**

- **Secured loans:** a short term loans in which the borrower is required to put up collateral.
- **Collateral:** any asset that a lender has the right to seize if a borrower does not repay a loan.
- **Inventory loans:** a loan made with inventory as a collateral asset, and is usually in the form of some portion of the stated value of the inventory.
- **Pledged accounts receivable:** using accounts receivable as collateral as loan.

#### **Factoring Accounts Receivable:**

- A firm can raise funds rapidly by factoring: selling the firm's accounts receivable.
- In this process, the purchaser of the receivables, usually a financial institution is known as the factor.
- The factor pays some percentage of the full amount of receivables due to the selling firm.
- The seller gets this money immediately.

#### **Unsecured Short-term Loans:**

- **Unsecured loan:** a short-term loan in which the borrower is not required to put up collateral.
- **Line of credit:** a standing agreement between a bank and a firm in which the bank specifies the maximum amount it will make available to the borrower for a short-term unsecured loan; the borrower can then draw on those funds when available.
- **Revolving credit agreement:** a guaranteed line of credit for which the firm pays the bank interest on funds borrowed as well as a fee for extending the line of credit.
- **Commercial paper:** a method of short-run fundraising in which a firm sells unsecured notes for less than the face value and then repurchases them at the face value with 270 days; buyer's profit are the difference between the original price paid and the face value.

#### **Sources of Long term Funds:**

- **Debt financing:** raising money to meet long-term expenditures by borrowing from outside the company; usually takes the form of long-term loans or the sale of the corporate bonds.

#### **Long term Loans:**

- Most corporations get their long-term loans from a chartered bank, usually one with which the firm has developed a long-standing relationship.
- Long-term loans are attractive to borrowers for several reasons:
  - ❖ Because the number of parties involved is limited, loans can often be arranged very quickly

- ❖ The firm need not make public disclosure of its business plans or the purpose for which it is acquiring the loans (in contrast, the issuance of corporate bonds requires such disclosure)
- ❖ The duration of the loan can easily be matched to the borrower's needs.
- ❖ If the firm's needs change, loans usually contain clauses making it possible to change terms.
- Long-term loans also have some disadvantages:
  - ❖ Large borrowers may have trouble finding lenders to supply enough funds, and may also have restrictions placed on them as conditions of the loan.
  - ❖ They may have to pledge long-term assets as collateral.
  - ❖ They may have to agree not to take on any more debt until the borrowed funds are repaid.

### **Corporate Bonds:**

- **Bond indenture:** statement of the terms of a corporate bond.

### **Equity financing:**

- **Equity financing:** raising money to meet long-term expenditures by issuing common stock or by retaining earnings.
- **Capital structure:** relative mix of a firm's debt and equity financing.

### **The Risk-Return Relationship:**

- Risk-return relationship: shows the amount of risk and the likely rate of return on various financial instruments.

## Chapter 2- Increasing Productivity and Quality

### Terms:

**Productivity:** a measure of efficiency that compares how much is produced with the resources used to produce it.

**Quality:** a product's fitness for use in terms of offering the features that consumers want.

### Responding to the Productivity Challenge

#### Measuring Productivity:

- **Labour productivity:** partial productivity ratio calculated by dividing gross domestic product by total number of workers.

#### Productivity among Global Competitors:

- **Domestic Productivity:** A country that improves its ability to make something out of its existing resources can increase the wealth of all its inhabitants.

Conversely a decline in productivity shrinks a nation's total health. When that happens, an increase in one person's wealth comes only at the expense of others with whom he or she shares an economic system.

- **Manufacturing versus Service Productivity:** manufacturing productivity is higher than service productivity.
- **Industry Productivity:** In addition to differences between the manufacturing and service sectors, industries within these sectors differ vastly in terms of productivity. Agriculture is more productive in Canada than in many other nations because we use more sophisticated technology and superior natural resources.
- **Company productivity:** high productivity gives a company a competitive edge because its costs are lower. As a result, it can offer its product at a lower price (and gain more customers) or it can make a greater profit on each item sold. Increased productivity also allows companies to pay workers higher wages without raising prices.

#### Total Quality Management:

#### Managing for Quality:

- **Total quality management (TQM):** a concept that emphasizes that no defects are tolerable and that all employees are responsible for maintaining quality standards.

#### Planning for Quality:

- **Performance quality:** the overall degree of quality: how well the features of a product meet consumer's needs and how well the product performs.
- **Quality reliability:** the consistency of quality from unit to unit of a product.

#### Organizing for Quality:

- Perhaps most important to the quality concept is the belief that producing quality goods and services requires an effort from all parts of the organization. The old idea of a separate "quality control" department is no longer enough. Everyone

from the chairperson of the board to the different part-time workers in the company must work to ensure quality.

### **Leading for Quality:**

- **Quality ownership:** the concept that quality belongs to each employee who creates or destroys it in producing a good or service; the idea that all workers must take responsibility for producing a quality product.

### **Controlling for Quality:**

- By monitoring its products and services, a company can detect mistakes and make corrections. To do so, however, managers must first establish specific quality standards and measurements.

### **Process Re-engineering:**

- **Business process re-engineering:** redesigning of business processes to improve performance, quality and productivity.

### **The Re-engineering Process:**

- Identify the business activity that will be changed.
- Evaluate information and human resources to see if they can meet the requirements for change.
- Diagnose the current process to identify its strengths and weaknesses.
- Create the new process design.
- Implement the new design.

## **Adding Value through Supply Chains**

### **Terms:**

**Supply chain:** flow of information, materials, and services that starts with raw materials suppliers and continues through other stages in the operations process until the product reaches the end customer.

### **Step 1:** State a case for action.

- **Activities:** show value that will be added for customers and for the company.
- **Key resources for this step:** company vision statement, awareness of competitive status.

### **Step 2:** Identify the process for re-engineering.

- **Activities:** which process, if changed, will yield best improvement? Determine how it might be changed and at what cost.
- **Key resources for this step:** Process flow analysis, process mapping

### **Step 3:** Evaluate information and human resource requirements for re-engineering.

- **Activities:** determine if the information technology exists for the re-engineering process. Is the organizational structure ready for the change?
- **Key resources for this step:** Information technology, business culture management

### **Step 4:** Understand the current process

- **Activities:** diagnose the current process to understand how it relates to other processes. Identify value-adding steps versus wasteful steps in the current process.

- **Key resources for this step:** process analysis skills

**Step 5:** Create a new process design

- **Activities:** Eliminate all waste work. Apply the tools for process redesign to determine the best process for adding value for customers.

- **Key resources for this step:** teamwork: customer focus

**Step 6:** Implement the re-engineered design

- **Activities:** Phase in the new process. Encourage acceptance in the company and measure results.

- **Key resources for this step:** leadership; teamwork; employee training.

**Supply Chain Management:**

- **Supply chain management (SCM):** principle of looking at the chain as a whole to improve the overall flow through the system.

**Re-engineering Supply Chains for better results:**

- By lowering costs, speeding up service, or coordinating flows of information and materials, process improvements and re-engineering often improve supply chains.

## Chapter 3 – Managing Information Systems and Communication Technology

### Information Management: An Overview

#### Terms:

- **Information manager:** the manager responsible for the activities needed to generate, analyze and disseminate information that a company needs to make good decisions. **Information management:** an internal operation that arranges the firm's information resources to support business performance and outcomes.

#### Data versus Information:

- **Data:** raw facts and figures.
- **Information:** a meaningful, useful interpretation of data.

#### Information systems:

- **Information systems (IS):** an organized method of transforming data into information that can be used for decision making.

**Example:** text, format, commands → word processor → finished document

### New Business Technologies in the Information Age

#### Electronic Business and Communications Technologies:

- **Electronic information technologies (EIT):** IS applications based on telecommunications technologies. EITs enhance the performance and productivity of general business activities by performing two functions: providing coordination and communication within the firm, and speeding up transactions with other firms.

#### Six types of EIT:

- **Fax machine (facsimile machine):** a machine that can quickly transmit a copy of documents or graphics over telephone lines.
- **Voice mail:** A computer-based system for receiving and delivering incoming telephone calls.
- **Electronic mail (email) system:** electronic transmission of letters, reports, and other information between computers.
- **Electronic conferencing:** allows people to communicate simultaneously from different locations via telephone, video or email group software.
- **Groupware:** a system that allows two or more individuals to communicate electronically between desktop PCs.

#### Data Communication Networks:

- **Data communication networks:** global networks that permits users to send electronic messages quickly and economically.
- **Internet:** A gigantic network of networks that serves millions of computers, offers information on businesses, science, and government, and provides

communication flows among more than 170,000 separate networks around the world.

- **Internet service provider (ISP):** A commercial firm that maintains a permanent connection to the internet and sells temporary connections to subscribers.
- **World Wide Web:** A system with universally accepted standards for storing, retrieving, formatting and displaying information on the Internet.
- **Web servers:** dedicated workstations – large computers – that are customized for managing, maintaining and supporting websites.
- **Browser:** software that enables a user to access information on the web.
- **Directories:** features that help people find the content they want on the web. The user types in key words and the directory retrieves a list of websites with titles containing those words.
- **Search engine:** software for searching web pages that does not pre-classify them into a directory.
- **Intranet:** A company's private network that is accessible only to employees via entry through electronic firewalls.
- **Firewall:** Hardware and software security systems that ensure that internal computer systems are not accessible to outsiders.
- **Extranet:** A network that allows outsiders limited access to a firm's internal information system.

## **New Options for Organization Design: The Networked Enterprise**

### **Leaner organizations:**

- Information networks leading to leaner companies with few employees and simpler organizational structures.
- Since today's networked form can maintain information linkages among both employees and customers, more work can be accomplished with fewer people.
- Widespread reductions in middle-management positions and the shrinkage of layers in organizational structure are possible because information networks now provide direct communications between the top managers and workers at lower levels.
- Electronic information networks are replacing the operating managers who formerly communicated company policies, or work instructions to lower-level employees.

### **More flexible operations:**

- **Mass customization:** producing large volumes of products or services, but giving customers the choice of features and options they want.

### **Increased Collaboration**

- Collaboration not only among internal units but with outside firms as well, is on the rise because networked systems make it cheaper and easier to contact everyone, whether other employees or outside organizations.

- Aided by intranets, more companies are learning that complex problems can be solved better by means of collaboration, either in formal teams or through spontaneous interactions.
- In the new networked organization, decisions that were once the domain of individuals are now shared as both people and departments have become more interdependent.

#### **Networking and the Virtual Company:**

- Networked systems can also improve collaboration between organizations through the so-called virtual company.
- This can be a temporary team assembled by a single organization, but a virtual company can also be created by several allied firms.
- Each contributes different skills and resources that collectively result in a competitive business that wouldn't be feasible for any one of them working alone.

#### **Greatest Independence of Company and Workplace:**

- Geographic separation of the workplace from the company headquarters is more common than ever because of networked organizations.
- Employees do not work only at the office or the factory, nor are all of a company's operations performed at one location.
- A company's activities may also be geographically scattered but highly coordinated, thanks to a networked system.

#### **Improved Management Processes:**

- Networked systems have changed the very nature of the management process.
- The activities, methods, and procedures of today's manager differ significantly from those that were common just a few years ago. Before, upper-level managers did not concern themselves with all the detailed information that filtered upward in the workplace, since gathering that information was expensive and the arrival was slow in coming. This type of management was delegated to middle and first-line managers.
- With networked systems, however, instantaneous information is accessible in a convenient and usable format.
- Consequently more and more upper managers use it routinely for planning, leading, directing and controlling operations.
- Today a top manager can find out the current status of any customer, inspect productivity statistics for each workstation, and analyze the delivery performance of any driver and vehicle.
- **Enterprise Resource Planning (ERP):** large information systems for integrating all the activities of a company's business units.

### **Type of Information Systems**

#### **User Groups and Systems Requirements:**

- **Knowledge workers:** employees whose jobs involve the use of information and knowledge as the raw materials of their work.

#### **Managers at Different Levels:**

- Due to their work on different kinds of problems, top manager, middle managers, knowledge workers and first line managers have different information needs.
- **First line (operational) managers:** need information to oversee daily details of their departments.
- **Knowledge workers:** need special information for conducting technical projects.
- **Middle managers:** need summaries and analyses for setting intermediate and long-range goals for the departments or projects under their supervision.
- **Top-management:** analyzes broader trends in the economy, the business environment, and overall company performance to conduct long-range planning for the entire organization.

#### **Functional Areas and Business Processes:**

- Each business function – marketing, human resources, accounting, production, and finance – has its own information needs.
- In addition, in business organized according to business processes, process group need special information.
- Each user group and department is represented by an IS.

#### **Major Systems by Level**

- **Transaction Processing System (TPS):** applications of information processing for basic day-to-day business transactions.

#### **Systems for Knowledge Workers and Office Applications:**

- Systems analysts and designers deal with the entire computer system. They represent the IS group in working with users to learn user's requirements and to design systems that meet them.
- Programmers write the software instructions that tell computers what to do.

#### **Operations Personnel (Data Workers):**

- **System operations personnel:** people who run a company's computer equipment.

#### **Knowledge-Level and Office Systems:**

- **Computer-aided design (CAD):** computer analysis and graphics programs that are used to create new products.
- **Computer-aided manufacturing (CAM):** computer systems used to design and to control all the equipment and tools for producing goods.

- **Management Information Systems (MIS):** systems that support an organization's managers by providing daily reports, schedules, plans and budgets.
- **Decision Support System (DSS):** computer systems used to help managers consider alternatives when making decisions or complicated problems.
- **Executive Support Systems (ESS):** a quick-reference, easy-access application of information systems specially designed for upper-level managers.
- **Artificial intelligence (AI):** the construction and/or programming of computers to imitate human thought processes.
- **Robotics:** the use of computer-controlled machines that perform production tasks.
- **Expert system:** A form of artificial intelligence in which a program draws on the rules an expert in a given field has laid out to arrive at a solution for a problem.

### **Elements of the Information System**

#### **Terms:**

- **Hardware:** the physical components of a computer system.
- **Input device:** hardware that gets data into the computer in a form the computer can understand.
- **Central processing unit (CPU):** hardware in which the actual transforming of data into information takes place; contains the primary storage unit, the control unit and arithmetic logic unit.
- **Main memory:** the part of a computer's CPU that stores those programs that it needs to operate.
- **Program:** any sequence of instructions to a computer.
- **Output device:** that part of a computer's hardware that presents results to users; common forms include printers and video monitors.
- **Software:** programs that instruct the computer in what to do and how to do it.
- **System program:** a program that tells a computer what resources to use and how to use them.
- **Application program:** a program that actually processes data according to a particular user's specific needs.
- **Graphical user interface (GUI):** the user-friendly display that helps users select from among the many possible applications of the computer.
- **Icons:** small images on a computer screen that represent various applications.

- **Problems of Privacy and Security:**
- **Privacy intrusion:** with information systems, privacy intrusion occurs when intruders (hackers) gain unauthorized access, either to steal information, money and/or property or to tamper with data.
- **Encryptions:** the use of a secret numerical code to scramble characters in a message, so that the message is not understandable during transmission.

### **Database and Application Programs:**

#### **Terms:**

- **Programs:** address such common, long-standing needs as accounting and inventory control, while others have been developed for an endless variety of specialized needs.
- **Word processing programs:** application programs that allow the computer to act as a sophisticated typewriter to store, edit and print letters and numbers. Examples include Microsoft Word.
- **Electronic spreadsheets:** application programs that allow the user to enter categories of data and determine the effect of changes in one category (e.g. sales), on other categories (e.g. profits). Examples include Microsoft Excel.
- **Database management program:** application programs that keep track of and manipulate the relevant data of a business. Examples include Microsoft Access.
- **Computer graphics programs:** application that convert numerical and character data into pictorial forms. Examples include pie chart and bar graphs.
- **Presentation graphic programs:** application programs that offer choices for assembling graphics for visual displays, slides, video, and even sound splices for professional presentations.
- **Desktop publishing:** combines word processing and graphics capability in producing typeset-quality text from personal computers.
- **Software piracy:** the unauthorized use of software such as word processing and spreadsheets.

### **Telecommunications and Networks**

#### **Terms:**

- **Multimedia communication systems:** connected networks of communication appliances such as faxes, televisions, sound equipment, cell phones, printers and photocopiers that may also be linked by satellite with other remote networks.
- **Communication Devices**
- **Global positioning systems (GPSs):** uses satellite transmission to track the geographic locations of targets.
- **Personal digital assistants (PDAs):** are tiny hand-held computers with wireless communication capabilities, being able to access the Internet and send email messages from any location.

## System Architecture

### Terms:

- **Wide area network (WAN):** a system to link computers across the country through telephone wires or satellites.
- **Local area network (LAN):** a system to link computers in one building or in a small geographical area by cabling or wireless technology.
- **Wireless networks:** use airborne electronic signals for linking network appliances.
- **Client-server network:** a network composed of both clients (users) and servers which allows the clients to access various services without costly and unnecessary duplication.
- **Client:** a point of entry in a client-server network.
- **Server:** a computer that provides the services shared by network users.

## Chapter 4: Understanding Accounting Issues

### What is accounting and who uses it?

#### Terms:

- **Accounting:** a comprehensive system for collecting, analysing and communicating financial information.
- **Bookkeeping:** recording accounting transactions.
- **Accounting information system (AIS):** an organized procedure for identifying, measuring, recording and retaining financial information so that it can be used in accounting statements and management reports.

#### Types of users of accounting information:

- Business managers use accounting information to set goals, develop plans, set budgets and evaluate future prospects.
- Employees and unions use accounting information to get paid and to plan for and receive such benefits as health care, insurance, vacation time and retirement pay.
- Investors and creditors use accounting information to estimate returns to stockholders, to determine a company's growth prospects, and to decide if the company is a good credit risk before investing or lending.
- Taxing authorities use accounting information to plan for tax inflows, to determine the tax liabilities of individual and businesses, and to ensure that correct amounts are paid in a timely fashion.
- Government regulatory agencies rely on accounting information to fulfill their duties; the provincial securities commissions, for example, require firms to file financial disclosures so that potential investors have valid information about a company's financial status.

### Who are accountants and what do they do?

#### Terms:

- **Controller:** the individual who manages all the firm's accounting activities.

### Financial and Managerial Accounting

#### Financial Accounting:

- **Financial accounting system:** the process whereby interested groups such as consumer groups, unions, shareholders and government agencies are kept informed about the financial condition of a firm.
- It prepares and publishes income statements and balance sheets at regular intervals.
- All of these documents focus on the activities of the company as a whole, rather than on individual departments or divisions.

- In reporting data, financial accountants must conform to standard reporting formats and procedures imposed by both the accounting profession and government regulatory agencies.
- This requirement helps ensure that users can clearly compare information, whether from many different companies or from the same company at different times.
- The information in such reports is mostly historical: That is, it summarizes financial transactions that have occurred during past accounting periods.

### **Managerial Accounting:**

- **Managerial accounting system:** internal procedures that alert managers to problems and aid them in planning and decision making.
- Managers at all levels need information to make decisions for their departments, to monitor current projects and to plan for future activities.
- Reports to these users serve the company's individual units, whether they are departments, projects, plants or divisions.
- Internal reports may be designed in any form that will assist internal users in planning, decision making and controlling.
- As projections and forecasts of both financial data and business activities, internal reports reveal current and future business prospects.

### **Professional Accountants**

#### **Terms:**

- **Chartered accountant (CA):** an individual who has met certain experience and education requirements and has passed a licensing examination; acts as an outside accountant for other firms. About half of all CA work in CA firms that offer accounting services to the public, while the other half work in government or industry. CA firms typically provide audit, tax and management services. CAs focus on external financial reporting for various interested parties (shareholders, lenders, Canada Customs, and Revenue Agency, etc) that financial records of a company accurately reflect the true financial condition of the firm.
- **Certified general accountant (CGA):** an individual who has completed an education program and passed a national exam; works in private industry or a CGA firm. To be eligible a person must have an accounting job with a company. CGA were formerly not allowed to audit financial statements belong to publicly held companies, but due to changing times and policies, they are now allowed do so. Most CGAs work in private companies, but there are a few CGA firms.
- **Certified management accountant (CMA):** An individual, who has completed a university degree, passed a national examination and completed a strategic leadership; works in industry and focuses on internal management accounting. CMAs works in all kinds and sizes of organization, and focus on applying best management practices in all operations of a business. CMAs bring a strong market focus to strategic management and resource deployment, synthesizing and analyzing financial and non-financial information to help organizations maintain a

competitive advantage. CMA's emphasize the role of accountants in the planning and overall strategy of the firm in which they work.

### Accounting Services

#### Terms:

- **Audit:** an accountant's examination of a company's financial records to determine if it used proper procedures to prepare its financial reports. Companies must normally provide audited financial reports when applying for loans or when selling stock. They will determine if the firm has controls to prevent errors or fraud from going undetected, and will also examine receipts and inventories.
- **Forensic accountants:** an accountant who tracks down hidden funds in business firms, usually as part of a criminal investigation.
- **Generally accepted accounting principles (GAAP):** standard rules and methods used by accountants in preparing financial reports.
- **Tax services:** include helping clients not only with preparing their tax returns but also in their tax planning. A CA's advice can help a business structure or restructure its operations and investments and save millions of dollars in taxes.
- **Management consulting services:** specialized accounting services to help managers resolve a variety of problems in finance, production scheduling and other areas. These services include personal financial planning, planning of corporate mergers, plant layout and design, marketing studies, production scheduling, computer feasibility studies and design and implementation of accounting systems.
- **Private accountants:** an accountant hired as a salaried employee to deal with a company's day-to-day accounting needs.

### Tools of the Accounting Trade

#### Terms:

- **Assets = Liabilities + Owner's Equity**
- **Asset:** anything of economic value owned by a firm or individual.
- **Liability:** any debt owed by a firm or individual to others.
- **Owner's equity:** any positive difference between a firm's assets and its liabilities; what would remain for a firm's owners if the company if the company was liquidated, all its assets were sold, and all its debts are paid. It consists of two sources of capital: the amount that the owners originally invested and the profits earned by and reinvested in the company.
- **Owner's Equity = Assets – Liabilities**
- **Double-entry accounting:** a bookkeeping system, developed in the fifteenth century and still in use, that requires every transaction to be entered in two ways – how it affects assets and how it affects liabilities and owner's equity – so that the accounting equation is always in balance.

#### Characteristics:

- When a company operates profitably, its assets increase faster than its liabilities.

- Owner's equity will increase if profits are retained in the business instead of paid out as dividends to stockholders.
- Owner's equity also increases if owner invest more of their own money to increase assets.

## Financial Statements

### Terms:

- **Financial statements:** any of several types of broad reports regarding a company's financial status; most often used in reference to balance sheets, income statements, and/or statements of cash flows.
- **Balance sheet:** a type of financial statement that summarizes a firm's financial position on a particular date in terms of its assets, liabilities and owner's equity.
- **Current assets:** cash and other assets that can be converted into cash within a year.
- **Liquidity:** the ease and speed with which an asset can be converted to cash; cash is said to be perfectly liquid.
- **Accounts receivable:** amounts due to the firm from customers who have purchased goods and services on credit; a form of current asset.
- **Merchandise inventory:** the cost of merchandise that has been acquired for sale to customers but that is still on hand.
- **Prepaid expenses:** includes supplies on hand and rent paid for the period to come.
- **Fixed assets:** assets that have long-term use or value to the firm such as land, buildings and machinery.
- **Depreciation:** distributing the cost of a major asset over the years in which it produces revenues; calculated by each year subtracting the asset's original value divided by the number of years in its productive life.
- **Intangible assets:** non-physical assets such as patents, trademarks, copyrights and franchise fees that have economic value but whose precise value is difficult to calculate.
- **Goodwill:** the amount paid for an existing business beyond the value of its other assets.
- **Current liabilities:** any debts owed by the firm that must be paid within one year.
- **Accounts payable:** amounts due from the firm to its suppliers for goods and/or services purchased on credit; a form of current liability. An example can include credit or debit.
- **Long term liabilities:** any debts owed by the firm that are not due for at least one year.
- **Paid in capital:** any additional money invested in the firm by the owners.
- **Retained earnings:** a company's net profits less any dividend payments to shareholders.
- **Income (profit-and-loss) statement:** a type of financial statement that describes a firm's revenues and expenses and indicates whether the firm has earned a profit or suffered a loss during a given period.
  - Revenues – Expenses = Profit (or loss).

- **Revenues:** any sum of money received by a firm as a result of selling a good or service or from other sources such as interest, rent and licensing fees.
- **Cost of goods sold:** any expenses directly involved in producing or selling a good or service during a given time period.
- **Gross Profit (or gross margin):** a firm's revenues (gross sales) less its cost of goods sold.
- **Operating expenses:** costs incurred by a firm other than those included in cost of goods sold.
- **Operating income:** compares the gross profit from business operations against operation expenses.
- **Net income (net profit or net earnings):** a firm's gross profit minus its operating expenses and income taxes.
- **Statement of cash flows:** a financial statement that describes a firm's generation and use of cash during a given period. They can come from operations, from investing, and from financing.

### **The Budget: An Internal Financial Statement**

#### **Terms:**

- **Budget:** a detailed financial plan for estimated receipts and expenditures for a period of time in the future, usually one year.
- **Solvency ratios:** ratios that estimate the financial risk that is evident in a company.
- **Profitability:** measures of a firm's financial performance in terms of its likely profits; used by investors to assess their probable returns.
- **Liquidity ratios:** measures of a firm's ability to meet its immediate debts; used to analyze the risks of investing in the firm. The higher the liquidity, the lower the risk involved for investors.
- **Current ratio:** a form of liquidity ratio calculated as current assets divided by current liabilities. It is only satisfactory when the ratio is 2:1 or higher, which means that the value of current assets is more than double the value of current liabilities.
  - $\text{Current Assets} / \text{Current Liabilities} = 2 \text{ or greater}$
- **Working capital:** the difference between a firm's current assets and current liabilities.
- **Debt ratio:** measures of a firm's ability to meet its long term debts; used to analyze the risks of investing in the firm.
- **Debt-to-owner's equity ratio:** a form of debt ratio calculated as total liabilities divided by owner's equity.
  - $\text{Debt-to owner's equity ratio} = \text{Debt} / \text{Owner's equity}$
- **Debt:** a company's total liabilities.
- **Leverage:** using borrowed funds to make purchases, thus increasing the user's purchasing power, potential rate of return, and risk of loss.
- **Return on equity:** a form of profitability ratio calculated as net income divided by total owner's equity.
  - $\text{Net income} / \text{total owner's equity}$ .

- **Earnings per share:** a form of profitability ratio calculated as net income divided by the number of common shares outstanding. Net income/ total shares

### Balance Sheet

**Step 1:** determine the total values of each type of asset, and add all those values to create a final total value

**Assets:** anything of economic value owned by an individual or firm

**Current Assets:** cash and other assets that can be liquidized within a year.

- **Cash** = \$ 10,000
  - **Marketable Securities** = \$5000
  - **Accounts receivable:**
    - ❖ = \$ 20000 – less: allowance of doubtful accounts \* (\$200)
    - ❖ = \$19,800
  - **Merchandise inventory** = \$ 25,000
  - **Prepaid expenses** = \$ 3000
- 

**Total Current Assets** = \$62,800

\*refers to a certain sum of money that the endeavour will not receive if unsuccessful

**Fixed Assets:** assets that have long-term use or value to the firm

- **Land** = \$ 50,000
  - **Building:**
    - ❖ = \$ 120,000 – less: accumulated depreciation \* (\$20, 000)
    - ❖ = \$ 100,000
  - **Equipment:**
    - ❖ = \$ 40,000 – less: accumulated depreciation (\$5000)
    - ❖ = \$ 35,000
- 

\* refers to the decrease in the value of a product by subtracting the asset's original value by the number of years in its productive life

**Total Fixed Assets** = \$ 185,000

**Intangible Assets:** non-physical assets such as patents, trademarks, copyrights and franchise fees that have economic value but whose precise value is difficult to calculate.

- **Patents:** \$ 7000
  - **Trademarks:** \$300
- 

**Total Intangible Assets:** \$7300

**Total Assets:**

= Total Current Assets + Total Fixed Assets + Total Intangible Assets  
= \$62,800 + \$185,000 + \$7300  
= \$255,100

**Step 2:** determine the total values of each type of liability and add those values to create a final

**Liability:** any debt owed by an individual or firm

**Current Liabilities:** any debts owed by a firm that must be paid within one year.

- **Accounts payable** = \$ 20,000
  - **Wages payable** = \$ 3000
  - **Taxes payable** = \$ 1000
- 

**Total Current Liabilities** = \$24,000

**Long-term Liabilities:** any debts owed by the firm that are not due for at least one year.

- **Notes payable, 8% due 2009** = \$10,000
  - **Bonds payable, 9% due 2011** = \$30,000
- 

**Total Long-term Liabilities** = \$ 40,000

**Total Liabilities:**

= Current Liabilities + Long-term Liabilities  
= \$ 64,000

**Step 3:** determine the total value of owner's equity and add that value to liabilities. The new sum must be equal to the total assets.

**Owner's equity:** any positive difference between a firm's assets and its liabilities; what would remain for a firm's owners if the company were to be liquidated, all its assets were sold and all its debts were to be paid.

- **Common stock, \$5 stated capital:** \$100,000
  - **Additional paid-in capital:** \$1100
  - **Retained earnings:** \$90,000
- 

**Total Owner's Equity** = \$ 191,100

**Total Liabilities and Owner's Equity:**

= Total Owner's Equity + Total Liability:  
= \$191,100 + \$64000  
= \$ 225,100

**Step 4:** Check to see whether the value of the Total Liabilities & Owner's Equity is equal to that of the Total Assets. If so, then the calculations are correct.

### Income Statement

**Step 1:** Determine the value of the gross profit. In order to do that, first determine the values of the cost of goods sold and the revenues obtained from goods sold, and subtract the former from the latter.

- **Revenue (gross sales):** \$300,000
  - **Cost of goods:**
    - ❖ **Merchandise purchases during year:** \$20,000
    - ❖ **Goods available for sale:** \$90,000
  - **Goods available for sale:**
    - ❖ **Merchandise purchases during year + Goods available for sale**
    - ❖ \$20,000 + \$90,000
    - ❖ \$110,000 – less: merchandise inventory (\$10,000)
    - ❖ \$100,000
- 

**Gross Profit:**

= **Revenue – Cost of goods sold**  
= \$300,000 - \$100,000  
= \$200,000

**Step 2:** Determine the value of total operating costs. In order to determine this sum, figure out the values of total selling & repacking expenses and total administration expenses, and add them together.

**Operating expenses:**

- **Selling and repacking expenses:**
  - ❖ **Salaries and wages:** \$50,000
  - ❖ **Advertising:** \$5000
  - ❖ **Depreciation – warehouse and repackaging equipment:** \$3000
- **Total selling and repacking expenses:**
  - ❖ = **Salaries & Wages + Advertising + Depreciation**
  - ❖ = \$50,000 + \$5000 + \$3000
  - ❖ = \$58,000
- **Administration expenses:**
  - ❖ **Salaries and wages:** \$50,000
  - ❖ **Supplies:** \$3000
  - ❖ **Utilities:** \$2000
  - ❖ **Depreciation – office equipment:** \$1500
  - ❖ **Interest expense:** \$3000

- ❖ **Miscellaneous expenses: \$2000**
- **Total Administration expenses:**
  - ❖ = **Salaries & Wages + Supplies + Utilities + Depreciation + Interest Expenses + Miscellaneous Expenses**
  - ❖ = \$50,000 + \$3000 + \$2000 + \$1500 + \$3000 + \$2000
  - ❖ = \$61,500

**Total Operating Expenses:**

$$\begin{aligned}
 &= \text{Total Administration Expenses} + \text{Total Repacking and Selling Expenses} \\
 &= \$58,000 + \$61,500 \\
 &= \$119,500
 \end{aligned}$$

**Step 3:** In order to determine the operating income (income before taxes), subtract the total operating expenses from the gross profit.

**Operating Income:**

$$\begin{aligned}
 &= \text{Gross Profit} - \text{Total Operating Expenses} \\
 &= \$200,000 - \$119,500 \\
 &= \$80,500
 \end{aligned}$$

**Step 4:** In order to determine the net income, subtract operating income from income tax.

**Net Income:**

$$\begin{aligned}
 &= \text{Operating Income} - \text{Income Tax} \\
 &= \$80,500 - \$10,000 \\
 &= \$70,500
 \end{aligned}$$

## Chapter 5: Understanding Marketing Processes and Consumer Behaviour

### What is Marketing?

#### Terms:

- **Marketing:** planning and executing the development, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy both buyers and seller's objectives.
- **Marketing concept:** the idea that the whole firm is directed toward serving present and potential customers at a profit.

### Providing Value and Satisfaction

#### Terms:

- **Value:** relative comparison of a product's benefit versus its costs. The benefits of a high value product are much higher than its costs.
- **Benefits:** include not only the functions of the product, but also the emotional satisfactions associated with owning, experiencing or possessing it.
- **Utility:** ability of a product to satisfy a human need or want.

#### Characteristics:

- Value = Benefits / Costs
- Every product has costs, including sales price, the expenditure of the buyer's time, and the emotional costs of making a purchase decision.
- The satisfied buyer perceives the benefits derived from the purchase to be greater than its costs.
- Marketing strategies focus on increasing value for customers.
- Marketing resources are deployed to add value to products to satisfy customer's needs and wants.

#### Value and Utility:

- When a company turns out ornaments in time for Christmas, it creates time utility; it makes products available when consumers want them.
- When a department store opens its annual Christmas department, it creates place utility: it makes products available where customers can conveniently purchase them.
- When the store sells ornaments, it provides ownership utility by conveniently transferring ownership from store to customer.
- By making products available in the first place – by turning raw materials into finished ornaments – the ornament creates form utility.

### **Goods, Services and Ideas:**

- **Consumer goods:** products purchased by individuals for their own personal use.
- **Industrial goods:** products purchased by companies to use directly or indirectly to produce other products.
- **Services:** intangible products, such as time, expertise or an activity that can be purchased.
- **Relationship marketing:** a type of marketing that emphasizes lasting relationships with customers and suppliers. An example can be seen in banks offering economic incentives to encourage longer-lasting relationships.

## **The Marketing Environment**

### **Terms:**

- External environment: outside factors that influence marketing programs by posing opportunities or threats.

### **Characteristics of Political and Legal Environments:**

- Political activities, both foreign and domestic, have profound effects on business.
- An example can be seen in the legislation of the use of cell phones in cars and the legislation on pollution, which can determine the destinies of entire industries.
- Marketing managers therefore try to maintain favourable political/legal environments in several ways such as advertising campaigns for public awareness on issues, and lobbying and contributing to political candidates.

### **Characteristics of Social and Cultural Environments:**

- Changing social values forced companies to develop and promote new products for both individual consumers and industrial customers.

### **Characteristics of Technological Environments:**

- New technologies affect marketing in many ways.
- They create new goods and services.
- They also render some existing products obsolete (audio cassettes replaced by CDs), and also change consumer values and lifestyles
- They also stimulate new goods and services not directly related to the new technology itself.

### **Characteristics of Economic Environments:**

- Economic conditions determine spending patterns by consumers, businesses and governments, thus influencing every marketer's plans for product offerings, pricing and promotional strategies.
- Among the more significant economic variables, marketers are concerned with inflation, interest rates, recessions and recovery.

- In other words, they must control the general business cycle, which typically features a pattern of transition from periods of prosperity to recession to recovery (return to recovery).
- Not surprisingly, consumer spending increases as “consumer confidence” in economic conditions grows during periods of prosperity.
- Conversely it decreases during low-growth periods when unemployment rises and purchasing power declines.

### **Characteristics of Competitive Environments:**

- In a competitive environment, marketers must convince buyers that they should purchase their products rather than those of some other seller.
- There are three types of competitions:
  - **Substitute products:** a product that is dissimilar from those of competitors but that can fulfill the same need.
  - **Brand competition:** competitive marketing that appeal to consumer perception of similar products.
  - **International competition:** competitive marketing of domestic products against foreign products.

### **Strategy: The Marketing Mix**

#### **Terms:**

- **Marketing managers:** managers responsible for planning and implementing all the marketing-mix activities that result in the transfer of goods and services to customers.
- **Marketing plan:** a detailed strategy for gearing the marketing mix to meet consumer needs and wants.
- **Marketing mix:** the combination of products, price, place and promotion strategies used in marketing a product.

### **The Four P's (Product, Price, Place and Promotion)**

#### **Product:**

- A product is a good, service or an idea designed to fill a consumer need or want.
- Conceiving and developing new products is a constant challenge for marketers, who must always consider the factor of change (changes in technology, consumer wants and needs, and economic conditions)
- Mass customization allows markets to provide products that satisfy very specific needs of customers.
- Product differentiation is the creation of a feature or image that makes a product differ enough from existing product to attract consumers.

#### **Price:**

- Price refers not only to the actual amount of money that consumers must pay for a product or service, but also to the total value of things that consumers are willing to give up in return for being able to have the benefits of the product or service, such as withdrawal of money from a savings account in order to pay for the product.

- From the seller's perspective, determining the best price at which to sell a product is often a balancing act.
- On one hand, prices must support a variety of costs – operating, administrative, research and marketing costs.
- On the other hand, prices cannot be so high that consumers turn to products offered by competitors.
- Successful pricing means finding a profitable middle ground between these two requirements.

#### **Place (distribution):**

- Place refers to distribution, which is defined as part of the marketing mix concerned with getting products from the producer to the buyer, including physical transportation and choice of sales outlets.
- Other examples also include warehouse and inventory control, as well as decisions regarding transportation options.
- Firms must also make decisions about the channels through which they distribute products.

#### **Promotion:**

- Promotion refers to the techniques used for communicating information about products.
- It is the most highly visible component of the marketing mix.
- The most important promotional tools included advertising, personal selling, sales promotion and public relations.

### **Target Marketing and Market Segmentation**

#### **Terms:**

- **Target market:** any group of people who have similar wants and needs and may be expected to show interest in the same products.
- **Market segmentation:** dividing a market into categories according to traits customers have in common.

### **Identifying Market Segments**

#### **Terms:**

- **Geographic variables:** geographic units that may be considered in a segmentation strategy. Concepts such as rural and urban characteristics, climate and environmental factors fall into this category.
- **Demographic variables:** characteristics of populations that may be considered in developing a segmentation strategy. Concepts such as ethnicity, race, religion, gender and age fall into this category.
- **Psychological variables:** psychological traits that a group has in common. Concepts such as motives, attitudes, activities, interests and opinions fall into this category.
- **Product-use variables:** consumer characteristics based on the use of a product, benefits expected from it, reasons for purchasing it, and loyalty to it.

## Market Research

### Terms:

- **Market research:** the systematic study of what buyers need and how best to meet those needs.
- **Primary data:** information developed through new research by the firm or its agents
- **Secondary data:** information already available to market researchers as a result of previous research by the firm or other agencies.

## Five Step Research Process

**Step 1:** Study the current situation (What is the need and what is being done to meet it at this point?)

**Step 2:** Select a research method (In choosing a method, marketers must mind the effectiveness and costs of different methods)

**Step 3:** Collect data.

- Secondary data: information already available to market researchers as a result of previous research by the firm or other agencies.
- Primary data: Information developed through new research by the firm or its agents.

**Step 4:** Analyze the data (Data are not useful until they have been organized into information)

**Step 5:** Prepare a report (This report should include a summary of the study's methodology and findings. It should also identify alternative solutions {where appropriate} and make recommendations for the appropriate course of action)

## Research Methods

**Observation:** a market research technique involving viewing or otherwise monitoring consumer buying patterns. It is the oldest form of research, and also one of the popular forms, due to its low cost.

**Survey:** a market research technique based on questioning a representative sample of consumers about purchasing attitudes and practices.

**Focus groups:** a market research technique involving a small group of people brought together and allowed to discuss selected issues in depth.

**Experimentation:** a market research technique in which the reactions of similar people are compared under different circumstances. Usually the people in these groups are not notified of the type of company that is sponsoring the research.

## Understanding Consumer Behaviour

### Influences on Consumer Behaviour:

- **Psychological influences:** include an individual's motivations, perceptions, ability to learn and attitudes.
- **Personal influences:** include lifestyle, personality, economic status and life-cycle stage.
- **Social influences:** include family, opinion leaders (people whose opinions are sought by others) and reference groups such as friends, co-workers and professional associates.
- **Cultural influences:** include culture (the way of living that distinguishes one large group from another), subculture (small groups, such as ethnic groups with shared values) and social status (the cultural ranking of groups according to criteria such as background, occupation and income)

### The Consumer Buying Process:

- **Problem/Need Recognition:** the buying process begins when a consumer becomes aware of a problem or need. Need recognition also occurs when one has a chance to change one's purchasing habits.
- **Information seeking:** Having recognized a need, the consumer seeks information on how to satisfy it.
- **Evaluation of alternatives:** Once information has been acquired, the consumer analyses the choices before him, and selects the one that is best suited to satisfying their need.
- **Purchase decisions:** Purchase decisions are based on rational motives (reasons for purchasing a product that involve a logical evaluation of product attributes such as cost, quality and usefulness) and emotional motives (reasons for purchasing a product that involves non-objective factors)
- **Post purchase evaluations:** marketing does not stop with the sale of a product or service, but includes the process of consumption. Marketers are motivated to keep their customers happy so that they will make repeat purchases of their products. However if the product is not satisfactory, the customer will complain to others, thus harming the chances of the company selling more of its products.

### Organizational Markets:

- **Industrial market:** businesses that buy goods to be converted into other products that will be sold to ultimate consumers.
- **Reseller market:** intermediaries like wholesalers and retailers who buy finished products and resell them.

- **Government market:** businesses that are owned by or cater to the government itself.
- **Institutional market:** non-government organizations such as hospitals, churches and schools.

## **Organizational Buying Behaviour**

### **Differences in Buyers:**

- As professionals, organizational buyers are trained in methods for negotiating purchase terms. Once buyer-seller agreements have been reached, they also arrange for formal contracts.
- As a rule, industrial buyers are company specialists in a line of items.
- Industrial buyers are often experts about the products they buy, and will study competing products and alternative suppliers in order to stay on top of the game.

### **Differences in the Buyer-Seller relationship:**

- Consumer-seller relationships are often impersonal, short-lived, one time interactions.
- In contrast, industrial situations often involve frequent and enduring buyer-seller relationships.
- The development of a long-term relationship provides each party with access to the technical strengths of the other as well as the security of knowing what future business to expect.
- Thus, a buyer and a supplier may form a design team to create products of benefit to both.
- Accordingly industrial sellers emphasize personal selling by trained representatives who understand the needs of each customer.

## **Midterm Requirements:**

### **Chapter 1-5**

#### **Multiple Choice: 30 marks**

- 2 questions on Marketing
- 30 questions overall
- 12 questions on Chapter 4
- 8 questions on Chapter 5 first half(Market Concept, 4 P's (Product, Price, Place and Promotion), Market Segmentation
- 2 questions on Chapter 5 second half
- 6-7 questions on Chapters 1-3

#### **Short Answer: 20 marks**

- understand balance sheet (assets/liability, accounting equation)
- Chapter 1: product/quality
- simple math calculations
- ratios

- income statement on exam

## Chapter 6: Developing and Promoting Goods and Services

### What is a Product?

#### Terms:

- **Features:** the qualities, both tangible and intangible, that a company builds into its products.
- **Value package:** product marketed as a bundle of value-adding attributes, including reasonable cost.
- **Convenience goods:** relatively inexpensive consumer goods or services that is bought and used rapidly and regularly, causing consumers to spend little time looking for them or comparing their prices.
- **Shipping goods/services:** moderately expensive consumer goods or services that are purchased infrequently, causing consumers to spend some time comparing their prices.
- **Specialty goods/services:** very expensive consumer goods or services that are purchased rarely, causing consumers to spend a great deal of time locating the exact time desired.
- **Expense items:** relatively inexpensive industrial goods that are consumed rapidly and regularly.
- **Capital items:** expensive, long-lasting industrial goods that are used in producing other goods or services and have a long life.
- **Product mix:** the group of products a company has available for sale.
- **Product line:** a group or similar products intended for a similar group of buyers who will use them in a similar fashion.

#### Seven-Step Development Process:

##### 1. Product ideas:

- ❖ Begins with a search for ideas for new products.
- ❖ Can come from consumers, the sales force, research and development people, or engineering personnel.
- ❖ The key is to actively seek out ideas and to reward those whose ideas become successful products.

##### 2. Screening:

- ❖ An attempt to eliminate all product ideas that do not mesh with the firm's abilities, expertise or objectives.
- ❖ Representatives from marketing, engineering, and production must have input at this stage.

##### 3. Concept testing:

- ❖ Once ideas have been culled, companies use market research to solicit consumer's input.
- ❖ Firms can identify benefits that the products must provide as well as an appropriate price level for the product.

##### 4. Business analysis:

- ❖ Involves an early comparison of costs versus benefits for the proposed products.
  - ❖ Preliminary sales projections are compared with cost projections from finance and production.
  - ❖ The aim is not to determine precisely how much money the product will make but to see whether the product can meet minimum profitability goals.
- 5. Prototype development:**
- ❖ Product ideas begin to take shape at this stage.
  - ❖ Using input from the concept-testing phase, engineering and/or development produce a preliminary version of the product.
  - ❖ Prototypes can be extremely expensive, often requiring extensive hand crafting, tooling and development of components.
  - ❖ This can help identify potential production problems.
- 6. Product testing and test marketing:**
- ❖ Using what it learned from the prototype, the company begins limited production of the item.
  - ❖ The product can be tested internally to see if it meets performance requirements.
  - ❖ If it does, it is made available for sale in limited areas.
- 7. Commercialization:**
- ❖ If test-making results are positive, the company will begin full-scale production and marketing of the products.
  - ❖ Gradual commercialization, with the firm providing the product to more and more areas over times, prevents undue strain on the firm's initial production capabilities.
  - ❖ But extended delays in commercialization may give competitors a chance to bring out their own version.

**Terms:**

- **Service package:** identification of the tangible and intangible features that define the service.
- **Service process design:** selecting the process, identifying worker requirements, and determining facilities requirements so that the service can be effectively provided.
- **Product life cycle (PLC):** the concept that the profit-producing life of any product goes through a cycle of introduction, growth, maturity (levelling off), and decline.

**Stages in the Product Life Cycle:**

**1. Introduction:**

- ❖ The introduction stage begins when the product reaches the marketplace.
- ❖ During the stage, marketers focus on making potential consumers aware of the product and its benefits.
- ❖ Because of extensive promotional and development costs, profits are nonexistent.

**2. Growth:**

- ❖ If the new product attracts and satisfies enough customers, sales begin to climb rapidly.
  - ❖ During this stage, the product begins to show a profit.
- 3. Maturity:**
- ❖ Sales growth begins to slow.
  - ❖ Although the product earns its highest profit level early in this stage, increased competition eventually leads to price cutting and lower profits.
  - ❖ Towards the end of the stage, prices begin to fall.
- 4. Decline:**
- ❖ During the final stage, sales and profits continue to fall.
  - ❖ New products in the introduction stage take away sales.
  - ❖ Companies remove or reduce promotional support (ads and salespeople) and may let the product linger to provide some profits.

**Terms:**

- **Product extension:** existing, unmodified product that is marketed globally.
- **Product adaptation:** product modified to have greater appeal in foreign markets.
- **Reintroduction:** process of reviving for new markets products that are obsolete in older ones.
- **Branding:** process of using symbols to communicate the qualities of a product made by a particular producer.
- **Brand equity:** degree of consumer's loyalty to and awareness of a brand and its resultant market share.
- **National brands:** products distributed by and carrying a name associated with the manufacturer.
- **Licensed brand:** selling the right to use a brand name, a celebrity's name, or some other well-known identification mark to another company to use on a product.
- **Private brands:** products promoted by and carrying a name associated with the retailer or wholesaler, not the manufacturer.
- **Brand loyalty:** customer's recognition of, preference for, and insistence on buying a product with a certain brand name.
- **Trademark:** the exclusive legal right to use a brand name.
- **Patent:** protects an invention or idea for a period of 20 years.
- **Copyright:** exclusive ownership rights granted to creators for the tangible expression of an idea.
- **Packaging:** the physical container in which a product is sold, including the label.
- **Label:** the part of a product's packaging that identifies the product's name and contents and sometimes its benefits.
- **Promotion:** any technique designed to sell a product in order to:
  - ❖ Make them aware of products.
  - ❖ Make them knowledgeable about products.
  - ❖ Persuade them to like products.
  - ❖ Persuade them to purchase products.

## Promotional Objectives:

- **Communicating information:**
  - ❖ Consumers cannot buy a product unless they have been informed about it.
  - ❖ Information can advise customers about the availability of a product, educate them on the latest technological advances, or announce the candidacy of someone running for a government office.
  - ❖ May be communicated in writing (newspapers and magazines), verbally (in person or over the telephone), or visually (television, a matchbook cover or a billboard).
- **Positioning products:** the establishment of an easily identifiable image of a product in the minds of consumers.
- **Adding value:**
  - ❖ Today's value-conscious customers gain benefits when the promotional mix is shifted so that it communicates value-added benefits in its products.
- **Controlling sales volume:**
  - ❖ By increasing promotional activities in slow periods, these firms can achieve more stable sales volume throughout the year.
  - ❖ They can thus keep production and distribution systems running evenly.
  - ❖ Can turn even slow seasons into peak sales periods.

## Promotional Strategies:

- **Push strategy:** a promotional strategy in which a company aggressively pushes its product through wholesalers and retailers, which persuade customers to buy it.
- **Pull strategy:** a promotional strategy in which a company appeals directly to customers, who demand the product from retailers, who demand the product from wholesalers.

## The Target Audience: Promotion and the Buyer Decision Process

### Step 1: Buyers must first recognize the need to make a purchase.

- ❖ Marketers must make sure that buyers are aware of their products.
- ❖ Advertising and publicity, which can reach many people quickly, are important.

### Step 2: Buyers also want to learn more about available products.

- ❖ Advertising and personal selling are important because both can be used to educate them.

### Step 3: Buyers compare competing products.

- ❖ Personal selling can be vital.
- ❖ Sales representatives can demonstrate product quality and performance in comparison with competitor's product.
- ❖ Sales representatives can demonstrate product quality and performance in comparison with competitor's products.

### Step 4: Buyers choose product and purchase them.

- ❖ Sales promotion is effective because it can give consumers an incentive to buy.
- ❖ Personal selling can help by bringing products to convenient purchase locations.

### Step 5: Buyers evaluate products after purchase.

- ❖ Advertising or even personal selling is sometime used to remind consumers that they made wise purchases.

### Terms:

- **Advertising:** promotional tool consisting of paid, non-personal communication used by an identified sponsor to inform an audience about a product.
- **Informative advertising:** an advertising strategy, appropriate to the introduction stage of the product life cycle, in which the goal is to make potential customers aware that a product exists.
- **Persuasive advertising:** an advertising strategy, appropriate to the growth stage of the product life cycle, in which the goal is to influence the customer to buy the firm's product rather than the similar product of a competitor.
- **Comparitive advertising:** an advertising strategy, appropriate to the maturity stage of the product life cycle, in which the goal is to influence the customer to switch from a competitor's similar product to the firm's product by directly comparing the two products.
- **Advertising media:** the specific communication device – television, radio, newspaper, direct mail, magazines, and billboards - used to carry a firm's advertising message to potential customers.
  - ❖ Newspapers
  - ❖ Television
  - ❖ Direct Mail
  - ❖ Radio
  - ❖ Magazines
  - ❖ Outdoor Advertising
  - ❖ Word of mouth
  - ❖ The Internet
  - ❖ Virtual Advertising
  - ❖ Other advertising channels

### Types of Advertising:

- **Brand advertising:** advertising that promotes a specific brand-name product.
- **Product advertising:** a variation on brand advertising that promotes a general type of product or service.
- **Advocacy advertising:** advertising that promotes a particular viewpoint of candidate.
- **Institutional advertising:** advertising that promotes a firm's long-term image, not a specific product.
- **Retail advertising:** advertising by retailers designed to reach end-users for a consumer product.
- **Co-operative advertising:** advertising in which a manufacturer together with a retailer or a wholesaler advertise to reach customers.
- **Trade advertising:** advertising by manufacturers designed to reach potential wholesalers and retailers.

- **Industrial advertising:** advertising by manufacturers designed to reach other manufacturer's professional purchasing agents and managers of firms buying raw materials and components.
- **Advertising campaign:** a firm that specializes in creating and placing advertisements in the media for clients.
  - ❖ Identifying the target audience
  - ❖ Establishing the advertising budget
  - ❖ Defining the objectives of the advertising messages
  - ❖ Creating the advertising messages.
  - ❖ Selecting the appropriate media
  - ❖ Evaluating advertising effectiveness
- **Personal selling:** promotional tool in which a salesperson communicates one-on-one with potential customers.
- **Sales force management:** setting goals at top levels of an organization; setting practical objectives for salespeople, organizing a sales force to meet those objectives; implementing and evaluating the success of a sales plan.
- **Retail selling:** selling a consumer product for the buyer's own personal or household use.
- **Industrial selling:** selling products to other business, either for manufacturing other products or for resale.
- **Order processing:** In personal sales, the receiving and follow-through on handling and delivery of an order by a salesperson.
- **Creative selling:** in personal sales, the use of techniques designed to persuade a customer to buy a product when the benefits of the product are not readily apparent or the item is very expensive.
- **Missionary selling:** in personal sales, the indirect promotion of a product by offering technical assistance and/or promoting the company's image.

### **The Personal Selling Process:**

- **Prospecting:** in personal sales, the process of identifying potential customers.
- **Qualifying:** in personal sales, the process of determining whether potential customers have the authority to buy and the ability to pay for a product.
- **Approaching:** refers to the first few minutes that a salesperson has contact with a qualified prospect. The success of later stages depends on the prospect's first impression of the salesperson, since the impression affects the salesperson's credibility. Salespeople need to present a neat, professional appearance and to greet prospects in a strong, confident manner,
- **Presenting and Demonstrating:** Next, the salesperson must present the promotion message to the prospect. A presentation is a full explanation of the product, its feature and its uses. It links the product's benefits to the prospect's needs.
- **Handling objections:** No matter what the product, prospects will have some objections. At the very least, prospects will object to a product's price.
- **Closing:** In personal sales, the process of asking the customer to buy the product.
- **Following-up:** the sales process does not end up with the close of the sale. Most companies want customers to come back again.

**Types of Sales Promotion:**

- **Coupons:** a method of sales promotion featuring a certificate that entitles the bearer to stated savings off a product's regular price.
- **Point-of-purchase (POP) display:** a method of sales promotion in which a product display is so located in a retail store as to encourage consumers to buy the product.
- **Premium:** a method of sales promotion in which some item is offered free or at a bargain price to customers in return for buying a specified product.
- **Trade shows:** a method of sales promotion in which members of a particular industry gather for displays and product demonstrations designed to sell products to customers.

**Publicity and Public Relations:**

- **Publicity:** information about a company that is made available to consumers by the news media; not controlled by the company, but it does not cost the company any money.
- **Public relations:** public-service announcements by the company designed to enhance the company's image.

## Chapter 7: Pricing and Distributing Goods and Services

### Pricing Objectives and Tools

#### Terms:

- **Pricing:** deciding what the company will receive in exchange for its product.
- **Pricing objectives:** goals that producers hope to attain in pricing products for sale.

#### Profit Maximizing Objectives:

- Pricing to maximize profits is tricky.
- If the price is set too low, the company will probably sell many of its products, but it may miss the opportunity to make additional profit on each unit, and thus may in fact lose money on each exchange.
- Conversely, if prices are set too high, the company will make a large profit on each item but will sell fewer units, resulting in excess inventory and a need to reduce production operations. This will also result in money loss.
- To avoid these problems, companies try to set prices to sell the number of units that will generate the highest possible total profits.
- In calculating profits, managers weigh receipts against costs for materials and labour to create the product.
- But they may also consider the capital resources (plant and equipment) that the company must tie up to generate that level of profit.
- The cost of marketing (such as maintaining a large sales staff) can also be substantial.
- Concern over the efficient use of these resources has led many firms to set prices so as to achieve a targeted level of return on sales or capital investment.

#### Market Share Objectives:

- **Market share:** a company's percentage of the total market sales for a specific product.
  - ❖ In the long run, a business must make a profit to survive.
  - ❖ Nevertheless, many companies initially set low prices for new products.
  - ❖ They are willing to accept minimal profits – even losses – in order to get buyers to try products.
  - ❖ In other words, they use pricing to establish market shares.

#### Other Pricing Objectives:

- In some instances, neither profit maximizing nor market share is the best objective.
- During difficult economic times, for instance, loss containment and survival may become a company's main objectives.

### Price-setting Tools

#### Cost-oriented Pricing:

- Cost-oriented pricing considers the firm's desire to make a profit and takes into account the need to cover production costs.

- Mark-up is usually stated as a percentage of selling price.
- Mark-up percentage is calculated as follows (if mark-up is \$7, the product cost is \$8 and the selling price is \$15)
  - = Mark-up / Sales Price
  - = (\$7.00) / (\$15.00)
  - = 46.7%
- As a result, it can be said that for every dollar taken in, 46.7 cents will be gross profit for the business.
- The business must still pay rent, utilities, insurance and other costs as well.
- Mark-up can also be expressed as a percentage of cost
  - = Mark-up / Product Cost
  - = (\$7.00) / (\$8.00)
  - = 87.5%

### **Break-even Analysis: Cost-Volume-Profit Relationships:**

- **Variables costs:** those costs that change with the number of goods or services produced or sold.
- **Fixed costs:** those costs unaffected by the number of goods or services produced or sold.
- **Break-even analysis:** an assessment of how many units must be sold at a given price before the company begins to make a profit.
- **Break-even point:** the number of units that must be sold at a given price before the company covers all of its variable and fixed costs. It is calculated as follows ( if total fixed costs is \$100,000, the price is \$15 and the variable cost is \$8)
  - ❖ Break-even point (in units) = Total fixed costs / Price – Variable Costs
  - = \$100,000 / \$15 - \$8
  - = \$ 14, 286 units
- So this would signify that if:
  - ❖ The business sells less than 14,286 units; it shows that it loses money for the year.
  - ❖ The business sells exactly 14,286 units; it shows that it covers all its costs but makes no profits.
  - ❖ The business sells more than 14,286 units; it shows that the profits will increase by \$7 dollars for each unit sold (the \$7 being the difference between the variable cost and the unit price)
- Zero profitability at the breakeven point can also be seen using the following profit equation.
  - ❖ Profit = total revenue – (total fixed costs + total variable costs)
  - = (14,286 units x \$15) – (\$100,000 fixed costs + [14,286 units x \$8 (variable costs)])
  - \$0 = (214,290) – (\$100,000 + 114,288) (rounded to the nearest whole unit)

## Pricing Strategies and Tactics

### Terms:

- **Price leadership:** the dominant firm in the industry establishes product prices and other companies follow suit.
  - ❖ Examples include Rolls-Royce (car manufacturers) and Godiva (chocolates)
- **Price-skimming strategy:** the decision to price a new product as high as possible to earn the maximum profit on each unit sold.
- **Penetration-pricing strategy:** the decision to price a new product very low to sell the most units possible and to build customer loyalty.
- **Price lining:** the practice of offering all items in certain categories at a limited number of predetermined price points.
- **Psychological pricing:** the practice of setting prices to take advantage of the non-logical reactions of consumers to certain types of prices.
- **Odd-even psychological pricing:** a form of psychological pricing in which prices are not stated in even dollar amounts.
- **Discount:** any price reduction offered by the seller to persuade customers to purchase a product.
- **Cash discount:** a form of discount in which customers paying with cash, rather than buying on credit, pay lower prices.
- **Seasonal discount:** a discount in which lower prices are offered to customers making a purchase at a time of year when sales are traditionally slow.
- **Trade discount:** a discount given to firms involved in a product's distribution.
- **Quantity discount:** a form of discount in which customers buying large amounts of a product pay lower prices.

## The Distribution Mix

### Terms:

- **Distribution mix:** the combination of distribution channels a firm selects to get a product to end-users.
- **Intermediary:** any individual or firm other than the producer who participates in a product's distribution.
- **Wholesalers:** intermediaries who sell products to other businesses, which in turn resell them to the end-users.
- **Retailers:** Intermediaries who sell products to end-users.
- **Distribution channel:** the path a product follows from the producer to the end-user.
- **Direct channel:** a distribution channel in which the product travels from the producer to the consumer without passing through any intermediary.
- **Sales agent (or brokers):** an independent business person who represents a business and receives a commission in return, but never takes legal possession of the product.
- **Intensive distribution:** a distribution strategy in which a product is distributed in nearly every possible outlet, using many channels and channel members.

- ❖ Examples can be chocolate bars and milk, which can come from more than one channel (grocery store, convenience store, etc)
- **Exclusive distribution:** a distribution strategy in which a product's distribution is limited to only one wholesaler or retailer in a given geographic area.
- **Selective distribution:** a distribution strategy that falls between intensive and exclusive distribution, calling for the use of a limited number of outlets for a products.

### **Distribution of Consumer Products:**

- **Channel 1: Direct Distribution of Consumer Products**
  - ❖ The product travels from the producer to the consumer without intermediaries.
- **Channel 2: Retail Distribution of Consumer Products**
  - ❖ Producers distribute products through retailers.
- **Channel 3: Wholesale Distribution of Consumer Products**
  - ❖ Once the most widely method of non-direct distribution, Channel requires a large amount of floor space, both for storing merchandize and for displaying it in stores.
  - ❖ Faced with the rising cost of store spaces, many retailers found that they could not afford both retail and storage space.
  - ❖ Thus wholesaler entered the distribution network to perform the storage function.
- **Channel 4: Distribution through Sales Agents or Brokers**
  - ❖ Uses sales agents, or brokers who represent producers and sell to wholesalers, retailers or both.
  - ❖ They receive commissions based on the prices of the goods they sell.
- **Channel 5: Distribution by Agents to Consumers and Businesses**
  - ❖ Differs from previous channels in two ways.
    - An agent functions as the sole intermediary
    - The agent distributes to both customers and business customers.
- **Channel 6: Direct Distribution of Business Products**
  - ❖ Most business goods are sold directly by the manufacturer to the industrial buyer.
- **Channel 7: Wholesale Distribution of Industrial Products**
  - ❖ Mostly handles accessory equipment (computer, fax machines and other office equipment) and supplies (floppy disks, pencils, copier paper)
  - ❖ Manufacturers produce these times in large quantities, but companies buy them in small quantities.
- **Channel 8: Wholesale Distribution to Business Retailers**
  - ❖ In the office-products industry, Channel 7 is displaced by a channel that looks very much like Channel 3 for consumer products.

## Wholesaling:

- **Merchant salesperson:** An independent wholesaler who buys and takes legal possession of goods before selling them to customers.
- They usually provide storage and a means of delivery.
- **Full-service merchant wholesaler:** provides credit, marketing and merchandising services.
- Approximately 80% of all merchant wholesalers are full-service wholesalers.
- **Limited service merchant wholesaler:** provide a few services, mainly related to storage.
- Their customers are normally small operations that pay cash and pick up their own goods.
- **Drop-shipper:** receive orders from customers, negotiate with producers to supply goods, take title to them, and arrange for shipment to customers.
  - ❖ Does not carry inventory or handle the product.
  - ❖ Bears the risk of the transaction until the customer takes title to the goods.
- **Rack jobbers:** market consumer goods directly to retail stores.
- Agents and brokers serve as sales forces for various manufacturers.
- They are independent representatives of many companies' products, and work on commissions, usually about 4-5% of net sales.
- They do not own the merchandise they sell, but as serve as the sales and merchandising arms of manufacturers that do not have their own sales forces.
- The value of agents and brokers lies primarily in their knowledge of markets and merchandising expertise.
- They also provide a wide range of services, including shelf and display merchandising and advertising layout.
- They also maintain saleability by removing open, torn or dirty packages, arranging products neatly and generally keeping them attractively displayed.

## Retailing

### Types of Retail Outlets:

- **Department stores:** large retail stores that offer a wide variety of high-quality items divided into specialized departments.
- **Supermarkets:** large retail stores offer a variety of food and food-related items divided into specialized departments.
- **Specialty stores:** small retail stores that carry one line of related products.
- **Bargain retailers:** retail outlets that emphasize low prices as a means of attracting consumers.
- **Discount houses:** bargain retail stores that offer major items such as televisions and large appliances at discount prices.
- **Catalogue showroom:** a bargain retail store in which customers place orders for items described in a catalogue and pick up those items from an on-premise warehouse.
- **Factory outlets:** bargain retail stores that are owned by the manufacturers whose products they sell.

- **Warehouse club (wholesale club):** huge, membership-only, combined retail wholesale operations that sell brand-name merchandise.
- **Convenience stores:** retail stores that offer high accessibility, extended hours, and fast service on selected items.

#### **Non-Store and Electronic Retailing:**

- **Direct-response retailing:** a type of retailing in which firms make direct contact with customers both to inform them about products and to receive sales orders.
- **Direct selling:** form of non-store retailing typified by door-to-door sales.
- **Mail order (catalogue marketing):** a form of non-store retailing in which customers place orders for merchandise shown in catalogues and receive their orders via mail.
- **Telemarketing:** use of the telephone to sell directly to the customer.
- **Electronic retailing:** non-store retailing in which information about the seller's products and services is provided over the internet, allowing consumers to receive the information and purchase the products at home.

### **Physical Distribution**

#### **Warehousing Operations:**

- **Physical distribution:** those activities needed to move a product from the manufacturer to the end consumer.
- **Warehousing:** the part of the distribution process concerned with storing goods.
- **Private warehouse:** a warehouse owned and used by just one company.
- **Public warehouse:** An independently owned and operated warehouse that stores the goods of many firms.
- **Storage warehouse:** a warehouse used to provide storage of goods for extended periods of time.
- **Distribution centre:** a warehouse used to provide storage of goods for only short periods for only short periods before they are shipped to retail stores.
- **Inventory control:** the part of warehouse operations that keeps track of what is on hand and ensures adequate supplies of products in stock at all times.
- **Materials handling:** the transportation and arrangement of goods within a warehouse and orderly retrieval of goods from inventory.

#### **Transportation Modes:**

- **Trucks:**
  - ❖ **Advantages:** Flexibility, fast service and dependability, and is considered to be a good choice for short-distance distribution and expensive products.
  - ❖ **Disadvantages:** Can be delayed by bad weather and limited in the volume they can carry.
- **Planes:**
  - ❖ **Advantages:** The fastest available form of transportation, as well as reduced costs in packing, handling, unpacking and final preparations

necessary for sale. The need for storing certain commodities is also reduced.

- ❖ **Disadvantages:** most expensive form of transportation
- **Railroads:**
  - ❖ **Advantages:** reliable, inexpensive, can carry large loads of freight
  - ❖ **Disadvantages:** outclassed by more advanced forms of transportation
- **Water carriers:**
  - ❖ **Advantages:** the least expensive of all forms of transportation
  - ❖ **Disadvantages:** the slowest of all forms of transportation
- **Pipelines:**
  - ❖ **Advantages:** constant flow of the product, and unaffected by weather conditions.
  - ❖ **Disadvantages:** inflexible, lack of adaptability, slow delivery time, limited routes

#### **Terms:**

- **Intermodal transportation:** the combined use of different modes of transportation.
- **Containerization:** the use of standardized heavy-duty in which many items are sealed at the point of shipment and opened only at the final destination.
- **Order fulfillment:** all activities involved in completing a sales transactions, beginning with making the sale and ending with on-time delivery to the customer.
- **Hubs:** central distribution outlet that controls all or most of a firm's distribution activities.
  - ❖ **Supply-side hubs:** are located at the same site where production activities take place. They make sense when large shipments flow regularly to a single industrial user, such as an automobile manufacturer.
  - ❖ **Distribution-side hubs:** may be located much farther away, especially if customers are geographically dispersed.

## Chapter 8: Understanding Money and Banking

### What is Money?

#### The Characteristics of Money:

- **Money:** any object generally accepted by people as payment for goods and services.
- Characteristics of money included:
  - ❖ **Portability:** Currency that is easily affected by deterioration or is too large or uncomfortable to be carried around is not the best kind of money. That is why currency is usually lightweight and easy to handle.
  - ❖ **Divisibility:** Currency should be easily divisible, and easily given out. They also must have easily determined values.
  - ❖ **Durability:** Currency must be able to retain its value for a long period of time. It cannot spoil, nor die.
  - ❖ **Stability:** There must be a steady demand for the currency. Inflation would result in less demand for consumption while deflation would result in too much demand.

#### The Functions of Money:

- **Medium of exchange:** money is used as a way to buy or sell things. Without money, society would be bogged down in a system of barter.
- **Stores of value:** In the form of currency, money can be used for future purchases and therefore “stores” value.
- **Unit of account:** money lets us measure the relative values of goods and services. It also acts as a unit of account because all products can be valued and accounted for in terms of money.

#### Credit Cards = Plastic Money:

- Credit – especially extended through credit cards has become a major factor in the purchase of consumer goods in Canada
- The use of credit cards has become so widespread that many people refer to them as “plastic money”.
- However, credit cards do not qualify as money, but more as a money substitute.
- They serve as a temporary medium of exchange but are not a store of value.
- Credit cards are big business for two reasons:
  - ❖ They are very convenient
  - ❖ They are also very profitable for issuing companies. These profits stem from two sources:
    - Some cards charge annual fees to holder, and all cards charge interest on unpaid balances
    - Merchants who accept credit cards pay fees to card issuers

## The Canadian Financial System

### Summary:

- Many forms of currency especially demand deposits and time deposits, depends on the existence of financial institutions to provide a broad spectrum of services to both individuals and businesses.
- Businesses need stable financial institutions to underwrite modernization and expansion, and individuals need them to handle currency.

### Financial Institutions:

- The main function of financial institutions is to ease the flow of money from sectors with surpluses to those with deficits.
- They do this by issuing claims against themselves and using the proceeds to buy the assets of – and thus invest in – other organizations.
- A bank for instance can issue financial claims against itself by making available claims for chequing and saving accounts.
- In turn, its assets will be mostly loans invested in individuals and businesses and perhaps in government securities.
- There are a variety of financial intermediaries in Canada.
- They vary:
  - ❖ in size
  - ❖ in importance
  - ❖ in the types of sources they appeal to
  - ❖ in the form of the claim they give to sources of funds
  - ❖ in the users they supply credit to
  - ❖ in the type of claim they make against the users of funds
- For many years, the financial community in Canada was divided rather clearly into four distinct legal areas.
- Often called the four financial pillars, they include:
  - ❖ Chartered banks
  - ❖ Alternate banks such as trust companies and credit unions
  - ❖ Life insurance companies and other specialized lending and saving intermediaries (factors, finance companies, venture capital firms, mutual funds and pension funds)
  - ❖ Investment dealers

### Financial Pillar #1 – Chartered Banks

#### Summary:

- **Chartered bank:** a privately owned, profit-seeking firm that serves individuals, non-business organizations, and businesses as a financial intermediary.
- They are the largest and most important financial institution in Canada.
- They also offer a unique service, in which their liability instruments (the claims against their assets) are generally accepted by the public and by business as money or as legal tender.
- Canada has a branch banking system. Unlike the United States, which has hundreds of banks, with only a few branches each, Canada has a few banks with hundreds of branches each.

### **Services Offered by Banks:**

- **Pension services:** most banks help customers establish savings plans or retirement. Banks serve as financial intermediaries by receiving funds and investing them as directed by customers. They also provide customers with information on investment possibilities.
- **Trust services:** the management of funds left “in the bank’s trust”. In return for a fee, the trust department will perform such tasks as making your monthly bill payments and managing your investment portfolio.
- **International services:** the three main international services offered by banks are:
  - ❖ **Currency exchange:** the exchange of one form of currency for another.
  - ❖ **Letter credit:** a promise by a bank to pay money to a business firm if certain conditions are met.
  - ❖ **Banker’s acceptance:** a promise that the bank will pay a specified amount of money at a future date.

### **Financial Advice:**

- Many banks, both large and small, help their customers managed their money.
- Depending on the customer’s situation, the bank may recommend different investment opportunities.
- The recommended mix might include guaranteed investment certificates, mutual funds, stocks and bonds.

### **Automated Teller Machines:**

- **Electronic automated teller machines (ATM):** allows customers to withdraw money and make deposits 24 hours a day, seven days a week. They also allow transfers of funds between accounts and provide information on account status.

### **Bank Deposits:**

- **Chequable deposit:** a chequing account. Customers who deposit coins, paper currency or other cheques in their chequing accounts can write cheques against the balance in their accounts.
- **Term deposit:** money that remains with the bank for a period of time with interest paid to the depositor.

### **Bank Loans:**

- A secured loan is backed by collateral such as accounts receivable or a life insurance policy. If a buyer cannot repay the loan, the bank sells the collateral.
- An unsecured loan is backed only by the borrower’s promise to repay it. Only the most creditworthy borrowers can get unsecured loans.
- **Prime rate of interest:** is the lowest rate charged to borrowers.

### **Banks as Creator of Money:**

- **Reserve requirement:** the requirement (until 1991) that banks keep a portion of their chequable deposits in vault cash or as deposits with the Bank of Canada

## Other Changes in Banking

### Deregulation:

- Has caused banks to shift away from their historical role as intermediaries between depositors and borrowers.
- Canada's banks are diversifying to provide a wider array of financial products to their clients.
- Training bankers to be effective in this environment is necessary.
- In the last few years, large companies have reduced their use of bank loans.
- To compensate for this loss, banks are setting up money market operations.

### Changing Consumer Demands:

- Consumers are no longer content to simply keep money in a bank when they can get more for it elsewhere.
- They are increasingly turning to non-traditional, electronic banks that have very few tellers or branches.
- Retailers are opening their own branches.

### Electronic Funds Transfer:

- **Electronic funds transfer:** a financial service that combines computer and communication technology to transfer funds or information into, from, with and among financial institutions.
- **Debit card:** a plastic card, that immediately on use, reduces the balance in the user's bank account and transfers it to the store's account.
- **Point-of-sale (POS) terminals:** electronic device that allows customers to pay for retail purchases with debit cards.
- **Smart card:** a credit card-sized plastic with an embedded computer chip that can be programmed with "electronic money".
- **E-cash:** money that moves among consumers and businesses via digital electronic transmissions.

## Financial Pillar #2 – Alternate Banks

### Terms:

- **Trust company:** safeguards funds and estates entrusted to it; may also serve as trustee, transfer agent, and registrar for corporations.
- **Credit unions:** co-operative savings and lending association formed by a group with common interests.

## Financial Pillar # 3 – Specialized Lending and Savings Intermediaries

### Terms:

- **Life insurance company:** a mutual or stock company that shares its risks with its policyholders for payment of premiums.
- **Factoring company:** buys accounts receivable from a firm for less than their face value, and then collects the face value of the receivables.

- **Sales finance company:** specializes in financing instalment purchases made by individuals or firms.
- **Consumer finance company:** makes personal loans to consumers.
- **Venture capital firm:** provides funds for new or expanding firms thought to have significant potential.
- **Pension fund:** accumulates money that will be paid out to plan subscribers.
- **Law of one price:** the principle that identical products should sell for the same price in all countries.

## Chapter 9: Understanding Securities and Investments

### Securities Markets

#### Primary and Secondary Markets for Securities:

- **Securities:** stocks and bonds (which represent a secured-asset-based claim on the part of investors) that can be bought and sold.
- **Primary securities market:** the sale and purchase of newly issued stocks and bonds by firms or governments.
- **Investment bankers:** any financial institution engaged in purchasing and reselling new stocks and bonds.
- **Secondary securities market:** the sale and purchase of previously issued stocks and bonds.
- **Private placements:** allows the business who uses them to keep their plans confidential.

#### Investment Banking:

- Most new stocks and some bonds are sold to the wider public market.
- To bring a new security to market, the issuing corporation must obtain approval from a provincial securities commission.
- It also needs the services of an investment banker.
- Such well-known firms as RBC Dominion Securities and TD Securities provide three types of investment banking services:
  - ❖ They advise the company on the timing and financial terms for the new issue.
  - ❖ By underwriting (buying) the new securities, investment bankers bear some of the risk of issuing the new security.
  - ❖ They create the distribution network that moves the new securities through groups of other banks and brokers into the hands of individual investors.

### Stocks

#### Market shares:

- **Market shares:** the current price of one share of a stock in the secondary securities market; the real value of a share.
- Market value reflects buyer's willingness to invest in a company.
- The market price of a share can be influenced by both objective factors (e.g. a company's profits), and by subjective factors.
- Subjective factors include:
  - ❖ rumours (unverified information such as a claim that a company has made a big gold strike)
  - ❖ investor relations (playing up the positive aspects of a company's financial condition to financial analysts and financial institutions)
  - ❖ stockbroker recommendations (a recommendation to buy a stock may increase demand for the stock and cause its price to increase, while a recommendation to sell may decrease its demand and cause the price to fall)

**Book value:**

- **Book values:** value of a common stock expressed as total's owner equity divided by the number of shares of stock.
- Book value is used as a comparison indicator because for successful companies, the market value is usually greater than its book value.
- Thus, when market price falls to near book value, some investors buy the stock on the principle that it is under-priced and will increase in the future.

**Investment Traits of Common Shares:**

- Common shares are among the riskiest of all securities.
- Uncertainties about the stock market itself, for instance, can quickly change a given stock's value.
- Furthermore, when companies have unprofitable years, they often cannot pay dividends.
- At the same time, however, common shares offer high growth potential.
- Naturally, the prospects for growth in various industries change from time to time, but the blue-chip stocks of well-established, financially sound firms such as IBM and Imperial Oil have historically provided investors with steady income through consistent dividend payouts as well as long-term capital gains.

**Terms:**

- **Blue-chip stocks:** stocks of well-established, financially sound firms.
- **Market-capitalization:** the dollar value (market value) of stocks listed on a stock exchange.

**Preferred Shares:**

- Preferred shares are usually issued with a stated value (example can be \$100).
- Dividends paid on preferred shares are usually expressed as a percentage of the stated value.
- For example, if a preferred share with a \$100 stated value pays a 6% dividend, shareholders would receive an annual dividend of \$6 on each share.
- Some preferred shares are callable.
- The issuing firm can require the preferred shareholders to surrender their shares in exchange for a cash payment.
- The amount of this cash payment, known as the call price, is specified in the agreement between the preferred shareholders and the firm.

**Investment Traits of Preferred Shares:**

- **Cumulative Preferred Shares:** preferred on which dividends not paid in the past must be paid up before the firm may pay dividends to common shareholders.
- Because of its preference on dividends, preferred share's income is less risky than the common shares of the same company.
- Moreover most preferred shares are cumulative.
- Typically the firm cannot pay any dividends to its common shareholders until it has made up all late payments to preferred shareholders.

- Even the income from cumulative preferred shares is not as certain as the corporate bonds of the same company.
- The company cannot pay dividends if it does not make a profit.
- The purchase price of the preferred shares can also fluctuate, leading to a capital gain or loss for the shareholders.
- The growth potential of preferred shares is limited due to its fixed dividend.

### **Stock Exchanges:**

- Most of the secondary market for stocks is handled by organized stock exchanges.
- In addition to stock markets, a so-called “dealer”, or the over-the-counter market handles the exchange of some stocks.
- **Stock exchange:** a voluntary organization of individuals formed to provide an institutional setting where members can buy and sell stock for themselves and their clients in accordance with the exchange’s rules.
- **Trading floor:** the floor is equipped with a vast array of electronic communications equipment for conveying buy and sell orders, or confirming completed orders. A variety of news services furnish important up-to-the-minute information about world events as well as business developments. Any changes in these factors may be swiftly reflected in share prices.

### **Brokers:**

- **Broker:** an individual licensed to buy and sell securities for customers in the secondary market; may also provide other financial services.
- Discount brokers offer well-informed individual investors a fast, low-cost way to participate in the market. Discount brokerage services are low cost because sales personnel receive fees or salaries, not commissions. Unlike many full-service brokers, they do not offer investment advice or person-to-person sales consultations. They do, however, offer automated online services, such as stock research, industry analysis and screening for specific types of stocks.
- Online trading owes its popularity to convenient access to the Internet, fast no-nonsense transactions and the opportunity for self-directed investors to manage their own portfolios while paying low fees for trading.
- Full-service brokers can offer clients consulting advice in personal financial planning, estate planning, and tax strategies, along with a wider range of investment products. Financial advisers also do more than deliver information. They deliver interpretations of and suggestions on investment s that clients might overlook when trying to sift through an avalanche of online financial data.

### **Canadian Stock Exchanges:**

- **Over-the-counter (OTC) market:** organization of securities dealers formed to trade stock outside the formal institutional setting of the organized stock exchanges.
- **National Association of Securities Dealers Automated Quotation (NASDAQ):** a stock market implemented by NASD that operates by broadcasting trading information on an intranet to more than 350,000 terminals worldwide.

## Bonds

### Terms:

- **Bonds:** a written promise that the borrower will pay the lender, at a stated future date, the principal plus a stated rate of interest.
- **Government bonds:** bonds issued by the federal government.
- **Municipal bonds:** bonds issued by provincial or local government.
- **Corporate bonds:** bond issued by a company as a source of long-term funding.
- **Registered bonds:** the names of holders are registered with the company.
- **Bearer (coupon) bond:** require bondholders to clip coupons from certificates and send them to the issuer to receive interest payments.
- **Secured bonds:** bonds issued by borrowers who pledge assets as collateral in the event of non-payment.
- **Debentures:** considered to be secured bonds in Canada, but unsecured bonds in the United States.

## Other Investments

### Terms:

- **Mutual fund:** any company that pools the resources of many investors and use those funds to purchase various types of financial securities, depending on the fund's financial goals.
- **No-goal fund:** the mutual fund in which investors are not charged a sales commission when they buy into or sell out of the fund.
- **Load fund:** a mutual fund in which investors are charged a sales commission when they buy into or sell out of the fund.
- **Ethical funds:** mutual funds that stress socially responsible investing.
- **Stock options:** the purchased right to buy or sell a stock.
- **Call option:** the purchased right to buy a particular stock at a certain price until a specified date.
- **Diversification:** purchase of several different kinds of investments rather than just one.
- **Asset allocation:** the relative amount of funds invested in (or allocated to) each of several investment alternatives.

## Buying and Selling Securities

### Market Indexes:

- **Market indexes:** a measure of the market value of stocks; provides a summary of price trends in a specific industry or the stock market as a whole.
- **Bull market:** a period of rising stock prices; a period in which investors act on a belief that stock prices will rise.
- **Bear market:** a period of falling stock prices; a period in which investors act on a belief that stock prices will fall.
- **Dow Jones Industrial Average (DJIA):** Market industry based on the prices of 30 of the largest firms listed on the NYSE and NASDAQ.

- **Standard & Poor's Composite Index (S&P 500):** Market index based on the performance of 400 industrial firms, 40 utilities, 40 financial institutions and 20 transportation companies.
- **S&P/TSX index:** an average computed from 225 different large Canadian stocks from various industry groups.
- **NASDAQ Composite Index:** value weighted market index that includes all NASDAQ listed companies, both domestic and foreign.

### **Buying and Selling Stocks**

#### **Terms:**

- **Market order:** an order to a broker to buy or sell a certain security at the current market price.
- **Limit buy order:** an order to a broker to buy a certain security only if its price is less than or equal to a given limit.
- **Limit sell order:** an order to a broker to sell a certain security only if its price is equal to or greater than a given limit.
- **Stop order:** an order to a broker to sell a certain security if its price falls to a certain level or below.
- **Round lot:** the purchase or sale of stock in units of 100 shares.
- **Odd lots:** the purchase or sale of stock in units other than 100 shares. Considered to be fractions of round lots.

### **Securities Regulations**

#### **Terms:**

- **Program trading:** large purchase or sale of a group of stocks, often triggered by computerized trading programs that can be launched without human supervision or control.
- **Prospectus:** a detailed registration statement about a new stock filed with a provincial securities exchange; must include any data helpful to a potential buyer.
- **Insider trading:** the use of special knowledge about a firm to make a profit on the stock market.
- **Blue Sky Law:** laws regulating how corporations must back up securities.