

МИНИСТЕРСТВО ОБРАЗОВАНИЯ И НАУКИ РОССИЙСКОЙ ФЕДЕРАЦИИ

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О.В. Гринцова, О.С. Милотаева, М.В. Пац, Н.В. Солманидина

# **ИНОСТРАННЫЙ ЯЗЫК**

## **АНГЛИЙСКИЙ ЯЗЫК**

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по направлениям подготовки 38.03.01 «Экономика»,  
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Рецензенты: кандидат филологических наук, доцент кафедры «Иностранные языки» В.С. Горбунова (ПГУАС); кандидат филологических наук, доцент кафедры «Перевод и переводоведение» Т.А. Яшина (ПГТУ)

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Учебное пособие подготовлено на кафедре «Иностранные языки» и предназначено для студентов, обучающихся по направлениям подготовки 38.03.01 «Экономика», 38.03.02 «Менеджмент», 38.03.03 «Управление персоналом».

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## ПРЕДИСЛОВИЕ

Настоящее учебное пособие по английскому языку предназначено для студентов, обучающихся по направлениям подготовки 38.03.01 «Экономика», 38.03.02 «Менеджмент», 38.03.03 «Управление персоналом». Пособие ориентировано на формирование и развитие достаточного уровня иноязычной коммуникативной компетенции в деловой и научной сфере, позволяющей студентам использовать иностранный язык как средство деловой межкультурной коммуникации.

Содержание учебного пособия направлено на удовлетворение требований, предъявляемых к результатам освоения дисциплины, и способствует формированию следующих компетенций:

- способность к коммуникации в устной и письменной формах на русском и иностранном языках для решения задач межличностного и межкультурного взаимодействия

В результате изучения дисциплины (модуля) обучающийся должен:

*Знать:*

- базовую лексику и грамматику, представляющую нейтральный научный стиль, а также основную терминологию направления подготовки;
- базовую лексику, представляющую стиль повседневного, общекультурного и общетехнического общения;
- иностранный язык в объеме, необходимом для возможности получения информации профессионального содержания из зарубежных источников;
- основы реферирования и аннотирования специальных текстов в устной и письменной формах.

*Уметь:*

- применять знания иностранного языка для осуществления межличностной коммуникации;
- использовать знание иностранного языка в профессиональной деятельности;
- получать и сообщать информацию на иностранном языке в письменной и устной форме, оформлять профессиональную и деловую корреспонденцию;
- читать и понимать литературу по направлению подготовки, анализировать полученную информацию.

*Владеть:*

- основами деловых устных и письменных коммуникаций и речевого этикета изучаемого иностранного языка;
- навыками анализа и составления документации на иностранном языке;

- навыками выражения мыслей и собственного мнения в межличностном и деловом общении на иностранном языке;
- навыками обсуждения тем, связанных с направлением подготовки.

*Иметь представление:*

- о стилистических особенностях сферы профессиональной коммуникации;
- о научной терминологии, классификации, функционировании и способах перевода терминов и фразеологизмов области сферы профессиональной коммуникации.

– способность работать в коллективе, толерантно воспринимая социальные, этнические, конфессиональные и культурные различия

В результате изучения дисциплины (модуля) обучающийся должен:

*Знать:*

- базовую лексику, представляющую стиль повседневного, общекультурного и общетехнического общения;
- грамматические конструкции, характерные для профессионально-ориентированных материалов
- требования к составлению официальной корреспонденции и некоторые общепринятые правила;
- иностранный язык в объеме, необходимом для возможности получения информации делового содержания из зарубежных источников;
- речевые клише для устного делового общения.

*Уметь:*

- применять знания иностранного языка для осуществления деловой межличностной коммуникации;
- получать и сообщать информацию на иностранном языке в письменной и устной форме, оформлять профессиональную и деловую корреспонденцию;
- работать с иноязычными источниками деловой информации;
- общаться лично и по телефону с иноязычными партнерами на деловую тематику;
- грамотно и корректно вести деловую переписку с зарубежными коллегами;
- организовывать деловые встречи, презентации на иностранном языке.

*Владеть:*

- основами деловых устных и письменных коммуникаций и речевого этикета изучаемого иностранного языка;
- основными навыками письма для ведения бытовой переписки, переписки по общетехническим и общекультурным темам;
- основами устной речи – делать сообщения, доклады (с предварительной подготовкой);

*Иметь представление:*

- о стилистических особенностях сферы профессиональной коммуникации;
- об основных приемах аннотирования, реферирования и перевода литературы на общекультурные, общетехнические и бытовые темы.

– способность к самоорганизации и самообразованию

В результате изучения дисциплины (модуля) обучающийся должен:

*Знать:*

- иностранный язык в объеме, необходимом для возможности получения информации профессионального содержания из зарубежных источников;
- историю и культуру стран изучаемого иностранного языка, правила речевого этикета;
- основные приемы аналитико-синтетической переработки информации: смысловой анализ текста, вычленение единиц информации и составление плана реферируемого документа в сжатой форме;
- традиции межкультурной коммуникации в странах изучаемого языка.

*Уметь:*

- выполнять перевод со словарем научного текста по тематике направления подготовки, оформить перевод согласно существующим требованиям;
- правильно пользоваться специальной литературой: словарями, справочниками, электронными ресурсами интернета;
- самостоятельно получать и сообщать информацию на иностранном языке в письменной и устной форме, оформлять профессиональную и деловую корреспонденцию;
- участвовать в обсуждении тем, связанных с культурой, наукой, техникой;
- самостоятельно работать с иноязычными источниками профессиональной информации;
- грамотно и корректно вести переписку с зарубежными коллегами;
- организовывать деловые встречи, презентации на иностранном языке.

*Владеть:*

- основами деловых устных и письменных коммуникаций и речевого этикета изучаемого иностранного языка;
- навыками анализа и составления документации на иностранном языке;
- навыками выражения мыслей и собственного мнения в межличностном и деловом общении на иностранном языке;
- навыками обсуждения тем, связанных с направлением подготовки.

*Иметь представление:*

- о стилистических особенностях сферы профессиональной коммуникации;
- о научной терминологии, классификации, функционировании и способах перевода терминов и фразеологизмов области сферы профессиональной коммуникации.

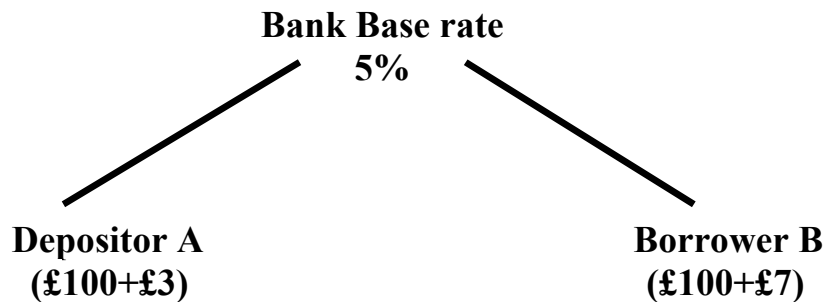
Профессионально-направленный характер учебного пособия способствует развитию умений активного владения современным иностранным (английским) языком, необходимого для понимания актуальных проблем экономики и бизнеса, повышению общей языковой компетенции, расширению диапазона навыков и умений.

Оригинальный материал страноведческого и специального характера, представленный в данном учебном пособии, позволяет использовать последнее для развития у студентов словарного запаса на иностранном (английском) языке в области деловой, научной и профессиональной коммуникации; навыков чтения и понимания деловой профессиональной корреспонденции; анализа и составления документации на иностранном языке.

# PART I

## 1. THE COMMERCIAL BANKS

A bank is an intermediary between a depositor and a borrower. Commercial banks may be found in most towns and cities and examples of them are such common names as Barclays, Lloyds, Midland and National Westminster.



Depositor A deposits £100 with his bank for one year. He is paid an interest rate of say 3%. At the end of the year, the £100 will have become £103. Meanwhile the bank will lend that £100 to a borrower and charge him an interest rate of say 7%. At the end of the year the borrower will have to pay £107 back to the bank. Thus the bank has made gross profit of £4.

The interest rate which the commercial banks charge borrowers and pay the depositors will be influenced by the interest rate figure which is quoted from time to time by the Bank of England, which is, of course, controlled by the British government. If the Bank of England recommends that the interest rates will have to rise then the commercial banks and most other financial institutions will also raise their interest rates.

A rise in the interest rate will make borrowing more expensive and saving more attractive. A fall in the interest rate will make borrowing cheaper and saving less attractive.

The government may use the interest rate (sometimes called the Bank Rate) to regulate the economic climate of the country. By this we mean that if borrowing becomes more expensive, businessmen will become more reluctant to borrow and develop their businesses, but if it falls then they will possibly borrow more money and the economy will probably become more active.

If the economy becomes too active, there is usually a tendency for *inflation* to occur, and this is usually caused by too many goods being produced and too much money circulating in the economy. As the goods are bought up the prices rise and inflation occurs.

To combat inflation the government will often raise the interest rate. If the economy was stagnant then the interest rate would probably be lowered to encourage it to expand and become more active.

There are, of course, other factors which the government must consider before it influences the financial institutions to raise or lower their interest rates.

Banks make a profit by:

1. Making loans to businessmen and private individuals.
2. Charging interest payments on overdrawn accounts.
3. Lending to the money market.
4. Investing in sound shares and securities.

There are two types of account the deposit account and the current account. The deposit account will probably pay a fixed rate of interest, and will sometimes issue the saver with a bank savings book. The current account pays no interest. A cheque book is used to make payments from the account and a paying-in book is used when money is paid into the account.

Banks will normally give statements to both deposit and current account holders about once every three months, or more frequently if required by the account holder. Statements give a detailed account, on a day to day basis, of all money and cheques which have either been paid into the account or withdrawn from the account.

### **SERVICES OF THE COMMERCIAL BANKS**

1. Accept deposits from depositors.
2. Make loans to borrowers.
3. Conduct deposit and current accounts for customers.
4. Keep valuables in safe custody.
5. Pay *standing orders* for customers. A standing order is a regular payment made on behalf of a customer and deducted from his account on a regular basis, say on the 4<sup>th</sup> of a every month, e.g. mortgage payment to the building society.
6. Give advice on income tax matters.
7. Give advice on overseas trading.
8. Buy and sell shares for customers.
9. Issue foreign currency and travellers' cheques.
10. Provide firms with change and sometimes 'make up' cash wage packets for customers.
11. Act as executors and trustees for deceased persons.
12. Change old bank notes for new bank notes.

### **Bank lending**

Bank will lend money in two ways:

- 1) by a personal loan;
- 2) by an overdraft loan or arrangement.



### *The personal loan*

If the bank manager agrees to make a personal loan to a customer of say £1000 and charges him an interest rate of 10% repayable over 11 months, then the customer would have to pay the bank a total of £1,100. The extra £100 is the interest the bank has charged the borrower for the loan and is the profit that the bank makes for making the loan to the customer. Therefore the personal loan is charged at a fixed rate of interest repayable over a fixed period of time.

### *The overdraft*

This borrowing facility is used mostly by businessmen. The advantage with the overdraft is that interest is repayable only on the amount owed at a particular time. Interest is calculated on a daily basis. The borrower will have to pay a lot of interest when the debt is large, but if he is able to make good deposits and reduce the size of the overdraft then the interest charged will be lowered accordingly. Overdrafts may be recalled by the bank at very short notice.

Commercial banks will issue reliable customers with cheque guarantee cards. If the card number is written on the back of the cheque then the bank guarantees to honour the cheque is not legal tender and that if there are no funds in the account the cheque will not normally be honoured by the bank.

*Answer the following questions in your notebook.*

#### **A**

1. Give the names of three commercial banks.
2. Explain how the banks make a profit when dealing with depositors and borrowers.
3. Who sets the interest rate followed by most financial institutions in the country?
4. Name the two main types of account managed by commercial banks.
5. Which type of account pays a fixed rate of interest?
6. Which type of account pays no interest at all?
7. When will a bank normally issue a statement of account?
8. What do we mean by the 'economic climate' of a country?
9. Give a brief description of 'inflation'.
10. Describe the two methods by which banks make loans to borrowers.

#### **B**

1. Commercial banks keep v\_\_\_\_\_ in safe custody.
2. Commercial banks pay s\_\_\_\_\_ o\_\_\_\_\_.
3. Commercial banks give a \_\_\_\_\_ on in \_\_\_\_\_ t\_\_\_\_\_ matters.
4. Commercial banks b\_\_\_\_\_ and s\_\_\_\_\_ sh\_\_\_\_\_ for customers.
5. Commercial banks give a \_\_\_\_\_ on over \_\_\_\_\_ trad\_\_\_\_\_ conditions.

6. Commercial banks issue tr\_\_\_\_\_ ch\_\_\_\_\_ and for\_\_\_\_\_ currency.

7. Commercial banks act as ex\_\_\_\_\_ and t\_\_\_\_\_ for deceased people.

8. Commercial banks accept d\_\_\_\_\_ from depositors and make l\_\_\_\_\_ to borrowers.

9. Commercial banks exchanges old banks notes for n\_\_\_\_\_ bank notes.

10. A commercial banks will issue a cheque quarantee card, which means that the bank will h\_\_\_\_\_ all cheques written by the holder of the card up to a maximum value of \_\_\_\_\_ pounds.

## C

### Multiple choice questions

*Write the following questions in your notebook.*

1. Who sets the bank's base rate?

- a) the building societies;
- b) the National Westminster Bank (foreign department);
- c) each individual commercial bank;
- d) the Chancellor of the Exchequer.

2. Who sets the interest rate that influences most financial institutions?

- a) the commercial banks;
- b) the lending institutions;
- c) the main finance houses;
- d) the merchant banks;
- e) the Bank of England.

3. How would a business organization normally raise capital for its everyday use?

- a) from money lenders;
- b) from the directors;
- c) from the commercial banks, as an overdraft;
- d) by raising a personal loan;
- e) by selling some of its raw materials.

4. Which of the following kinds of account *does not* pay interest?

- a) a Post Office savings account;
- b) a building society account;
- c) a commercial bank deposit account;
- d) a commercial banks current account;
- e) deposits made with financial institutions.

5. If you had a regular payment to make, for example a monthly mortgage payment, which would be the most convenient way of paying it?

- a) by sending cash to the building society;
- b) by sending postal orders to the building society;
- c) by banker's standing order;

- d) by cheques to the building society;
- e) by calling in to the building society every month and making a payment.

6. Personal loans are made to customers of banks and repaid in the following way:

- a) by making fixed payments every month;
- b) by making payment which are convenient to the customer;
- c) by making payments which are convenient to the bank;
- d) by paying the interest first and the loan later;
- e) by making arrangements with the bank manager to 'overdraw'.

7. Interest charged on an *overdraft* is charged in the following way:

- a) at the end of the month at a fixed rate;
- b) only on the amount owed to the bank at the end of each financial period;
- c) at an increasing monthly rate;
- d) after a three year period.

8. Which one of the following methods of saving does not guarantee the investor a return on his investment?

- a) National Savings Certificates;
- b) Premium Bonds;
- c) Trustee Savings Bank deposits;
- d) building society deposits.

9. Which of the following is a service supplied by most commercial banks?

- a) arranging hire purchase finance;
- b) issuing foreign currency and travelers' cheques;
- c) arranging hotel accommodation for good customers;
- d) giving a good commission for regular investors;
- e) sending a regular statement of share prices to every customers.

10. If a commercial bank wanted to pay a sum of money to another commercial bank it would use a particular method. Which of the following would it use?

- a) a regular banker's order;
- b) a banker's statement;
- c) an uncrossed cheque;
- d) a Bank of England cheque;
- e) a bill of exchange.

## **D**

### **Essay questions**

1. How do the commercial banks make a profit, and what do they do with the profits which they make?

2. Write one or two sentences on each of the following:

- a) a bank standing order;

- b) an overdraft arrangement with a commercial bank;
- c) the main differences between a deposit account and a current account;
- d) the personal loan method of lending; e the bank statement.

3. Give examples and explain five services given by the commercial banks to their customers.

4. (a) Explain the main differences between the deposit account and the current account. What are the main uses of these two kinds of account?

(b) What security arrangements do the banks make to protect their customers' cheques?

(c) When is a cheque endorsed?

5. The following table concerns four banks and their indebtedness to each other at the end of a day's banking. Thus, for example, bank A owes itself nothing, but it is owed £5 million by bank B and £2 million by bank D; on the other hand it owes bank C £1 million. Therefore its 'balance' at the end of the day (shown in the end column) is minus £6 million, which means that it is owed £6 million.

Gearing house figures at the end of S day's banking (£ million)

<b>Bank</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>Balance</b>
<b>A</b>		<b>-5</b>	<b>+1</b>	<b>-2</b>	<b>-6</b>
<b>B</b>	<b>+5</b>		<b>-4</b>	<b>-1</b>	<b>0</b>
<b>C</b>	<b>-1</b>	<b>+4</b>		<b>-2</b>	<b>+1</b>
<b>D</b>	<b>+2</b>	<b>+1</b>	<b>+2</b>		<b>+5</b>
<b>Total</b>	<b>+6</b>	<b>0</b>	<b>-1</b>	<b>-5</b>	<b>0</b>

Using these figures as a guide, explain how the clearing house system works.

## 2. BUSINESS ORGANIZATION

The particular way in which a business is organized and controlled will depend largely in its size and what it does.

There are four types of business organization:

- 1) the one man business (sole trader);
- 2) the partnership;
- 3) the private limited company;
- 4) the public limited company.

When considering business organizations three questions must always be asked:

1. Who owns the business?
2. Who controls the business?
3. Who provides the capital for the business?

### **THE ONE MAN BUSINESS**

This is the smallest of business organization and is owned and controlled by one man. It is often a retail shop such as a grocer, butcher, newsagent, etc. When a person wishes to start a one man business, he raises the capital from:

- 1) his own resources;
  - 2) borrowing from friends and relatives.
- He may have difficulty in obtaining a bank loan.

#### **Advantages**

1. The owner has full control and is the sole owner.
2. All of the profits are taken by the owner.
3. He sets his own working hours, conditions, holidays, etc.
4. The business succeeds or fails according to the efforts made by the owner.

#### **Disadvantages**

1. The one man business has 'unlimited liabilities'. This means that if a business goes into debt, the creditors can lawfully take the owner's private assets, i.e. an unsuccessful businessman has to sell his house, car, etc, to pay his business debts.

2. If the owner is ill the business may have to close down.
3. He may have to work very long hours.
4. If he makes no profit he gets no wages (90% of one man businesses become insolvent in their first 12 months' trading).

### **THE PARTNERSHIP**

A successful one man business may often grow into a partnership. Ideally partner may:

- 1) bring more capital into the business;
- 2) have an expert knowledge which will help the firm.

#### **Advantages**

1. The business will grow and the profits will be larger.

2. The original owner can now delegate responsibility to the new partners.
3. The business has more capital available for expansion.

### **Disadvantages**

1. The original owner now has to share both ownership and control with the new partners.
2. The profits of the business must be shared between the partners.
3. The original owner is not the sole master of the destiny of the firm.

Up to twenty partners may be included in the partnership and a 'deed of partnership' must be drawn up setting down full details of arrangements made between the partners.

## **THE PRIVATE LIMITED COMPANY**

Before the 1980 Companies Act the maximum number of shareholders permitted with a private company was 50. The 1980 Act changed the maximum permitted number of shareholders to an unlimited number. Shares in the company may not be sold without the permission of the company. The main advantage of this form of ownership is the company's independent legal status and its limited liability.

## **PUBLIC LIMITED COMPANY**

The one man business, the partnership and the private limited company are all limited in their ability to expand because they may lack sufficient capital. If they wish to build a large factory costing say £5 million they often cannot find enough money from within the firm. They must therefore raise the capital by offering shares for sale to members of the public; and becoming a public limited company. Any member of the public may buy shares in a public limited company and when he does so he immediately becomes a 'part owner' of the business, owned and controlled by one man, may eventually be owned and controlled by hundreds and sometimes thousands of shareholders. The public limited company is the largest kind of company.

Methods of raising capital

- 1) debenture issue;
- 2) the preference share;
- 3) the accumulative preference share;
- 4) the ordinary share;
- 5) the deferred share.

### *Debentures*

A debenture is a loan made to a company which must by law be secured against the assets of the firm. By this we mean that the firm must always be in a position to repay debenture capital to debenture holders. It is able to do this by using the capital raised by debenture issues to buy properties and other assets

which are readily convertible to cash. Debentures pay a fixed rate of interest and are really loans to companies. They are a very secure method of investment. Debentures holders are not allowed to vote at shareholders' meetings, and play no part in the ownership and control of the company.

#### *Preference shares*

The preference share is the first type of share to be paid after the debenture and pays a fixed rate of interest.

#### *Accumulative preference shares*

Most preference shares are accumulative. This means that if a company is unable to pay preference shareholders in the current year then it may decide to pay any money it owes on an accumulative basis and add it to the next year's dividend.

#### *Ordinary shares*

Ordinary shares are the main shares of the company and they are sometimes referred to as equities. Ordinary shares carry with them ownership and voting rights and ordinary shares that a person holds, the greater his share of ownership of the business.

If the company makes only a small profit then the dividend declared will probably be low and the ordinary shareholder will receive a very small dividend, but if the ordinary shareholder does well. If the firm goes bankrupt the ordinary shareholder will probably lose the whole of his investment. Thus it can be seen that the ordinary shareholder carries the major portion of the risk of the firm.

Most companies declare their dividends twice a year at six-monthly intervals.

#### *Answer the following questions in your notebook.*

1. Write down the name of the smallest type of business organization.
2. Write down the name of the largest type of business organization.
3. When one wishes to start a business, where does one get the money from?
4. What are the three questions we must always ask ourselves when we think about business organization?
5. Write down three examples of business which will probably be one man business.
6. Write down three advantages you know of being the owner of a one man business.
7. Explain what we mean by 'unlimited liabilities'.
8. Give two reasons why the owner of a one man business may wish to enter into a partnership.
9. Write down two disadvantages that you know of having a partnership.
10. What is the maximum number of partners in a partnership?

#### **B**

1. The public limited company raises capital by selling s\_\_\_\_\_ to members of the p\_\_\_\_\_.

2. A debenture is a l\_\_\_\_\_ made by a person to a company.
3. A company must always be in a position to re\_\_\_\_\_ debenture holders.
4. Debenture pay a f\_\_\_\_\_ rate of interest.
5. Debenture holders are n\_\_\_\_\_ entitled to v\_\_\_\_\_ at shareholders' m\_\_\_\_\_.
6. Ordinary shares are sometimes called e\_\_\_\_\_.
7. Ordinary shareholders have o\_\_\_\_\_ and v\_\_\_\_\_ rights.
8. If the company does well and makes a good profit the ordinary shareholder will receive a h\_\_\_\_\_ dividend.
9. If the company does badly the ordinary shareholders is paid a l\_\_\_\_\_ dividend or no dividend.
10. If the company goes bankrupt the ordinary shareholders may l\_\_\_\_\_ a\_\_\_\_\_ h\_\_\_\_\_ m\_\_\_\_\_.

## C

### Multiple choice questions

*Write the following questions in your notebook.*

Underline the answer which you think is the correct one.

1. The name 'equities' is given to:
  - a) preference shares;
  - b) ordinary shares;
  - c) debentures;
  - d) government securities.
2. A public limited company is owned by the:
  - a) board of directors;
  - b) government;
  - c) shareholders;
  - d) debenture holders.
3. The principles of unlimited liabilities apply to:
  - a) private companies;
  - b) the sole trader;
  - c) public companies;
  - d) Co-operative retail societies.
4. When someone wants to start up a business he or she will usually obtain money from:
  - a) a banker's draft;
  - b) the commercial banks;
  - c) personal savings;
  - d) a bank overdraft.
5. In which of the following organizations is the original owner no longer the sole decision maker?
  - a) the sole trader;
  - b) the maker trader;
  - c) the partnership;



- d)* the self-employed decorator.
6. What is the maximum number of partners you are allowed to have by British company law in a private limited company?
- a)* 10;
  - b)* unlimited;
  - c)* 20;
  - d)* 35.
7. Which of the following according to British company law must always be paid first?
- a)* dividends to ordinary shareholders;
  - b)* dividends to deferred shareholders;
  - c)* dividends to preference shareholders;
  - d)* fixed interest to debenture holders.
8. Of the following kinds of share which one is usually 'accumulative'?
- a)* ordinary shares;
  - b)* deferred shares;
  - c)* preference shares;
  - d)* ordinary 'A' shares.
9. What is the maximum number of partners (allowed by British company law) in an ordinary partnership?
- a)* 20;
  - b)* 10;
  - c)* 40;
  - d)* 50.
10. In which kind of business organization is the ownership and control fragmented (split up)?
- a)* the partnership;
  - b)* the private limited company;
  - c)* the public limited company;
  - d)* the one man business.

## **D**

### **Essay questions**

- 1.
- (a) Distinguish between the ordinary shares and the debentures of a public limited company and give details of the rewards that the holders of each type of security can receive. (8 marks)
  - (b) A public limited company has decided to raise additional finance by issuing more shares. Outline two methods which can be used. (6 marks)
  - (c) What is a Unit Trust and why might savers be advised to buy Unit Trusts instead of buying Ordinary Shares? (6 marks)

2.

(a) What is the significance of p.l.c. (public limited company) after the name of the business? (4 marks)

(b) How does the registration of a company as a limited company affect the ownership and control of the company? (8 marks)

(c) Explain the terms 'Articles of Association' and 'Memorandum of Association'. (8 marks)

3. Co-operative retail societies are a special type of business organization and differ from the more conventional kinds of business organization in many ways. Discuss the ownership and control of a typical Co-operative retail organization and compare it with a more conventional kind of business in the private sector of British industry and commerce. (20 marks)

### 3. OPENING A BANK ACCOUNT AND THE USE OF CHEQUES

If you decide to deposit some money in a bank you will have to choose between either a deposit account or a current account. You may, of course, open both. Before the bank will permit you to do business with them you must officially 'open' an account.

#### OPENING AN ACCOUNT

1. The bank will need a reference from someone the bank 'knows'.
2. The bank will need an address to send statements to.
3. The bank will ask for your signature to use as a specimen copy.
4. A paying-in book will normally be issued.
5. You will have to make a deposit in order to open the account.
6. If the account is a current account then a cheque book will normally be issued.

#### Cheques

A cheque is an instruction to a banker to pay a certain sum of money. Each cheque has three numbers on it:

- 1 the branch number;
- 2 the cheque's serial number;
- 3 the account number of the customer.

Each cheque has a counterfoil attached to it so that the owner can keep a permanent record of the cheques he writes.

The signature of the drawer must correspond with the specimen held by the bank.

Any alterations made on the cheque must be countersigned by the drawer of the cheque or it must be destroyed and a new cheque made out.

The person who writes out the cheque is called the *drawer*. The person named to benefit from the cheque is called the *payee*.

#### *Dishonored cheques*

The payee will not be paid by the bank in the following circumstances:

1. The drawer has insufficient funds to meet the cheque and the bank writes *R.D.* (refer to drawer) on the cheque and returns it to the payee.
2. The drawer stops payment for some reason.
3. The drawer closes his account.
4. The signature is forged or illegible.
5. The cheque has been altered and not countersigned.
6. The bank has been notified of the death, bankruptcy or insanity of the drawer.

There are two types of cheque generally used.

1. The open cheque.
2. The closed cheque.

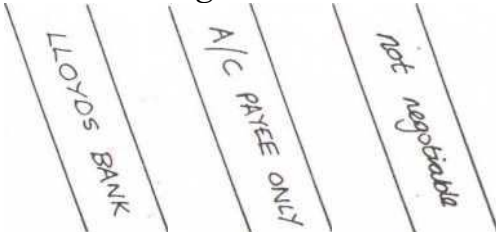
#### *The open cheque*

This may be 'pay cash' or it may be to pay a certain person or organization that is named on the cheque. It is a very insecure method of payment. If the cheque is lost it is quite easy for almost anyone to cash it at the bank.

#### *The closed cheque*

This type of cheque is also known as *a) crossed cheque*. It may be made out to pay a person or a business organization, and by crossing it in a special way, the drawer ensures that only the person named on the cheque gets the money. The normal method of crossing a cheque is to draw two parallel lines from the top of the cheque to the bottom and insert the words *& Co* between the lines. Most business organizations use the crossed or closed cheque, for it is a very safe method of making payment. The closed cheque can only be 'cleared' through a bank account.

#### *Special crossing*



#### *Endorsement*

If you receive a cheque and you do not have a bank account into which you can pay the cheque, then you may endorse it by signing it on the back and asking any person with a bank account to give you *cash* in exchange for the endorsed cheque. That person can then pay the cheque into his account in the normal way.

## **The bank statement**

The majority of depositors have a statement sent to them once a month. Most of the statements are prepared by computer.

*Answer the following questions in your notebook.*

### **A**

1. Draw a diagram of an open cheque.
2. Draw a diagram of a closed or crossed cheque.
3. Draw any two types of crossing that you know.
4. Who is the drawer of a cheque?
5. Who is the payee of a cheque?
6. What do we mean when we say that a cheque has been stopped?
7. When will the bank write *R.D.* on a cheque?
8. What are the advantages of having an open cheque?
9. When is a cheque endorsed and how is it done?
10. What are the advantages of using a crossed or closed cheque?

### **B**

1. When opening a b\_\_\_\_\_ account, a ref\_\_\_\_\_ is needed.
2. When opening a bank account, a s\_\_\_\_\_ sig\_\_\_\_\_ is needed.
3. The person opening a bank account must also give his a \_\_\_\_\_ to the bank.
4. There are two types of account, the d\_\_\_\_\_ account and the c\_\_\_\_\_ account.
5. With a d\_\_\_\_\_ account a b\_\_\_\_\_ book is issued.
6. With a c\_\_\_\_\_ account a c\_\_\_\_\_ book is issued.
7. There are three numbers on a cheque, the b\_\_\_\_\_ number, the s\_\_\_\_\_ number of the cheque, and the a\_\_\_\_\_ number.
8. Each cheque has a counter \_\_\_\_\_ attached to it.
9. If you want to make your cheque very safe you would c\_\_\_\_\_ it.
10. A cheque must not be altered or disfigured otherwise it will be dis\_\_\_\_\_.

### **C**

#### **Project question**

*Copy the following questions in your rough book.*

*Go to a) bank and ask the questions.*

*Write the answers in your rough book.*

*Copy the questions and answers neatly into your notebook.*

1. What is the full name of your bank?
2. What is the name of your manager?
3. What is the name of your chief cashier?
4. What is the address of your head office?

5. If your bank is a member of a group of banks, what are the names of the other banks in your group?
6. How many staff work in your branch?
7. What are your business hours?
8. What sort of things do you do before the bank opens and after the bank closes for business?
9. What qualities do you look for when you are employing junior bank staff?
10. Could you please tell me something about the many services which the bank offers?

## **D**

Multiple choice questions

*Write the following questions in your notebook.*

Underline the answer which you think is the correct one.

1. If you open a deposit account at a bank:
  - a) the bank will give you a cheque book containing uncrossed cheques;
  - b) you will be allowed to withdraw your deposit on demand;
  - c) you will be given a cheque book containing crossed cheques;
  - d) you will receive interest on your deposit.
2. How do the bank know that the drawer's signature is genuine?
  - a) by asking the payee if he was there when the cheque was signed;
  - b) by comparing it with the drawer's specimen signature;
  - c) by telephoning the drawer and asking him;
  - d) by looking at a cheque previously signed by him.
3. The record of all payments into and out of a bank current account is called a:
  - a) cheque;
  - b) bank note;
  - c) a paying in book;
  - d) a bank statement.
4. There are normally three numbers on the bottom of a cheque. The middle one is usually the:
  - a) cheque serial number;
  - b) cheque number;
  - c) 'branch number;
  - d) account number.
5. Why is a counterfoil attached to most cheques?
  - a) so that the bank can total them up at the end of the month;
  - b) so that the drawer will recognize his or her own cheque book;
  - c) so that the owner will have a permanent record of the cheques written;
  - d) to keep the cheques in the correct order.
6. When the bank calls for a reference for a new account it will normally ask:
  - a) another bank manager;
  - b) someone who has had an account with them before; c a local businessman;

d) someone who has an account with the branch and who knows the new customer well.

7. When the drawer has insufficient funds to meet the cheque, the bank will return the cheque to the payee with the following abbreviation written on it:

- a) R.D;
- b) N.F.;
- c) I.O.U.;
- d) O.D.

## E

### Essay questions

1. Write an essay about the best shop you know in your area and say what you like about it, and how you would improve it if you were the manager.

2. Write a good length paragraph about your experience of any one of the following:

- 1) mail order;
- 2) market stall selling;
- 3) a small shop;
- 4) a department store.

3. *Percentage increase in retail sales (value) between 1971 and 1981 by type of outlet*

(a) How do you account for the changes in retailing trends shown in the above diagram?

(b) What trends do you see occurring in retailing outlets during the next ten years?

## 4. DEFERRED PAYMENTS

Deferred payments for goods or services are payments made over a period of time on a credit basis. Weekly or monthly payments are normally paid until the goods are completely paid for. *Interest charges* are normally added to the cash price and the total is called the *total hire purchase price*.

There are two main kinds of deferred payments:

- 1. Hire purchase;
- 2. Credit sale.

## **HIRE PURCHASE**

1. The goods remain the property of the vendor until the hirer makes his last payment.

2. If the hirer fails in his payments before a third of the total hire purchase price has been paid the vendor may repossess the goods immediately.

3. If the hirer fails in his payments after more than a third of the total hire purchase price has been paid, then the vendor must obtain a court order before he can repossess the goods.

4. When the hirer has paid more than one-half of the total hire purchase price, he can put an end to the hire agreement and return the goods to the vendor. Provided the goods are in good condition (allowing for fair wear and tear) the vendor must accept them back and the hirer has no more obligations under the agreement.

5. Hire purchase agreements are legal documents (under the Hire Purchase Act 1964) and the agreements are normally signed in the offices of the vendor. If the agreement is signed elsewhere, for example in the house of the hirer, then the hirer may change his mind and cancel the agreement, providing he does so within five days. If the hirer does cancel, it is the responsibility of the vendor to refund any deposit that may have been paid and also return to the hirer any goods which may have been taken in part exchange, at the hirer's expense.

6. Hire purchase agreements are normally used when goods have a high secondhand resale value.

## **CREDIT SALE**

1. The goods become the property of the purchaser immediately the first payment is made.

2. If the purchaser fails in his payments, then the vendor may sue him in a court of law.

3. Credit sale agreements are normally used when goods have a low second-hand resale value.

## **ADVANTAGES**

1 Because payments are made over a period of time the hirer/purchaser can use his or her capital for other things.

2 The hirer/purchaser can use the goods whilst he or she is still paying for them.

3 More sales are made by the shops.

4 Because more goods are sold, the factories have to make more and they will probably employ more workers.

## **DISADVANTAGES**

1 The consumer is often tempted to purchase more than he or she can afford.

2 The interest charges are often very high.

*Example*

Radio bought on hire purchase:

Cash price £20

Deposit £ 2

Balance owed £18

Add the interest £ 4

Total owing £22

The £22 could be paid over a period of say 22 weeks at £1 each week.

The money needed by the hirer to hire the goods is usually lent to him or her by a finance company. The shop will of course only receive the cash price, but the interest which the finance company adds on represents its profit for lending the money to the customer.

**GOVERNMENT CONTROL**

If the government wants to restrict the amount of consumer credit spending it will probably require that consumers pay a higher deposit percentage and also make the payments over a shorter period of time. This has the effect of cooling down the economic activity in consumer spending. Alternatively, if it wishes to boost consumer spending and cause the economy to expand, it will probably lower the deposit percentage required and allow the goods to be paid for over a longer period of time. Another way in which the government may try to restrict consumer spending is by raising interest rates.

**A**

Multiple choice questions

*Write the following questions in your notebook.*

Underline the answer which you think is the correct one.

1 An item will become your property after you have made the first payment if you have signed the following agreement:

- a) rental agreement;
- b) credit sale agreement;
- c) hire purchase agreement;
- d) loan agreement;
- e) purchasing agreement.

2 Which type of organization usually finances hire purchase and credit sale agreements?

- a) A building society;
- b) a chartered bank;
- c) bank discount departments;
- d) finance company;
- e) the Loans Society.

3 When the hirer (under a hire purchase agreement) has paid more than one-half of the total hire purchase price:



- a) he can return the goods to the vendor without having to make further payments;
- b) he has to keep the goods until he has paid a further payment;
- c) he can pay the full hire purchase price plus 5%;
- d) he can sell the goods to anyone to whom he wishes to sell them;
- e) he can keep the goods without making any further payments.

4 A court order is needed (under the Hire Purchase Act 1964) to repossess the goods if:

- a) less than one-third of the total hire purchase price has been paid;
- b) more than one-third of the total hire purchase price has been paid;
- c) more than six payments have been paid;
- d) the hirer wants to keep the goods;
- e) the court refers the matter to a higher authority.

5 The total hire purchase price is:

- a) the cash price plus 10%;
- b) the selling price of the goods less the discount which may be charged;
- c) the price laid down by the finance company;
- d) the cash price plus the interest charged;
- e) the total interest charged during the first half of the agreement.

6 If the credit agreement is signed in any other place than the offices of the vendor, then the hirer may change his mind and put an end to the agreement providing he informs the vendor in writing within the following period of time:

- a) 24 hours;
- b) 5 days;
- c) 2 weeks;
- d) 10 days;
- e) 5 hours.

7 When goods have a low secondhand resale value they are normally sold using a:

- a) long payments system;
- b) credit sale agreement;
- c) hire purchase agreement;
- d) credit card;
- e) cheque system with a bankers card.

8 If goods with a cash price value of £125 and a deposit paid of £25 were bought under a hire purchase agreement which charged an interest rate of 20%, how much per month would the hirer have to pay to the vendor over a period of 12 months?

- a) £5.00;
- b) £15.00;
- c) £12.50;
- d) £12.40;
- e) £10.00.

9 Under a hire purchase agreement the vendor may repossess the goods without a court order if:

- a) the hirer has paid less than half of the total hire purchase price;
- b) the hirer has paid less than one-third of the total hire purchase price;
- c) the hirer breaks the goods;
- d) the hirer brings the goods back to the shop;
- e) the hirer becomes unemployed.

10 If the government raises the percentage of deposit required under credit agreements and shortens the repayment period required it is probably:

- a) trying to raise more tax revenue;
- b) thinking of increasing the V.A.T. rate on the goods;
- c) trying to limit the amount of consumer credit spending;
- d) trying to increase the amount of consumer credit spending;
- e) trying to win more support from industrialists.

## **B**

### **Essay questions**

1 Explain the advantages and disadvantages of buying goods by hire purchase from the point of view of:

- (a) the consumer;
- (b) the retailer.

2 A customer buys goods to the value of £1000 (cash price) on hire purchase. He pays a 20% deposit, and 20 monthly instalments of £60.

- (a) What is the total hire purchase price of the goods?
- (b) When he makes his seventh payment how much has he paid?
- (c) At which stage of the payments will the vendor have to take out a court order to repossess the goods?
- (d) When may the hirer return the goods to the vendor without having to make any further payments?

3 Write a short paragraph about each of the following:

- (a) finance companies;
- (b) the main differences between hire purchase and credit sale agreements;
- (c) mortgages.

4 Explain why under a credit sale agreement the vendor will probably take the hirer to court if he falls behind with his payments whilst with a hire purchase agreement he will probably repossess the goods if this is possible.

5 Explain how the government is able to control consumer spending by regulating the amount of consumer credit available.

What effect will this control have on inflation?

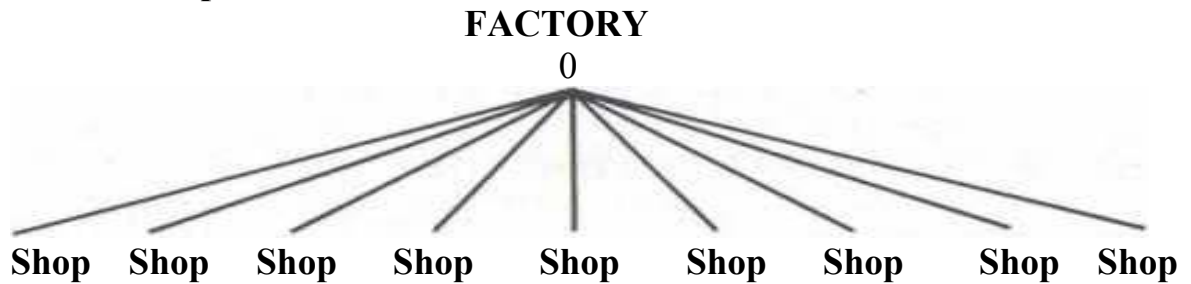
## 5. THE WHOLESALER

The wholesaler is in between the manufacturer and the retailer and is often referred to as the middleman.

The wholesaler's premises are normally a large warehouse on the outskirts of a city, where large quantities of goods are stored.

Perhaps the greatest advantage offered by the wholesaler is the time, trouble, and money saved for both the manufacturer and the retailer.

### Transport network without the wholesaler



### Transport network with the wholesaler



The diagrams show how both the retailer and the manufacturer are saved both time and transport costs. Other advantages offered by the wholesaler are:

- 1) saving the manufacturer advertising costs;
- 2) paying the manufacturer promptly for the goods;
- 3) allowing the retailer credit facilities (but the wholesaler will charge high interest rates if the retailer does not settle his or her account promptly at the end of the month);
- 4) providing showroom facilities where large quantities and varieties of goods can be viewed by the retailers;
- 5) giving expert advice to both the manufacturer and the retailers;
- 6) providing large storage facilities for the manufacturer;
- 7) helping the manufacturer by packing, blending, grading, labelling etc.

Each kind of goods will be supplied through its own special wholesaler, e.g. clothing by a clothing wholesaler, and food from a food wholesaler etc. Perhaps the most important task that the wholesaler performs for the manufacturer is advertising and acting as salesman. Without this help the manufacturer would become too deeply involved with the selling process and possibly neglect his main task, which is to manufacture the goods.

The manufacturer, wholesaler and retailer will all 'insult up' the goods and take their share of the profits. The following table shows an example of this.

*Sale of a dress*

<b>Manufacturing cost</b>	<b>£1.50</b>
<b>Selling price to wholesaler</b>	<b>£2.50</b>
<b>Manufacturer's profit</b>	<b>£1.00</b>
<hr/>	
<b>Wholesaler's buying price</b>	<b>£2.50</b>
<b>Wholesaler's selling price</b>	<b>£3.50</b>
<b>Wholesaler's profit</b>	<b>£1.00</b>
<hr/>	
<b>Retailer's buying price</b>	<b>£3.50</b>
<b>Retailer's selling price</b>	<b>£7.00</b>
<b>Retailer's profit</b>	<b>£3.50</b>

The profit made at each stage is the mark-up and the largest mark-up or profit is usually made by the retailer.

It is possible to trade without the help of the wholesaler and carry out direct selling. For example, *Boots the Chemists* manufacture many of the products they sell in their shops. However, the wholesalers do provide a very important service in the distribution of goods to the consumer and it would be almost impossible to manage without them.

*Answer the following questions in your notebook.*

**A**

- 1 Why is the wholesaler often called the middleman?
- 2 Where does the wholesaler normally store goods?
- 3 Draw one or two diagrams showing how the wholesaler saves the manufacturer time and transport costs.
- 4 The wholesaler pays the manufacturer promptly for the goods which he sells him. Explain how this helps the manufacturer.
- 5 What do we mean when we say that the wholesaler allows the retailer credit facilities?
- 6 How do the showroom facilities provided by the wholesaler help the retailers and the manufacturers?
- 7 Write a paragraph saying how a wholesaler might pack, blend or label goods, to help the manufacturer?
- 8 What is 'mark-up' and where does the largest mark-up usually appear?

9 Explain what is usually meant by 'direct selling'?

10 What is cash and carry selling?

## B

1 Another name for the whole \_\_\_\_\_ is the middle \_\_\_\_\_.

2 The wholesaler normally stores his goods in a large w\_\_\_\_\_ house.

3 Most wholesalers are usually situated on the out \_\_\_\_\_ of large towns or cities.

4 The wholesaler saves trans\_\_\_\_\_ costs and t\_\_\_\_\_ for the manufacturer.

5 Perhaps the two most important tasks for the wholesaler are to a \_\_\_\_\_ and s \_\_\_\_\_ for the manufacturer.

6 If credit facilities are allowed for the retailers then they are usually allowed to pay their accounts at the e \_\_\_\_\_ of the m \_\_\_\_\_.

7 The wholesaler may help the manufacturers to p \_\_\_\_\_, bl \_\_\_\_\_, gr \_\_\_\_\_, or label the goods.

8 The profit made at each stage of the selling process is quite often called m \_\_\_\_\_-up.

9 If the wholesaler is not used this is called d \_\_\_\_\_ s \_\_\_\_\_.

-----  
10 The wholesaler gives ad \_\_\_\_\_ and b \_\_\_\_\_ to both the man \_\_\_\_\_ and the re \_\_\_\_\_.

## C

### Multiple choice questions

*Write the following questions in your notebook.*

Underline the answer which you think is the correct one.

1. Which of the following services does the wholesaler often perform?

- a) offering credit to the manufacturer;
- b) selling direct to the consumer;
- c) providing showroom facilities for the manufacturer and the retailer;
- d) giving credit facilities to consumers;
- e) never allowing retailers any credit facilities.

2. In which of the following ways do mail order businesses differ from other forms of retailing?

- a) a charge is made for delivery;
- b) credit is never allowed;
- c) the buyer and seller never meet;
- d) goods may not be returned if unsuitable;
- e) brand-named goods are always sold.

3. When the wholesaler is omitted from the process of selling this is called:

- a) a hypermarket;

- b) integration;
- c) cash and carry;
- d) direct selling;
- e) containerization.

4. A product that is suitable for direct selling from manufacturer to retailer is:

- a) furniture;
- b) milk;
- c) food;
- d) carpets;
- e) electrical

5. What has caused the decline in recent years of the use of the wholesaler?

- a) the development of voluntary chains;
- b) the development of the mail order business;
- c) the development of door to door selling;
- d) the development of the Co-operatives Societies;
- e) the growth of large-scale retail units.

6. The wholesaler usually has his premises in the following location:

- a) in a group of shops on the edge of the town;
- b) next to the largest factory in the district;
- c) near to the ports so that he can satisfy export orders quickly;
- d) located near to as many supermarkets as possibly;
- e) in a warehouse near a large town or city.

7. The difference between the buying-in price and the selling price is often called:

- a) the mark-up;
- b) the minimum profit;
- c) the gross cost;
- d) the average cost;
- e) the marginal cost.

8. When a retailer buys his goods from the manufacturer or manufactures his own products, this is sometimes called:

- a) indirect selling;
- b) direct selling;
- c) mail order selling;
- d) convenience selling;
- e) cash and carry selling.

9. Which of the following is *not* a service which is provided by a wholesaler?

- a) advertising for the manufacturer;
- b) giving credit to reliable retailers;
- c) providing showroom facilities where the goods may be viewed by retailers;
- d) paying the manufacturer promptly for the goods which he supplies;

- e) not giving cash discount for orders paid for in cash immediately.
10. Trade discount is a discount given to the following:
- all good customers to the wholesaler;
  - most customers who ask for it;
  - only people who have their business listed in the Yellow Pages telephone directory;
  - traders who can give proof that they are currently trading in the business;
  - customers who can pay cash for their goods.

## D

### Essay questions

- Describe the main services provided by the wholesaler.
- There have been trends in recent times to -try to eliminate the wholesaler. Describe two or three ways in which this is being done.
- Give good descriptions of the following:
  - mail order selling;
  - breaking bulk;
  - the difference between cash discount and trade discount.
- Describe one of the following commodity markets:
  - the diamond market;
  - the London Metal Exchange;
  - The tea market.
- Write a good length paragraph bringing the following words into your work. futures, spot price, seasonal  
Give an example from one of the markets.
- Look at the table below which gives the prices of sugar. Then answer questions (a), (b), (c), (d) and (e).
 

Immediate delivery	£ 800perton
3 months delivery	£ 900perton
6 months delivery	£1000perton

*(prices on the 1st May)*

  - What is the spot price of sugar on the 1st of May?
  - What is the cost of buying 100 tons of sugar for immediate delivery?
  - If a buyer signed a contract today for the delivery of 100 tons of sugar to be delivered in six months time, how much would he have to pay?
  - If in 6 months time the spot price of sugar was £850 per ton what would be the cost of the deal done in (c) to the buyer? Would he have gained or lost by his futures deal?
  - Why do manufacturers deal in futures?

## 6. DOCUMENTS BETWEEN THE RETAILER AND THE WHOLESALER

1. *Letter of enquiry*. This is a letter written by the retailer asking the wholesaler to give him details of the goods he can supply. The enquiry may also be made by telephone or in person.

2. *Price list*. This is sent out by the wholesaler and gives full details of goods available, their trade price, their recommended retail price, and any discounts which may be available.

3. *Order*. This is then placed by the retailer either on his own order form or on the wholesaler's order form. The retailer should keep his own copy. Orders may also be placed by telephone or personally.

4. *Advice note*. This is sent by the wholesaler to the retailer and advises him that the goods are coming. It gives full details of the quantity, quality and type and confirms the date on which the goods may be expected to arrive.

5. *Invoice*. This is a comprehensive document which gives full details of all the goods involved, including price and any discounts allowed, etc. Normally six to ten copies of the invoice will be typed and distributed to the retailer, and also to the departments of the wholesaler's own organization.

6. *Delivery note*. This is sent with the goods and is usually carried by the driver. The receiver of the goods must sign the note to confirm that he has received the goods in good condition.

7. *Statement*. This is normally sent out monthly by the wholesaler to the retailer and gives an up to date record of the money owed by the retailer.

8. *Receipt*. This is a written acknowledgement of payment. The payments are normally made by cheque.

9. *Credit note*. This is usually printed in red and is issued by the wholesaler when the retailer has been either under-supplied or when the retailer returns damaged goods.

10. *Debit note*. This is issued by the wholesaler when the retailer has been undercharged for any reason.

*Answer the following questions in your notebook.*

**A**

1. How can a shopkeeper find out if a local wholesaler will supply him with goods?

2. Why do wholesalers send price lists to retailers?

3. Describe the ways by which a retailer can place an order with a wholesaler.

4. How does the retailer know that the goods he has ordered are coming to him?

5. What is an invoice?

6. Who carries the delivery note? Why must the retailer sign it?



7. Why is it important for the wholesaler to send a statement of account to the retailer at the end of the month?
8. Why are receipts given when payments are made?
9. What is a credit note? Give an example of how it can be used.
10. When will a wholesaler issue a debit note?

### B

1. A l\_\_\_\_\_ of enquiry is sent by a re\_\_\_\_\_ to a w\_\_\_\_\_.
2. If a wholesaler wishes to sell goods to a retailer he will send him a p\_\_\_\_\_ l\_\_\_\_\_.
3. A shopkeeper will normally keep a c\_\_\_\_\_ when he places an o\_\_\_\_\_ with a wholesaler.
4. The a\_\_\_\_\_ n\_\_\_\_\_ tells the retailer when the goods may be expected to arrive.
5. The \_\_\_\_\_ is a comprehensive document which is widely distributed by the wholesaler.
6. The delivery note is carried by the d \_\_\_\_\_ and must be signed by the re\_\_\_\_\_ of the goods to show that they have been received in good con\_\_\_\_\_.
7. A state \_\_\_\_\_ is an up to d \_\_\_\_\_ record of how much the retailer owes to the wholesaler. Statements are normally sent out at the e\_\_\_\_\_ of the m\_\_\_\_\_.
8. A r\_\_\_\_\_ is a written acknowledgement of payment for goods or services.
9. A c\_\_\_\_\_ n\_\_\_\_\_ is normally printed in red and is issued when the wholesaler owes money to the re\_\_\_\_\_.
10. A debit note is issued when the \_\_\_\_\_ owes the \_\_\_\_\_ money.

### C

Multiple choice questions

*Write the following questions in your notebook.*

Underline the answer which you think is the correct one.

1. What is the letter of enquiry?
  - a) a letter asking for reference from a bank;
  - b) a letter giving price details;
  - c) a letter written by the retailer to the wholesaler asking him to give details of the goods which he can supply;
  - d) a communication which all wholesalers make;
  - e) a letter which enquires about the address of the retailer.

2. What is the name given to the list which gives full details of the goods which the wholesaler can supply, their trade prices and any discounts available?

- a) the supplier's list;
- b) the processing list;
- c) the advice list;
- d) the price list;
- e) the final list.

3. When a retailer decides that he wishes to purchase some goods from a wholesaler he will place the following with him:

- a) a weekly enquiry;
- b) a budget account;
- c) a market enquiry;
- d) an order;
- e) a special discount.

4. The following document informs the retailer that the wholesaler has despatched the goods to him:

- a) the order form;
- b) the credit note;
- c) the debit note;
- d) the receipt form;
- e) the advice note.

5. The most comprehensive document produced by the wholesaler when he supplies goods to a retailer is the:

- a) enquiry;
- b) invoice;
- c) stock sheet;
- d) control voucher;
- e) copy.

6. Which document must the receiver sign and the driver produce when he or she delivers the goods to the retailer?

- a) the credit note;
- b) the advice note;
- c) the delivery note;
- d) the order;
- e) the receipt.

7. At the end of the month the wholesaler will normally send the following to the retailer:

- a) the summary letter;
- b) the V.A.T. statement;
- c) the suspension list;
- d) the statement;
- e) the advice note.

8. What is the name given to the document which acknowledges payment for goods?

- a) the receipt;
- b) the order;
- c) the advice form;
- d) the money form;
- e) the goods invoice form.

9. If a retailer has to return damaged goods to the wholesaler, then the wholesaler will normally issue the retailer with:

- a) a damage certificate;
- b) a returns voucher;
- c) a credit note;
- d) a debit note;
- e) a damage report.

10. If for any reason the wholesaler has undercharged the retailer, e.g. sent him too many goods, he will normally send him the following document:

- a) the debit note;
- b) the invoice advice;
- c) the undercharge letter;
- d) the bank statement;
- e) the credit note.

## 7. THE STOCK EXCHANGE

The Stock Exchange is a world market where the shares and securities of public companies, the British government, local governments, foreign governments and other organizations are bought and sold. There are about 3000 members of the Stock Exchange who are involved daily in the buying and selling of these shares and securities. The main British Stock Exchange is in London and was founded in 1773. It has 22 branches in the main towns of the country.

Before October 1986 shares were bought and sold by Stock Exchange members called brokers and jobbers. The brokers bought or sold shares for members of the public and acted on their behalf. The jobbers bought or sold the shares from the market or other dealers and then sold them to the brokers.

In October 1986 there was a major reorganization of the way in which the Stock Exchange members conducted their business. These changes were referred to as the 'Big Bang'. We no longer have separate Stock Exchange members acting as brokers or jobbers, for each member is now allowed to buy *or* sell shares on behalf of a member of the public, or buy and sell shares on his own behalf. The members are now called *broker/dealers*, and the new system is referred to as one of 'dual capacity'. Members of the Stock Exchange who specialize in certain

types of share or security buying and selling are now referred to as *market makers*. The profit they make is called the 'market maker's turn'. The broker/dealer approaches a market dealer or more than one market dealer and makes the best bargain he can on behalf of his client. If a deal is made then the contract is entered into.

Recently there has been an increasing use of computers and visual display units on the Stock Exchange. These keep the members in constant touch with the changing state of the market prices of securities and shares and help them to make the best decision that is possible at the time. These facilities make the Stock Exchange a more perfect market.

The broker/dealer will send to his client the contract note, which shows:

- 1) the price at which the business was done;
- 2) the type and class of share or security;
- 3) the date and time of the deal;
- 4) the amount of commission charged;
- 5) the cost of the transfer fee;
- 6) details of the registration fee, charged for changing the names from the old owners of the shares into the new owners (in the books of the company).

Shares must be paid for on 'settlement day', which occurs about once every two weeks. Settlement day is usually about 10 days after the deal has been struck.

There are 'speculators' working on the Stock Exchange and they are often called bulls, bears and stags.

A *stag* buys and sells newly issued shares and securities.

A *bull* is an optimist who buys the shares at a low price and hopes that in the future the price will rise.

A *bear* is a pessimist who agrees to sell shares he doesn't have, hoping that by the time settlement day arrives he will be able to buy the shares at a lower price than he has agreed to sell them at.

If there is a large demand for shares, then the price of the shares will rise. If there is a small demand for the shares, their price will fall.

Instead of buying shares directly via the Stock Exchange, members of the public may invest in *unit trusts*. These are organizations that take money from the public and invest it for them in a range of stocks and shares. Investing in this way may be safer than buying shares in a single company, because falls in the value of some of the stocks held by the unit trust may be balanced by rises in the value of others.

*Answer the following questions in your notebook.*

**A**

1. What is the Stock Exchange?
2. Where is Britain's main Stock Exchange and when was it founded?
3. What is the approximate number of members of the Stock Exchange?

4. How do broker/dealers work on the Stock Exchange?
5. Explain briefly, what happened in October 1986 in the event referred to as the 'Big Bang'.
6. What is a market dealer?
7. Explain why computers and visual display units have been found useful on the Stock Exchange.
8. Give some examples of the names of shares or securities which may be bought or sold on the Stock Exchange.
9. Bears, bulls and stags are words used to describe the activities of certain types of Stock Exchange members. Write a paragraph about this.
10. What happens to the prices of shares when there is an increase in demand for the shares or a decrease in demand for the shares?

## B

- 1 The Stock Exchange is a m\_\_\_\_\_ where s\_\_\_\_\_ and other securities are bought and s\_\_\_\_\_.
- 2 The main Stock Exchange is in \_\_\_\_\_ and was originally founded in \_\_\_\_\_.
- 3 There are about \_\_\_\_\_ members of the London Stock Exchange.
- 4 A broker/dealer may act on behalf of a member of the p\_\_\_\_\_ or he may buy or sell shares from a m\_\_\_\_\_ d\_\_\_\_\_.
- 5 Before the 'Big Bang' in 1986 there was *single capacity* dealing and functions of j\_\_\_\_\_ and brok\_\_\_\_\_ were separate.
- 6 Market makers usually specialize in buying and selling one par\_\_\_\_\_ k\_\_\_\_\_ of s\_\_\_\_\_.
- 7 Computers have made the prices of shares known almost imm\_\_\_\_\_ around the world and made the Stock Exchange dealings a more p\_\_\_\_\_ market.
- 8 O\_\_\_\_\_ shares, gi\_\_\_\_\_ edged st\_\_\_\_\_, un tru\_\_\_\_\_ and government s\_\_\_\_\_ may be bought and s\_\_\_\_\_ on the Stock Exchange.
- 9 A b\_\_\_\_\_ is an op\_\_\_\_\_ who buys at a l\_\_\_\_\_ price, hoping that the price of the s\_\_\_\_\_ will r\_\_\_\_\_.
- 10 As \_\_\_\_\_ deals in n\_\_\_\_\_ iss\_\_\_\_\_ of shares.

## C

### Multiple choice questions

Write the following questions in your notebook.

Underline the answer which you think is the correct one.

1. The name given to a speculator who buys shares in the hope that their price will rise is a:
  - a) bear;
  - b) jobber;
  - c) bull;

- d)* broker;
- e)* stag.

2. If you wish to buy shares in a public limited company, the person you would approach is:

- a)* a jobber;
- b)* a broker/dealer;
- c)* an underwriter;
- d)* an authorised dealer;
- e)* a dealer.

3. If I buy £100 of shares of £1 each in XYZ Limited and I pay the stockbroker £250 for them, this means:

- a)* The issue value of the shares is £250;
- b)* The stockbroker and the jobber have made a profit of £250 between them;
- c)* XYZ company have made a profit of £150;
- d)* If the company declares a 10% dividend the shareholder receives £10 (less tax);
- e)* If the company declares a 10% dividend the shareholder receives £25 (less tax).

4. Accounts are settled once every 14 days (usually) and that day is called:

- a)* accounts day;
- b)* settlement day;
- c)* paying day;
- d)* brokers' day;
- e)* stags' day.

5. Who are the specialists who buy and sell one particular kind of share or security on the floor of the Stock Exchange?

- a)* bears;
- b)* bulls;
- c)* managers;
- d)* market makers;
- e)* waiters.

6. Who are the specialists who buy and sell shares on the floor of the Stock Exchange on behalf of members of the public?

- a)* clerks;
- b)* bulls;
- c)* broker/dealers;
- d)* jobbers;
- e)* actuaries.

7. What is the name of the document which sets out full details of the contract agreed between the broker and the jobber?

- a)* a policy;
- b)* an agreement;
- c)* a commission;

- d) a contract note;*
  - e) a proposal form.*
8. What is the market maker's turn?
- a) the time the jobber has to wait before he sees the broker;*
  - b) the occasion when the jobber quotes two prices to the broker;*
  - c) the difference in the price which the broker/dealer pays for his shares and the price which he sells them at;*
  - d) the time taken for the jobber and the broker to agree to a buying and selling deal;*
  - e) a fee paid by the jobber.*
9. The British Stock Exchange in London was founded in:
- a) 1773;*
  - b) 1705;*
  - c) 1602;*
  - d) 1844;*
  - e) 1933.*
10. What is the name given to the fee charged for the work involved in entering the name of the new owner in the books of a company?
- a) the booking fee;*
  - b) the transfer fee;*
  - c) the admission fee;*
  - d) the bonus payment;*
  - e) the registration fee.*

## **D**

### **Essay questions**

1. How true is it to say that changes in the supply of, and the demand for, industrial and commercial shares and also government securities, are a reliable indicator of the strength of the British economy?
2. Describe the procedures involved in the buying and selling of shares and securities on the London Stock Exchange.
3. Write a good-length paragraph about each of the following Stock Exchange terms:
  - (a) bulls, bears and stags;
  - (b) contract;
  - (c) settlement day;
  - (d) contango;
  - (e) quotation.
4. Compare and contrast the advantages and disadvantages of purchasing unit trusts as opposed to ordinary shares (equities).
5. British Airports Authority (BAA) offered for sale 500000000 ordinary shares of 25p each in BAA pic at a fixed price of 245p per share, 100p being

payable on application. The second instalment of 145p per share is payable on the 19th May 1988.

(a) A friend of yours had a small amount of money but could not decide between buying some BAA shares or opening an account with a building society. Advise your friend, pointing out the differences between the two methods of investing.

(b) The sale of BAA shares was an example of privatization. Give examples of other privatized companies. Explain what privatization means and how the ownership and control of the company will change now that it is no longer owned and controlled by the government.

## 8. THE FACTORS OF PRODUCTION

There are four factors of production, which all play a vital role in our economy:

- 1) land;
- 2) labour;
- 3) capital;
- 4) enterprise (management).

### **LAND**

Land may be defined as the resource supplied by nature to man. It includes not only the surface of the land but what lies under it, such as coal, oil, gold, copper, tin and so on. It also comprises the vegetation that grows on the land and the animals which feed on that vegetation, and also the fish in the seas. The air we breathe and the chemicals in and around the land are all included in the factor of production called land.

It is of course the starting point for all the production processes. The raw material used in that production and the food which the labour eats to survive are all obtained from the land.

### **LABOUR**

Labour is the factor of production which provides the physical and mental effort for the production processes. Labour is a relatively immobile factor of production, which means that most workers in the lower part of the occupational structure, such as unskilled workers, semi-skilled workers and skilled workers, do not want to move from one area to another to seek alternative employment.

### **CAPITAL**

Capital is a man-made resource and is such things as machines, roads, buildings, hospitals, schools and other things which can be used to produce goods



and provide services. The more capital an economy has, the more goods and services it is able to provide.

### **ENTERPRISE**

Enterprise (or management) is the factor which coordinates or brings together the other factors of production, so that the finished goods may be manufactured.

### **OTHER NAMES FOR PRODUCTION, AND SERVICES**

The factors of the economy are sometimes referred to as:

- 1) primary sector;
- 2) secondary sector;
- 3) tertiary sector.

The *primary sector* is the raw materials which are used to produce the goods. The *secondary sector* is the manufacturing sector of the economy. The *tertiary sector* is the Aids to Trade such as banking, transport, insurance, advertising, tourism etc.

*Answer the following questions in your notebook*

#### **A**

1. Describe the factor of production called *land*.
2. Describe the factor of production called *labour*.
3. Describe the factor of production called *capital*.
4. Describe the factor of production called *enterprise*.
5. What do we mean by the immobility of labour?
6. What is the other name by which the raw material producing stage is sometimes known?
7. What is the other name that the production stages are sometimes given?
8. What is the other name that is sometimes used to describe the services such as banking, transport etc.?
9. The simplest kind of production is unit production. Name and describe two other kinds of production process.
10. What is the approximate working population of Great Britain?

#### **B**

1. Raw materials such as rubber, tin, wood etc. are referred to as of the factor of production called \_\_\_\_\_.
2. Workers, whether skilled, semi-skilled or unskilled, are often referred to as the factor of production called \_\_\_\_\_.
3. Machinery, buildings, roads etc. are often referred to as the factor of production called \_\_\_\_\_.
4. The factor of production which coordinates the other three factors is called \_\_\_\_\_, or management.

5. Lab \_\_\_ is a relatively imm \_\_\_ factor of production.
6. Raw materials are sometimes referred to as the p \_\_\_\_\_ sector of industry.
7. Manufacturing is often referred to as the s \_\_\_\_\_ sector.
8. The Aids to Trade are sometimes referred to as the t \_\_\_\_\_ sector.
9. When one product is manufactured at a time the process is called u \_\_\_ production.
10. When several products are manufactured at the same time the process is called b \_\_\_ production.

## C

### Multiple choice questions

*Write the following questions in your notebook.*

Underline the answer which you think is the correct one.

1. Which of the following forms part of the factor of production *land*?
  - a) machinery;
  - b) roads;
  - c) forests;
  - d) semi-skilled workers; e farm buildings.
2. What other name is the factor of production *enterprise* sometimes given?
  - a) trade union;
  - b) manufacturing;
  - c) raw materials;
  - d) management;
  - e) supervision.
3. Which is the factor of production that provides the mental and physical effort needed for the production of goods and provision of services?
  - a) land;
  - b) labour;
  - c) capital;
  - d) enterprise;
  - e) joint consultation.
4. Which of the factors of production would include machinery and buildings?
  - a) land;
  - b) labour;
  - c) capital;
  - d) enterprise.
5. Which is the coordinating factor of production?
  - a) land;
  - b) labour;
  - c) capital;
  - d) enterprise.

## 9. TRADE

Trade is the buying and selling of goods between people or groups of people. We normally think of trade as being either *home trade* or *foreign trade*. Home trade is the buying and selling of goods and services in Great Britain. Foreign trade is the buying and selling of goods and services between trading organizations in Great Britain and trading organizations in foreign countries.

Goods which are brought into a country are called *imports*. Goods which are sent out of a country are called *exports*. Imported goods have to be paid for with the money which is received for the exported goods.

Most countries in the world rely on trade with other countries to raise the standard of living of their own people. Very few countries in the world have sufficient raw materials and food to enable them to exist satisfactorily by themselves. Because of this, most countries trade with other countries, and each country will specialize in producing the goods which it can make best.

The type of product in which a country specializes depends mostly on the ability of the workers to make the goods and the climate and natural resources of the country. Germany, Japan, the United States and Great Britain specialize in the production of industrial equipment such as electrical and mechanical machinery and motor cars. A country that has trained manpower will usually produce industrial goods. The standard of living of an industrial country will largely depend on the success (or otherwise) of its trade.

Other countries like Sweden and Canada will produce agricultural products such as dairy produce and wheat because they have the natural resources and climate to help them. Other examples are France and Italy, which produce a lot of wine, South Africa, which specializes in the mining of precious metals and gems, and Malaysia, which produces rubber, tin and palm oil and some industrial products.

### BALANCE OF TRADE

Exports	£200 million
Imports	£150 million
Balance of trade surplus	£ 50 million

Exports	£150 million
Imports	£200 million
Balance of trade deficit	£ 50 million

Balance of trade is income and expenditure from trade in goods such as machinery and cars. These products can be seen, so this is called *visible trade*, and the money earned is called *visible earnings*. Earnings which come from the services of say banking, transport, insurance and tourism are called *invisible*

*earnings(invisible trade)*. When invisible earnings are taken into consideration a figure known as the *balance of payments* is arrived at.

### **Balance of payments example**

Balance of trade deficit    £50 million  
Invisible earnings    £60 million  
Balance of payments surplus £10 million

*Answer the following questions in your notebook.*

#### **A**

1. What do we mean by trade?
2. Most countries concentrate on producing a few special products. Name two products of each of the following countries: United States, Great Britain, New Zealand and South Africa.
3. What do we mean when we say that a country has good natural resources?
4. What do we mean when we say that a country has good manpower?
5. What do we mean when we say that a country has a good economic organization?
6. Explain how we arrive at a balance of trade figure.
7. What do the words 'surplus' and 'deficit' mean?
8. What do we mean by invisible earnings?
9. Explain how we arrive at a balance of payments figure. Give an example.
10. If the balance of payments figure was said to be a good surplus, what would this mean? Use the words 'imports', 'exports' and 'invisible earnings' in your answer.

#### **B**

1. Most countries t\_\_\_\_\_ with each other.
2. Great Britain specializes in the production of ind\_\_\_\_\_ equipment such as mach\_\_\_\_\_ and cars.
3. Ca\_\_\_\_\_ specializes in w\_\_\_\_\_ production.
4. S\_\_\_\_\_ A\_\_\_\_\_ specializes in the min\_\_\_\_\_ of minerals.
5. Exports are goods which go \_\_\_\_\_ of a country.
6. Im\_\_\_\_\_ are goods which come \_\_\_\_\_ a coun\_\_\_\_\_.
7. If we export more than we \_\_\_\_\_ we are said to have a bal\_\_\_\_\_ of tr\_\_\_\_\_ sur\_\_\_\_\_.
8. If we \_\_\_\_\_ more than we export we are said to have a b\_\_\_\_\_.
9. Inv\_\_\_\_\_ earnings come from such services as b\_\_\_\_\_, i\_\_\_\_\_, tr\_\_\_\_\_, and tour\_\_\_\_\_.
10. If we include the invisible earnings we arrive at a final figure which is called the b\_\_\_\_\_ of p\_\_\_\_\_.

## C

### Multiple choice questions

*Write the following questions in your notebook.*

Underline the answer which you think is the correct one.

1. An unfavourable balance of trade is when:
  - a) import costs exceed export earnings;
  - b) export earnings exceed import costs;
  - c) exports and imports are equal;
  - d) the Chancellor of the Exchequer produces his budget.
2. The income from Britain's insurance earnings from abroad is referred to as:
  - a) an invisible import;
  - b) an invisible export;
  - c) visible trade;
  - d) sterling balances.
3. Great Britain's main exports are:
  - a) chemical products;
  - b) food;
  - c) engineering products;
  - d) alcoholic drinks.
4. Which of the following would be likely to cause other countries to retaliate?
  - a) deflation in the economy;
  - b) imposing import duties;
  - c) increasing wholesale prices in the home country;
  - d) nationalizing more of the nation's wealth.
5. One of the following is said to be the basis upon which international trade is built:
  - a) good banking;
  - b) good transport;
  - c) specialization;
  - d) good trade union organization.
6. Which of the following is an invisible export of Great Britain?
  - a) oil;
  - b) food;
  - c) insurance facilities;
  - d) engineering products.
7. What do we mean when we say that the pound has appreciated against other currencies?
  - a) it is worth less;
  - b) it is worth the same;
  - c) it is worth more;
  - d) it is worth proportionally less.

8. The terms of trade show:

- a) the balance of trade position;
- b) the relationship between export prices and import prices;
- c) the difference between the visible and invisible earnings;
- d) the value of the pound sterling against the American dollar.

9. Which of the following countries is not a member of the European Economic Community?

- a) France;
- b) West Germany;
- c) Spain;
- d) East Germany;
- e) Republic of Ireland.

10. What is the name given to the secure storage which goods are placed in until import duties are paid?

- a) the main dock area;
- b) the storage sheds;
- c) the embargo centre;
- d) the bonded warehouse.

## D

### Essay questions

1. Describe the following:

- (a) home trade;
- (b) foreign trade;
- (c) export trade.

2. It may be said that countries rely on specialization when they develop their trade. Discuss this comment.

3. How are the following calculated:

- (a) the balance of trade;
- (b) invisible earnings;
- (c) the balance of payments.

4. Has entry into the E.E.C. improved the trading conditions which Great Britain has with the rest of the world?

5. How will changes in the exchange rate affect the trade position of a country?

6. Draw out the following table in your notebook and fill in the missing trade figures for (b), (c), (d) and (e). The figures under (a) are correct.

	(a)	(b)	(c)	(d)	(e)
Visible exports	400	400	200	450	211
Visible imports	300	100	350	400	
Balance of trade	+100				-3
Invisible exports	325	150	50	100	
Invisible imports	500	140	60	190	109

Invisible balance	-175	+34
Balance of payments	-75	

## 10. IMPORT AND EXPORT TERMINOLOGY

*Direct importing:* This is the process of bringing goods direct from overseas into the home country. The goods may be food, raw materials, semi-manufactured or manufactured. The goods are stored in warehouses until required and agents or brokers frequently act on behalf of foreign traders by selling goods for them.

*Import merchants:* These are buyers of foreign imported goods, which they then sell to the wholesalers in the home country.

*Import agents:* Import agents perform their work in person according to the terms of an agreement. They have a duty to keep their principals informed on all matters and to keep proper accounts on behalf of their principals.

*Brokers:* Brokers are middle men or agents employed to make contracts and bargains between buyers and sellers. They are paid a commission or brokerage.

*Import licences:* These are used to control the flow of goods into the country. Most goods are admitted without restrictions under an open general licence, but other goods require a special licence.

*Bonded warehouses:* These are warehouses authorized by the Board of Customs for the storage of dutiable goods. Duty is not payable until the goods have left the warehouse. The goods are called bonded goods. They may be sampled, repacked or blended whilst they are still under bond.

*Bills of Lading:* A Bill of Lading is a receipt document for goods due to be exported by sea. It contains the following:

1. The name of the ship and the shipping company;
2. Particulars of the goods;
3. The number of cases and details of any special markings on them;
4. The port of embarkation and disembarkation.

*The Bill of Exchange:* The Bill of Exchange is written by the exporter of the goods and signed by the buyer of the goods. The buyer promises to pay the seller the sum agreed within 90 days. In the meantime the Bill may be sold to a clearing bank or a discount house or for any agreed sum to a third party. Selling it is called discounting a Bill for Exchange.

Even though nowadays it is common practice for goods to be paid for by transferring money from the bank account of the buyer to the account of the seller, the Bill of Exchange is still used as a document which proves owner-ship.

*E.C.G.D.* (Export Credit Guarantee Department): This is a government department that provides insurance cover for exporters. The risks covered by the E.C.G.D. are:

1. Buyer failing to pay for the goods (85% cover);
2. Buyer failing to pay within six months (85% cover);
3. Government action, war or revolution (100% cover);
4. Additional transport and insurance charges arising from diversions (100% cover).

*Direct exports:* The sending of goods direct to the home port by the manufacturer.

*Export merchants:* These are merchants who purchase goods from manufacturers and export and sell them at their own risk.

*Commission houses or confirming agents:* These purchase goods in the home country acting as agents for an overseas importer. They are paid on commission.

*Letter of credit:* This is a letter issued by a bank to a person travelling abroad, which can be used by that person to obtain credit in overseas countries up to an agreed amount.

## **THE EXPORTING PROCEDURE**

In foreign trade the *order* is usually called the *indent*. The exporter then arranges for space to be booked on a ship (possibly through the *Baltic Exchange*) and then sends the goods with a *shipping note* to the docks. The docks will give the carrier of the goods a *dock receipt* for the goods and the ship will give the carrier a *mate's receipt* for the goods.

*The Bill of Lading* is then prepared by the exporter. *Marine Insurance certificates, consular invoices, certificates of origin, import licences, customs entry certificates* and any other documentation will then be prepared.

As we have already seen, the goods may be paid for by using a Bill of Exchange or by paying by the direct transfer of funds from the buyer's bank to the seller's bank.

*Answer the following questions in your notebook.*

**A**

1. What do we mean when we say that a company is using 'direct importing'?
2. What are the two main jobs of an import agent?
3. How do brokers help in importing and exporting?
4. What is an import licence?
5. What do we mean by 'money exchange control'?
6. What is a bonded warehouse and when is it used?
7. If you looked at a Bill of Lading what would be written on it?
8. What is the Export Credit Guarantee Department, and what job does it do?



9. Write what you know about 'direct exporting'. Give two good examples of the use of direct exporting.

10. Write down the names of three documents used in importing and exporting. Say how they are used if you can.

## B

1. When raw materials, food or goods are brought into a country from overseas this is called d\_\_\_\_\_ im\_\_\_\_\_.

2. The firms and people who help to organize the importing of goods are called import mer\_\_\_\_\_ and im\_\_\_\_\_ ag\_\_\_\_\_.

3. A broker is a middle m\_\_\_ or ag\_\_\_ who helps to make bargains and con\_\_\_\_\_ between buy \_\_\_ and sell \_\_\_\_\_.

4. An im\_\_\_\_\_ lie\_\_\_\_\_ is a document used to cont\_\_\_ the flow of g\_\_\_\_\_ into a country.

5. Money exch\_\_\_\_\_ contr\_\_\_ is supervised by a separate depart \_\_\_\_\_ of the Bank of E\_\_\_\_\_.

6. Goods like alcoholic spirits and toba\_\_\_ are stored in b\_\_\_\_\_ warehouses. D\_\_\_ is not payable on the goods until they lea\_\_\_ the warehouse.

7. A B\_\_\_ of Lad\_\_\_ is a receipt document for g\_\_\_\_\_ due to be ex\_\_\_\_\_ by s\_\_\_ It contains the name of the s\_\_\_, the shipp\_\_\_\_\_, com\_\_\_\_\_, and many other details about the goods.

8. The letters E.C.G.D. stand for Ex\_\_\_\_\_ Cred\_\_\_ Guar\_\_\_\_\_ Depart\_\_\_\_\_ and they provide an insur\_\_\_\_\_ service for ex\_\_\_\_\_.

9. Motor veh\_\_\_\_\_, mach\_\_\_\_\_, and whis\_\_\_ are examples of dir\_\_\_\_\_ exports out of Great B\_\_\_\_\_.

10. Four examples of importing and exporting documents are: an ex\_\_\_ lie\_\_\_\_\_, a B\_\_\_ of Lad\_\_\_\_\_, a mar\_\_\_ in\_\_\_\_\_, pol\_\_\_\_\_, and a certify\_\_\_\_\_ of or\_\_\_\_\_.

## C

### Multiple choice questions

*Write the following questions in your notebook.*

Underline the answer which you think is the correct one.

1. What is the name given to the process of bringing goods direct from overseas into the home country?

- a) balance of trade;
- b) export provision;
- c) direct importing;
- d) direct exporting; e storage.

2. What is the name given to people who buy foreign imported goods and then sell them to wholesalers in the home country?

- a) export merchants;
- b) import licensees;
- c) warehousemen;
- d) import merchants;
- e) direct exporters.

3. What is the name given to a person who makes bargains between buyers and sellers of goods?

- a) exporter;
- b) importer;
- c) broker;
- d) confirming agent;
- e) city agent.

4. What is the name given to the document which controls the flow of goods into a country?

- a) an audit report;
- b) an import auditor;
- c) an excise certificate;
- d) import licence;
- e) Bill of Lading.

5. What is the name given to the receipt document for goods due to be exported by sea?

- a) Bill of Lading;
- b) certificate of origin;
- c) import licence;
- d) letter of credit;
- e) shipping agent's receipt.

6. What is the name given to the document that can be used to obtain credit abroad? It is usually issued by a bank.

- a) a clearance certificate;
- b) a credit note;
- c) an overseas credit note;
- d) a letter of credit; e a consular invoice.

7. is the name given to the place where goods have to be left until customs or excise duty has been paid?

- a) a bonded warehouse;
- b) an entry building;
- c) a customs shed;
- d) an overseas duty building; e an import warehouse.

8. What is the name given to the government department that provides insurance cover for exporters?

- a) the commercial department;

- b)* the Export Credit Guarantee Department;
- c)* the overseas insurance department;
- d)* the import and export insurance department.
- e)* the European Economic Community.

9. What is the name of the payment document that may be offered for sale on the discount market?

- a)* the Bill of Exchange;
- b)* a banker's draft;
- c)* a standing order;
- d)* a direct debit;
- e)* a discount order.

10. Most goods are normally paid for by one of the following:

- a)* agreement orders;
- b)* money orders;
- c)* postal orders;
- d)* bank transfer;
- e)* letter of credit.

## **D**

### **Essay questions**

1. (a) Complete the invoice overleaf using the following details:

- (i) Your own name and address and telephone number;
- (ii) For the attention of Mr M. Brown, Manager, Brown Brothers, Birmingham B12.
- (iii) Product code 1234, 12 volt, 10 watt car bulbs. Colour white, quantity 15 items; calculate the total value at 50p each. Product code 1235, windscreen wiper blades, colour black, quantity 20 items; calculate the total value at £1 each. Add £2.50 for carriage and add the V.A.T. at 15%.

- (b) Why is it always advisable to keep a copy of an order by invoice?
- (c) What are credit notes and debit notes and when are they used?

2. (a) The Export Credit Guarantee Department is a service provided by the British government for the use of exporters. What does this service do and how important is it?

- (b) Describe the Bill of Lading and how it is used.



## **INCOME TAX**

This is a tax payable to central government. It is assessed on the income of the individual wage earner. Before the person pays income tax to the government he is allowed to deduct allowances for expenses that he has had to pay during the year. Examples, amongst others, are an allowance as a married man and an allowance on the interest on a person's mortgage payments on his house.

*Example:*

Mr A. Jones: Gross income	£12000	per	year
Allowances	£ 4 000	per	year
Taxable income	£ 8 000	per	year

Therefore if Mr Jones was taxed at the basic rate of 25% (1988) he would have to pay £2,000 in income tax to the government. If he was employed by a business, the income tax would probably be deducted from his pay on a weekly or monthly basis using a system called Pay As You Earn (P.A.Y.E.). He will be given a tax code number by the Inland Revenue, to indicate the amount of allowances he has.

## **CORPORATION TAX**

Corporation tax is a direct tax paid to the government on the profits of a business organization.

## **CAPITAL GAINS TAX**

Capital gains tax is the tax levied by the government on capital profits that have not been deducted as corporation tax.

## **INHERITANCE TAX**

This is a direct tax levied by the government on the assets of a deceased person. In 1988 the minimum amount of capital due for this tax assessment was £110000.

## **INDIRECT TAXES**

Examples are value added tax, customs and excise duty, motor vehicle tax, and television tax.

### **Value added tax**

The standard rate in 1988 was 15%. The tax is charged on a product at each stage of the manufacturing and distribution process. Some goods such as food and all exports are zero rated and the tax does not have to be paid.

### **Customs and excise duty**

Customs duty is payable on some goods entering the country. Examples are electrical goods, luxury goods and tobacco.

Excise duty is a tax payable on some goods being exported from the country. Examples are whisky, matches, certain electronic goods and motor vehicles.

### **Motor vehicle tax**

Road fund licence and driving licence revenue is collected by the Driver and Vehicle Licensing Centre (D.V.L.C.) in Swansea and then sent to the government. This tax is payable by all road users of motor vehicles.

### **Other indirect taxes**

Television licence revenue and revenue from various other licences are collected by the Post Office and sent to the government.

### **RATES**

Rates are a local direct tax levied by the local government. The revenue collected by the local government each year is used for such services as:

- 1) education;
- 2) personal social services, such as Meals on Wheels and home help;
- 3) school meal subsidies;
- 4) police;
- 5) housing;
- 6) fire service;
- 7) waste collection and disposal;
- 8) parks and other recreational facilities;
- 9) libraries and museums.

Rates are related to the rent-earning capacity of a particular building or piece of land. A small house, for example, which could attract only a low rent would have only a low rates charge levied on it, but the owner of a large house capable of attracting a large rent would have to pay a high rates tax. The calculation of rates is done in the following way. Firstly the local council decide what their expenses will be for the following financial year. They then add up the rateable value of all the properties in the district. For example, the anticipated expenses may be £4 million and the expected revenue from the rateable values of the properties may be say £2 million. The council would then declare a rate of £2 in the pound, and a £500 rated house would have to pay £1000 in rates (rates payable) etc.

During 1988 the rating system was being reorganized. It was proposed that the new local taxation system would levy the same 'community charge' on each individual person in the community.

*Answer the following questions in your notebook.*

**A**

1. What are the two main classifications of taxation?
2. Which government department is responsible for collecting all the government's taxes?

3. Motorists pay a tax on every gallon of petrol they buy. What classification of tax is this and how does the government collect it?
4. Write a paragraph saying what you know about income tax.
5. Give four examples of direct taxes and say something about them.
6. Give four examples of indirect taxes and say something about them.
7. Explain the P.A.Y.E. system of paying income tax.
8. Write a paragraph about the direct local tax known as rates.
9. How does central government spend the money it collects in taxes?
10. Give three examples of how local governments spend rate payers' money.

## B

1. Taxes may be classified as dir\_\_\_\_\_ and in\_\_\_\_\_.
2. Ad\_\_\_\_\_ tax is collected directly either by cent\_\_\_\_\_ gov\_\_\_\_\_ or l\_\_\_\_\_ gov\_\_\_\_\_.
3. An in\_\_\_\_\_ tax is part of the retail pr\_\_\_\_\_ of some g\_\_\_\_\_ and someser\_\_\_\_\_.
4. The direct t\_\_\_\_\_ which is paid by most people who have incomes is called \_\_\_\_\_ tax.
5. Other examples of direct taxes are cor\_\_\_\_\_ tax, capital g\_\_\_\_\_ tax, inher\_\_\_\_\_ tax, motor veh\_\_\_\_\_ tax and ra\_\_\_\_\_.
6. Examples of indirect taxes are cust\_\_\_\_\_ duty, ex\_\_\_\_\_ duty, and value add\_\_\_\_\_ tax.
7. Income tax may be collected directly by em\_\_\_\_\_ and sent direct to the In\_\_\_\_\_ Revenue.
8. All taxes except rates are used by central government to provide ess\_\_\_\_\_ services for the people of the nat\_\_\_\_\_.
9. Re\_\_\_\_\_ are paid to the \_\_\_\_\_ government.
- 10 Rates are used to help to pay for such services as ed\_\_\_\_\_, pol\_\_\_\_\_, fi\_\_\_\_\_, ambulance and waste collection and dis\_\_\_\_\_.

## C

### Multiple choice questions

*Write the following questions in your notebook.*

Underline the answer which you think is the correct one.

Questions 1 and 2 are based on the following information:

Income tax	6000
Value added tax	2400
Corporation tax	2000
Inheritance tax	500
Capital gains tax	600
Motor vehicle duties	400
Customs and excise duties	700

1. The total value of direct taxes equals:
  - a) £10400 million;
  - b) £8500 million;
  - c) £3100 million;
  - d) £9100 million;
  - e) £1700 million.
2. The total value of indirect taxes equals:
  - a) £3500 million;
  - b) £8400 million;
  - c) £10800 million;
  - d) £2100 million;
  - e) £12200 million.
3. If the gross earnings of a man were £12000 per year and he had income tax allowances of £2000 which he could claim, how much income tax would he be liable to pay if the tax was 25%?
  - a) £7000;
  - b) £3000;
  - c) £2500;
  - d) £5000;
  - e) £2000.
4. What is corporation tax?
  - a) a tax which every corporation pays to the local council;
  - b) a proportion of income tax due to the Inland Revenue;
  - c) an indirect tax paid to the government on the profits of a business;
  - d) a direct tax paid to the government on the profits of a business;
  - e) a proportional tax paid annually.
5. Which of the following is an indirect tax?
  - a) income tax;
  - b) capital gains tax;
  - c) inheritance tax;
  - d) corporation tax;
  - e) excise duty.
6. What was the standard rate of value added tax in 1988?
  - a) 10%;
  - b) 15%;
  - c) 12%;
  - d) 20%;
  - e) 8%.
7. Which of the following services is not a responsibility of a local authority?
  - a) education;
  - b) libraries;
  - c) parks and recreational activities;
  - d) the Health Service;



e) the collection and disposal of waste.

8. One of the following is an indirect tax paid on many goods entering the country:

- a) corporation tax;
- b) customs duty;
- c) excise duty;
- d) gift duty;
- e) personal allowance duty.

9. If when you pay income tax, the system used is such that the more income you receive the more tax you pay, then the system is referred to as:

- a) a direct system;
- b) a proportional system;
- c) a regressive system;
- d) an authoritarian system;
- e) a progressive system.

10. Because value added tax has to be paid by the poor as well as the rich, it may be said to be unfair to the poor and as such may be described as:

- a) a regressive tax;
- b) a progressive tax;
- c) a proportional tax;
- d) a capital tax;
- e) a low income tax.

## D

### Essay questions

1

Allowances	Taxable income	Tax rate
Married man £3000 p.a.	On the first £2500	Nil
Single person £2500 p.a.	£2500-£20 000 p.a.	25%
Superannuation in full.		
Trade union and professional association fees in full		

Using the above allowances and tax rates, calculate the taxable income and the income tax payable by the following:

- (a) A single person earning £1 1000 p.a. and paying superannuation of £800 p.a.
- (b) A married man earning £11 000 p.a. and paying trade union subscriptions of £200 p.a.
- (c) A married man earning £26 000 p.a. and paying superannuation of £4000 p.a.

2. Write an essay on direct and indirect taxes and explain the difference, giving examples of each. Describe the difference between a progressive and a regressive system of taxation.

3. Describe how the income tax system in Great Britain works and say how you personally would seek to improve it.

## 12. CONSUMER PROTECTION

There has been an increase in recent years in the number of Acts of Parliament which have been introduced to protect the consumer when he or she buys goods or uses services. Under these Consumer Protection Acts the sellers of the goods may be prosecuted under both civil law (by a person) or under criminal law (by the police or the Department of Fair Trading). Some of the Acts are discussed below.

### **THE SALE OF GOODS ACT 1973**

This Act states that when a customer buys goods from a shop he or she enters into a legal contract with the shop. The shopkeeper must guarantee that:

- 1) the goods are of marketable quality;
- 2) the goods are fit for the purpose for which they are normally used;
- 3) the goods are correctly described.

If the vendor sells goods to a customer which the customer considers to be faulty he or she should take the following steps to rectify the matter:

1. Ask the retailer to exchange the goods or return the money paid.
2. If he refuses, seek the advice of a Citizens' Advice Bureau.
3. If this is not satisfactory, refer the complaint to the Department of Fair Trading and make contact with one of their Trading Standards Officers.

### **UNSOLICITED GOODS ACT 1971**

It is an offence for traders to demand payment for goods which a person has not ordered. If goods which were not ordered are delivered to someone who does not want them, then that person should write to the firm concerned and tell them that the goods are unwanted. It is then the responsibility of the firm to collect them at its own expense. If it does not collect the goods within 30 days, then the goods become the property of the person to whom they were delivered.

### **TRADE DESCRIPTIONS ACT 1968**

This Act makes it a criminal offence to describe goods inaccurately, whether it be verbally or in writing. Under the Act, goods must not be marked down or offered at sale price until they have been offered at the original price for at least

28 days. Trading Standards Officers are empowered under this Act to enter premises and to seize goods if necessary.

### **WEIGHTS AND MEASURES ACT 1963**

Under this Act a criminal offence is committed if the weight or the measurement of the goods is not as described. For example, a pint of beer must measure 1 pint and 200g of cheese must weigh 200g.

### **FOOD AND DRUGS ACT 1955**

Under this Act food or drugs must not be described inaccurately and it is an offence to sell goods of inferior quality.

### **CONSUMER PROTECTION ACT 1961**

This Act gives the government powers to make regulations in order to reduce the risk of death or personal injury. For example, children's toys should be safe and electrical wiring should be safe and correct.

### **CONSUMER CREDIT ACT 1974**

Under this Act 'credit givers' (e.g. hire purchase companies) must be licensed by the Director of Fair Trading.

### **BRITISH STANDARDS INSTITUTION**

The B.S.I. lays down safety standards with which goods should comply. Those goods which comply with the relevant British Standard bear the 'Kite mark'.

### **CONSUMERS' ASSOCIATION MAGAZINE**

*Which?* is a monthly magazine produced by the Consumers' Association which gives detailed information about many types of goods and compares one with another. It is a very good magazine and contains very reliable information.

*The 'kite mark' of the British Standards Institution*



### **Multiple choice questions**

*Write the following questions in your notebook.*

Underline the answer which you think is the correct one.

1. The magazine produced monthly by the Consumers' Association that compares one product with another is called:

a) *Who's Who*;

- b) Consumer Choice;*
- c) The Retailers ' Magazine;*
- d) Which?;*
- e) Make Your Choice.*

2. The 'kite mark' is the emblem used by:

- a) The British Institute of Management;*
- b) The Aircraft Design Authority;*
- c) The British Standards Institution;*
- d) The Institute of Design;*
- e) Flyer's Weekly.*

3. Licences given under the Consumer Credit Act to 'credit givers' are issued by:

- a) The Department of Employment and Productivity;*
- b) The Director General of Fair Trading;*
- c) The Postmaster General;*
- d) The Bank of England;*
- e) The Customs and Excise Department.*

4. The Act which gives the government power to make regulations to reduce the risk of death and personal injury to consumers is called:

- a) the Protection Act;*
- b) the Consumer Safety Act;*
- c) the Injury and Safety Act;*
- d) Health for Consumers;*
- e) the Consumer Protection Act.*

5. The Act which makes it an offence to describe goods inaccurately and sell goods of inferior quality is called:

- a) the Food and Drugs Act;*
- b) the Correct Regulations Act;*
- c) the Wholesome Food Act;*
- d) the Consumers Food Act;*
- e) the Clean Food and Produce Act.*

6. The Act that makes it an offence to supply goods that do not have the weight or measure they are described as having is called:

- a) the Measures Act;*
- b) the Weights and Measures Act;*
- c) the Measurement Act;*
- d) the Correct Measurement Act;*
- e) the Weights and Capacity Act.*

7. If a trader were to describe goods inaccurately either in writing or by spoken word then he would be committing an offence under:

- a) the Unsolicited Goods Act;*
- b) the Sale of Goods Act;*
- c) the Trade Descriptions Act;*

- d) the Food and Drugs Act;
- e) the Consumer Credit Act.

8. If a person received goods that he did not order, then if the trader demanded payment he might be committing an offence under:

- a) the Unsolicited Goods Act;
- b) the Office of Fair Trading;
- c) the Customer Rights Regulations;
- d) the Delivery of Goods Regulations;
- e) the Post Office Act.

9. When a consumer has a dispute with a trader he should refer the matter to which of the following if he cannot get satisfaction:

- a) the local council offices;
- b) the fair disputes department;
- c) the Council of Trade and Industry;
- d) the Office of Fair Trading;
- e) the Consumer Council.

10. Whilst there have been many Acts of Parliament during the past thirty years or so to protect the consumer, the primary responsibility when buying goods rests with:

- a) the Office of Fair Trading;
- b) the Inland Revenue;
- c) the consumer;
- d) the Citizens' Advice Bureau;
- e) the local authority.

### 13. WORKING AND SAVING

The working population of Great Britain is approximately 25 million men and women. Of these workers about 8 to 10 million are women, many working part-time. By working population we mean men and women who are available for work and are between 16 years old and 60 years for women and 16 years old and 65 for men. In 1988 about 10% of the working population were unemployed (about 2½ million).

The occupations of people employed in industry and commerce in Great Britain may be classified under the following headings:

- 1) Professional;
- 2) Managerial;
- 3) Technological;
- 4) Technical and clerical;
- 5) Skilled manual;
- 6) Semi-skilled manual;
- 7) Unskilled manual.

The manual workers are not very mobile. They do not like to change their job location, and this unwillingness to move to other districts to find work leads to a lot of unemployment in some areas.

Most professional, managerial, technological, technical and clerical workers are paid each month and receive a wage slip from their employer which contains their gross pay details, their income tax deductions, their superannuation payment deductions, other payments and deductions and their net pay (the pay they actually receive). The amount of income tax that they pay is calculated by their employer, who is given a tax code number for them and sends the tax collected to the Inland Revenue. Income tax is deducted by the employer using a system called Pay As You Earn (P.A.Y.E.).

Manual workers are usually paid on an hourly rate. Overtime (time spent working extra to the agreed working week) is paid at normal hourly rates or time and a half) during weekdays, time and a half on Saturdays and double time for working on Sundays or Bank Holidays.

Most workers receive holidays with pay. The length of the paid holiday will usually depend on the length of time that they have been employed by their employer, up to a maximum of four or five weeks but subject to a statutory minimum of 15 days.

Disposable income is that income which is available to the worker after he has paid his income tax, superannuation, National Insurance deductions, and other deductions. It is the decision of the worker as to how he will dispose of this income. Obviously a lot will be spent on food and other essential items. Perhaps one of his major items of expenditure will be on the purchase of a house or flat. In order to buy a house he will probably borrow the money he needs from a building society and repay it over a period of years (usually 25 years). The building society will, of course, charge him interest on the money he borrows and this must be repaid along with the capital.

## **SAVING**

A person may wish to save so that he may purchase expensive items. He may wish to save in order to have money in times of need, or in order to start a business (venture capital). Whatever his reason for saving he should deposit the money where it will earn interest. If it is left in a secure place in the house or in a current account in a commercial bank it will earn no interest.

Ways of saving include investment in the following:

- 1)The National Savings Bank (the Post Office);
- 2)National Savings Certificates;
- 3)Government stock and securities;
- 4)Local authorities;
- 5)Deposit accounts in commercial banks;
- 6)Building societies;
- 7)Shares;
- 8)Purchase of antiques, etc.

### **National Savings Bank**

Deposits and withdrawals can be made at most Post Offices. There are two kinds of account in which people can save their money: investment accounts and ordinary accounts. Investment accounts pay a higher rate of interest than ordinary accounts, but both are very secure ways of saving. Also available is a 'Save As You Earn' (S.A.Y.E.) service, in which savers can deposit a sum of money on a regular basis and receive a good rate of interest, which, however, is only paid after a period of time (usually five years). The S.A.Y.E. method of saving is index linked, which means that the deposits will increase as the cost of living rises.

### **National Savings Certificates**

These may be purchased at a fixed amount; after five years or ten years they will have increased in value and may be cashed in. This is a secure method of saving and pays a good interest rate.

### **Government stocks and securities**

These are shares or stocks in government owned enterprises and are a method the government may use to borrow money from the population. They are a secure method of investment, pay a fixed rate of interest and may be bought and sold on the Stock Exchange.

### **Local authority bonds**

These are very much like government security bonds and carry a fixed rate of interest, usually higher than the government issued stock. They are a fairly secure form of investment.

### **Deposit accounts in commercial banks**

They pay a fairly low fixed rate of interest (usually about 4% below the banks' base rate) but are a secure method of saving.

### **Building societies**

There are many hundreds of building societies in Great Britain. They will pay the investor a net rate of interest. This means that they will automatically pay direct to the government any income tax due on the interest. They all pay a fairly good rate of interest and are a secure method of saving. The basic principle upon which they operate is that the more you have deposited, the greater the rate of interest the building society will pay to you. This principle is shown in the table below.

<i>Deposit (£)</i>	<i>Net interest paid (%)</i>
Up 1000	5
1000-5000	6
5000-20000	6½
above 20 000	7

## Shares

Shares in most public companies and government organizations may be bought on the Stock Exchange and pay a dividend each year. If the company does well then the interest paid to the shareholder will be high, but if the company does not make a profit then it may pay no dividend at all to the shareholder. It can therefore be seen that shares are not a very secure method of saving.

## Purchase of antiques

This is again a very risky way of saving money, for the value of the antique may not increase in value over a period of time; indeed even if it does, the time the investor has to wait in order to gain on his investment may be very long.

The general rule on interest paid on savings systems is, the greater the risk the savings system carries then the greater will be the interest paid (if all goes well). Safe methods of saving usually pay a low interest rate. Another factor which affects the rate of interest paid is the amount of notice which the saver is required to give of withdrawal of money from the account.

*Answer the following questions in your notebook.*

### A

1. What is the number of people in the working population of Great Britain?
2. What do we mean by 'working population'?
3. What, approximately, was the number of unemployed in 1988?
4. Give three examples of classifications of occupations.
5. What do we mean when we say that manual workers are relatively immobile?
6. What do the letters P.A.Y.E. stand for?
7. What do we mean by disposable income?
8. Give two examples of saving methods.
9. Why is placing a deposit in a current account in a commercial bank a bad method of saving?
10. Why are shares a very risky saving method?

### B

1. There are approximately \_\_ million people in the working population of Great Britain.
2. The working population are people who make themselves available for work: men between \_\_ years of age and \_\_ years of age and women between \_\_ years of age and \_\_ years of age.
3. In 1988 there were about \_\_ million persons unemployed in Great Britain.
4. P \_\_\_\_\_, man \_\_\_\_\_, and skilled m \_\_\_\_\_ w \_\_\_\_\_ are three examples of occupations in our occupational structure.
5. If a worker does not want to change the district in which he is employed he is said to be \_\_\_\_\_.



6. The letters P.A.Y.E. stand for P\_\_ as Y\_\_ E\_\_.
7. When income tax, National Insurance contributions, and other deductions are made from a worker's pay he is left with an amount sometimes referred to as his d\_\_\_\_\_ income.
8. The Nat\_\_\_\_\_ Sav\_\_\_\_\_ B\_\_\_\_\_, d\_\_\_\_\_ accounts, and b\_\_\_\_\_ soc\_\_\_\_\_ are three places where a person may save his or her money and receive interest payments.
9. The current account pays\_\_ interest on savings in that account.
10. Saving by purchasing shares is very r\_\_\_\_\_ because the shares may f\_\_\_\_\_ in value and pay no interest (dividend).

## C

### Multiple choice questions

*Write the following questions in your notebook.*

Underline the answer which you think is the correct one.

- What is the approximate size of the working population of Great Britain?
  - 10 million;
  - 15 million;
  - 20 million;
  - 25 million;
  - 30 million;
- Which of the following classifications of workers are said to be the most immobile?
  - professional;
  - managerial;
  - technological;
  - skilled manual;
  - unskilled manual.
- If a person accepted a job at a salary of £7000 per annum what would be his gross annual income if he paid income tax at 25% and could claim allowances of £3000 per annum as a married man?
  - £7000;
  - £5250;
  - £2250;
  - £7750;
  - £10000.
- Income tax is paid to one of the following:
  - the local tax and insurance department;
  - the Inland Revenue;
  - the Customs and Excise;
  - the department of government taxation;
  - the local town hall.

5. When income tax, National Insurance contributions, superannuation and other payments have been deducted from a worker's pay it is sometimes referred to as his:

- a) net allowance pay;
- b) contribution pay;
- c) disposable income;
- d) taxable income;
- e) taxable allowances.

6. What is the major item of expenditure out of a worker's pay?

- a) clothing;
- b) entertainment;
- c) food;
- d) housing;
- e) travelling.

7. When a person saves by depositing money in a building society which of the following amounts would probably receive the highest interest rate?

- a) £200;
- b) £2000;
- c) £20000;
- d) £40000;
- e) £80000.

8. Which of the following kinds of savings methods would probably carry the most risk?

- a) the building society;
- b) the purchase of ordinary shares;
- c) deposit account of a commercial bank;
- d) local authority bonds;
- e) the National Savings Bank.

9. If a saving does not fall in value as the cost of living rises it is probably:

- a) index linked;
- b) the blue chip bond;
- c) a debenture loan;
- d) in a deposit account;
- e) in a current account.

10. The owner of the following kind of bond receives no interest, but may win a cash prize when the E.R.N.I.E. makes its monthly number draw.

- a) the Prize Bond;
- b) the Gilt Edged Bond;
- c) the Premium Bond;
- d) the Government Bond;
- e) the Local Authority Bond.

## 14. ACCOUNTS

All companies have to keep proper records of their trading. These accounts must be available for inspection by the Inland Revenue.

In general terms, a firm will have fixed capital assets such as buildings, machinery, and motor vehicles; working capital including stock in hand, spares, money in the bank and cash in hand; and also debtors (people who owe it money). The firm will also have liabilities such as money owed to the shareholders, bank loans, and money owed to creditors. When we take the current position of liabilities and assets we can produce a *balance sheet*.

### **BALANCE SHEET**

*Balance Sheet of A.B.C. Electronics on 31 December 1990*

<i>Liabilities</i> £		<i>Assets</i>	£
Capital	50000	Shop property	30000
Bank loan	2000	Shop fittings	1000
Creditors	500	Van	3000
		Debtors	500
		Cash at bank	12000
		Cash in till	6000
TOTAL	52500	TOTAL	52500

Fixed assets are the shop property, the fittings and the van. Working capital is current assets minus current liabilities. The current assets are the debtors, the cash in the bank, the cash in the till minus the bank loan and money owed to creditors. Therefore:

Current assets are  $18\ 500 - 2\ 500 = \text{£}16\ 000$ .

Current liabilities are  $2\ 000 + 500 = \text{£}2\ 500$ .

The balance sheet may be produced at any time but it is often drawn up at the end of the calendar year or at the end of the financial year on 5 April.

### **DEFINITIONS OF ACCOUNTING TERMS**

#### **Profit**

*Profit* is the difference between what the trader pays for his goods and the price at which he sells them.

*Net profit* is that profit which is made when the expenses for the current period have been deducted, including rent, rates, gas, electricity, telephone, wages, etc.

#### **Turnover**

*Gross turnover* is the value of the sales made by a trader over a period of time (usually a year).

*Net turnover* is gross turnover minus the value of any goods returned by the customer to the trader.

*Rate of turnover* is the cost of the stock sold divided by the cost of the average stock. For instance, if a firm bought 1000 articles at £2 each and sold 500 of them, then the cost of the stock sold would be £1000. Then if the firm had 100 articles in stock at the beginning of the year and 300 in stock at the end of the year, the cost of the average stock would be 300 plus 100 divided by 2, which would be 200 at £2 each, or 400. Therefore the rate of turnover would be:

$$\frac{1000}{400} = 2,5.$$

### USEFUL RATIOS

$$\text{Quick ratio (acid test)} = \frac{\text{current assets} - \text{stock value}}{\text{current liabilities}}$$

This figure shows whether a firm can meet its short term liabilities.

$$\text{Profitability} = \frac{\text{profits}}{\text{assets}} \times 100$$

If this figure is lower than the assets would have raised if they had been invested in a building society, then the firm should consider ceasing to trade.

### PROFIT AND LOSS ACCOUNT

This is basically the revenue received from sales less the costs involved in production and distribution with allowances made for depreciation of capital equipment.

*Trading and profit and loss account for firm A. B.C. Electronics for the year ending 31 December 1992*

££		
Opening stock	10000	
Sales	40000	
Stock purchases	12000	
Gross profit	8000	
Gross profit	26000	
<i>Expenses</i>		
wages	5000	
rent	1500	
insurance	500	
heating	500	
depreciation	800	
Total expenses	8300	
<i>Profit before tax</i>	17700	
		26 000

*Answer the following question in your notebook.*

The following figures show the liabilities and assets of a company.

<i>Liabilities</i> £	<i>Assets</i>	£
Creditors 800	Bank	16000
Bank loan 6000	Machinery	8000
	Debtors	250
	Stock	4000
	Buildings	2000

What is the value of the following?

- (a) Fixed assets;
- (b) Capital owned;
- (c) Working capital.

## 15. COMMUNICATIONS

### **THE POST OFFICE**

The Post Office is a public corporation which is owned and controlled by the government. It is responsible for the provision of postal services in Great Britain and performs many other services for the public. It does not have a complete monopoly; there are some small private companies that provide postal services.

#### **Ordinary postal services**

*Letter post* is a two-tier delivery system (first and second class). The first class service is quicker but more expensive than the second class service. If letters are sent outside Europe it is much quicker to send them by airmail than seairmail.

*Parcel post* may be used for sending bulky and heavy objects. Charges vary depending on their weight and destination.

#### **Special services**

##### *Express services*

These may be used for both letters and parcels but they are more expensive. 'Datapost', for example, will guarantee overnight delivery and collect the letters or parcels from the sender's premises.

##### *Certificate of posting*

For a small charge the Post Office will issue this certificate as proof of posting.

##### *Recorded delivery*

If you ask to have proof that a letter which you have sent has actually been received by the person to whom you sent it, then the Post Office will send the letter 'recorded delivery'. The receiver of the letter is required to sign that he has received it.

### *Registered post*

This is used for sending valuable items through the post. The more valuable the item is, the higher will be the registered post charge. In the event of loss, the Post Office will reimburse the sender of the registered letter or parcel.

### *Business reply service*

This is a service whereby customers may reply to companies without having to pay the postage charge. Special envelopes are provided by the Post Office. 'Freepost' is a service similar to the Business Reply Service.

### *Cash On Delivery (C.O.D.)*

For the payment of a fee by the sender, the Post Office will collect any money due to be paid at the door when the package is being delivered.

### *Poste Restante/Post Office Boxes*

The Post Office will store mail at their offices until it is convenient for the customer to collect it.

### *Franking machines*

When a firm has a large quantity of mail to stamp, the task may become very time consuming. In these circumstances the Post Office will rent to the customer a franking machine which stamps the date and class of post on to the letter or the parcel automatically. The customer pays the Post Office at regular intervals according to the amount of mail franked by the machine.

## **BRITISH TELECOM**

British Telecom is the organization that operates the radio, television and associated cable networks which are capable of transmitting information to business organizations and private individuals. Until 1984 British Telecom was owned by the state and controlled by the government. It is now a public limited company and its shares are owned by many individuals.

The installation and maintenance of the telephone system in Great Britain is the major task of British Telecom, a relatively efficient organization. It is possible (by using the Subscriber Trunk Dialling System) to dial directly almost any other telephone number at home or overseas. Calls may be made using telephone credit cards and by arrangement with British Telecom the telephone user can pay for the calls at a later date.

British Telecom also helps in the provision of telex communication. This is a system of communication by radio signal in which the received signal is printed out as a written record. The sender types the message into the telex machine at the transmitting end and the receiver's telex machine automatically prints out the message. Telex communication is used nationally and internationally.

There are many services offered to the telephone user. For instance by making an 'ADC' call using the operator service, the telephone user is informed of the duration and future charge for the call. Directories for private numbers and the *Yellow Pages* for commercial numbers are a very useful service to the telephone

user. Telemessages, which have replaced telegrams, are now available. In this service British Telecom accepts messages by telephone and sends them by first class mail on the following day.

Other more advanced forms of telephone and radio communications are always being developed, for instance weather information collecting systems and systems using satellites.

The computer systems which many firms are now using also depend on the telephone system to transmit information within the organization.

## 16. COURSE WORK

All students who take the G.C.S.E. in Commerce must submit course work. The only exceptions are students following a part time course, who may be allowed to submit answers to a written examination paper on a suitable course work topic. The course work requirements and the proportion of the total marks allocated to course work by each examination board are shown in the table below.

Examination board	Course work marks(%)	Course work required
LEAG	20	Two pieces of work from a choice of six. Each piece to be about 800-1000 words
MEG	20	One piece of work of 2500 words or three shorter pieces of the student's own choice
NEA	30	One piece of work of 3000 words or two of 1500 words, or three of 1000 words. Student's own choice
SEG	20	Two pieces of work of 750-1000 words
WJEC	30	Three written pieces of work chosen by the student

Course work is used by the boards to assess the candidates' ability to collect information, understand the information they have collected and draw conclusions from the information. The boards encourage the use of graphs, charts, tables and other kinds of statistical representation in the course work.

The course work must normally be selected from within the syllabus content. Examples of course work may be:

1. A market research survey into the demand for a particular kind of product.
2. Approaching the staff of a bank and asking them a series of questions about the work of the bank, then evaluating their answers in the conclusions of the project.
3. Visiting a wholesaler and giving a detailed account of the work they do on their premises and how they work with their suppliers and customers.
4. Visiting a local firm or insurance business and writing a report on how they conduct their business.
5. Visiting the local Office of Fair Trading and writing an account of the legislation which affects their work and how they put the law into practice on a day to day basis.
6. Visiting the local council offices obtaining permission to spend some time in one of their departments and then writing a report on the visit.



## PART II

### Part I. MARKETING – WHAT’S IT ALL ABOUT?

#### ***Text 1. MARKETING AFFECTS ALMOST EVERY ASPECT OF YOUR DAILY LIFE.***

When it’s time to roll out of bed in the morning, does your General Electric alarm wake you with a buzzer – or by playing you favorite radio station? Is the station playing rock, classical, or country music? Will you slip into your Lands’ End jeans, your shirt from L. L. Bean, and Nikes, or does the day call for your Brooks Brothers suit? Will breakfast be Kellogg’s Mueslix cereal – made with grain from America’s heartland – or some extra large eggs and Hormel bacon cooked in a Panasonic microwave imported from Japan? Will it be decaffeinated Maxwell House coffee – grown in Colombia – or some calcium – enriched Citrus hill orange juice? Maybe you’re late and plan to get an Egg McMuffin at the Macdonald’s drive thru. When you leave home, will it be in an Acura, on a Huffy bike, or on the bus that the city bought from General Motors?

When you think about it, you can’t get very far into a day without bumping into marketing – and what the whole marketing system does for you. It affects every aspect of our lives – often in ways we don’t even consider.

In this part, you’ll see what marketing is all about and why it’s important to you. We’ll also explore how marketing fits into our whole economic system.

#### ***Marketing is more than selling or advertising.***

If forced to define marketing, most people, including some business managers, say that marketing means “selling” or “advertising”. It’s true that these are parts of marketing. But marketing is much more than selling and advertising.

To illustrate some important things that are included in marketing, think about all the tennis racket being swung with varying degrees of accuracy by tennis players around the world. Most of us weren’t born with a tennis racket in our hand. Nor do we make our own tennis racket. Instead, they are made by firms like Wilson, Spalding, Kennex, Head, and Prince.

Most tennis rackets are intended to do the same thing – hit the ball over the net. But a tennis player can choose from a wide assortment of rackets. There are different shapes, materials, weight, handle size, and type of strings. You can buy a prestrung racket for less than \$15. Or you can spend more than \$250 just for a frame!

This variety in sizes and materials complicates the production and sale of tennis racket. The following list shows some of the many things a firm should do before and after it decides to produce tennis rackets.

1. Analyze the needs of people who play tennis and decide if consumers want more or different tennis racket.

2. Predict what types of rackets – handle sizes, shapes, weights, and materials – different players will want and decide which of these people the firm will try to satisfy.

3. Estimate how many of these people will be playing tennis over next several years and how many rackets they'll buy.

4. Predict exactly when these players will want to buy tennis rackets.

5. Determine where these tennis players will be – and how to get the firm's rackets to them.

6. Estimate what price they are willing to pay for their rackets – and the firm can make a profit selling at that price.

7. Decide which kinds of promotion should be used to tell potential customers about the firm's tennis rackets.

8. Estimate how many competing companies will be making tennis rackets, how many rackets they'll produce, what kind, and what prices.

They above activities are not part of **production** – actually making goods or performing services. Rather, they are part of a larger process – called *marketing* – that provides needed direction for production and helps make sure that the right products are produced and find their way to consumers.

Our tennis racket example shows that marketing includes much more than selling or advertising. We'll describe marketing activities later. Now it's enough to see that marketing plays an essential role in providing consumers with need – satisfying goods and services.

## WORD STUDY

1) advertise – to make known to the public, especially in a newspaper or on TV;

2) affect – to cause some result or change in something;

3) assortment – a group or quantity of mixed things or of various kinds of the same thing; mixture;

4) promotion – an activity intended to help the development or success of something, especially of a product for sale;

5) consumer – a person who buys and uses goods and services;

6) predict – to see or describe in advance as a result of knowledge, experience, thought, etc.;

7) estimate – to judge or calculate the nature, value, size, amount, etc. of something, especially roughly;

8) profit – 1) money gained by trade or business; 2) advantage gained from some action;

9) compete – to try to win something in competition with someone else;

10) satisfy – to please someone, especially by giving enough.

**I. Match the words on the left with their synonyms on the right.**

- |             |                |
|-------------|----------------|
| 1. affect   | a. content     |
| 2. predict  | b. influence   |
| 3. estimate | c. income      |
| 4. satisfy  | d. value, rate |
| 5. profit   | e. foretell    |

**II. Match the words on the left with their antonyms on the right.**

- |               |                  |
|---------------|------------------|
| 1. complicate | a. insignificant |
| 2. profit     | b. simplify      |
| 3. right      | c. inexactitude  |
| 4. essential  | d. wrong         |
| 5. accuracy   | e. loss          |

**III. Complete each item below by writing one word from the box on the answer line on the left. Use each word once in the necessary form.**

advertise	affect	predict	satisfy	estimate
consumer	profit	promotion	compete	assortment

1. Making ..?.. is the main reason of going into business.
2. Are lawyers allowed to ..?.. their services?
3. Changes in the state of the economy ..?.. all types of business.
4. Some people are very hard to ..?..
5. Most of ..?.. are satisfied with the quality of the product.
6. The competition was tough, there were too many ..?.. firms.
7. Our marketing director hasn't chosen yet which kinds of ..?.. should be used to tell potential customers about our product.
8. The value of the painting was ..?.. at several thousand pounds.
9. The company presented a wide ..?.. of sports goods at the exhibition last year.
10. It's difficult to ..?.. whether this product will catch on or not.

**COMPREHENSION QUESTIONS**

1. In what way does marketing affect every aspect of your daily life?
2. Does marketing mean "selling" or "advertising"?
3. How do you choose one of a range of interchangeable goods? What affects your choice?
4. What things should a firm do before and after it decides to produce something, for instance, sports shoes?
5. What's production?
6. What does marketing provide for production?
7. What other important things does marketing do?

## ***Text 2. HOW MARKETING RELATES TO PRODUCTION***

Production is a very important economic activity. Whether for lack of skill and resources or just lack of time, most people don't make most of the products they use. Picture yourself, for example, building a 10-speed bicycle, a compact disc player, or a digital watch – starting from scratch! We also turn to others to produce services – like health care, air transportation, and entertainment. Clearly, the high standard of living that many people enjoy is made possible by specialized production.

Although production is a necessary economic activity, some people overrate its importance in relation to marketing. Their attitude is reflected in the old saying: “make a better mousetrap and the world will beat a path to your door”. In other words, they think that if you just have a good product, your business will be a success.

The “better mousetrap” idea probably wasn't true in Grandpa's time, and it certainly isn't true today. In modern economies, the grass grows high on the path to the Better Mousetrap Factory – if the new mousetrap is not properly marketed. We have already seen, for example, that there's a lot more to marketing tennis rackets than just making them. This is true for most goods and services.

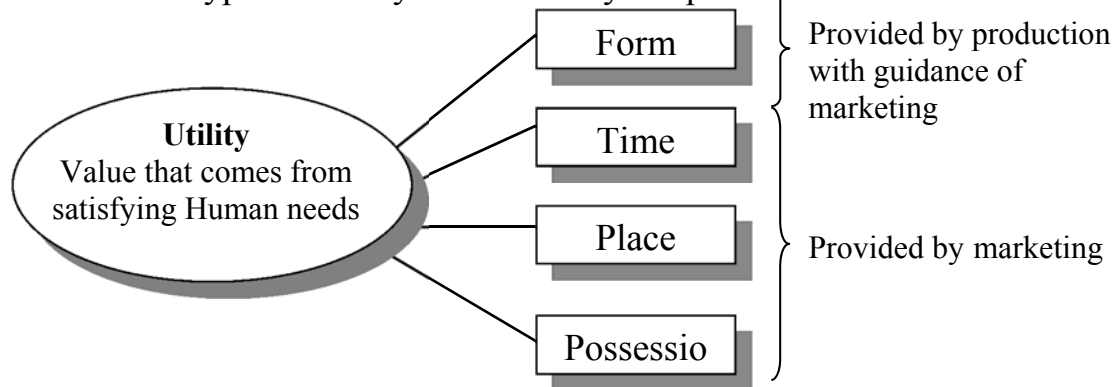
The point is that production and marketing are both important parts of a total business system aimed at providing consumers with need-satisfying goods and services. Together, production and marketing provide the four basic economic utilities – form, time, place, and possession utilities – that are needed to provide consumer satisfaction. Here, **utility** means the power to satisfy human needs. See Exhibit 1–1.

**Form utility** is provided when someone produces something tangible – for instance, a tennis racket. But just producing tennis rackets doesn't result in consumer satisfaction. The product must be something that consumers want – or there is no need to be satisfied – and no utility.

This is how marketing thinking guides the production side of business. Marketing decisions focus on the customer and include decisions about what goods and services to produce. It doesn't make sense to provide goods and services consumers don't want when there are so many things they do want or need. Let's take our “mousetrap” example a step further. Some customers don't want *any kind* of mousetrap. They may want someone else to exterminate the mice for them. Marketing is concerned with what customers want – and it should guide what is produced and offered. This is an important idea that we will develop more completely later.

Even when marketing and production to provide form utility, consumers won't be satisfied until possession, time, and place utility are also provided. **Possession utility** means obtaining a product and having the right to use or consume it. Customers usually exchange money or something else of value for possession utility.

Exhibit 1-1 Types of utility and how they are provided



Time utility means having the product available *when* the customer wants it. And **place utility** means having the product available *when* the customer wants it. Tennis racket that stay at a factory don't do anyone any good. Time and place utility are important for services, too. For example, neighborhood emergency – care health clinics have recently become very popular. People just walk in as soon as they feel sick, not a day later when their doctor can schedule an appointment.

Stated simply, marketing provides time, place, and possession utility. It should also guide decisions about what goods and services should be produced to provide form utility. We'll look at how marketing does this later. First, we want to discuss why you should study marketing, and then we'll define marketing .

## MARKETING IS IMPORTANT TO YOU

### ***Why you should study marketing***

One reason for studying marketing is that you – as a consumer – pay for the cost of marketing activities. Marketing costs about 50 cents of your consumer dollar. For some goods and services, the percentage is much higher.

Another important reason for learning about marketing is that marketing affects almost every aspect of your daily life. All the goods and services you buy, the stores where you shop, and the radio and TV programs paid for by advertising are there because of marketing. Even your job resume is part of a marketing campaign to sell yourself to some employer! Some courses are interesting when you take them but never relevant again once they're over. Not so with marketing – you'll be a consumer dealing with marketing for the rest of your life.

Still another reason for studying marketing is that there are many exciting and rewarding career opportunities in marketing. Marketing is often the route to the top. There are many opportunities in different areas of marketing – in sales, advertising, product management, marketing research, physical distribution, and other areas.

Even if you're aiming for a nonmarketing job you'll be working with marketing people. Knowing something about marketing will help you understand them better. It will also help you do your own job better. Marketing is important

is to the success of every organization. Remember, a company that can't successfully sell its products doesn't need accountants, financial managers, production managers, personnel managers, computer programmers, or credit managers.

Even if you're not planning a business career, marketing concepts and techniques apply to nonprofit organizations, too. Many nonprofit organizations have a marketing manager. And the same basic principles used to sell soap are also used to "sell" ideas, politicians, mass transportation, health – care services, conservation, museums, and even colleges.

An even more basic reason for studying marketing is that marketing plays a big part in economic growth and development. Marketing stimulates research and new ideas – resulting in new goods and services. Marketing gives customers a choice among products. If these products satisfy customers, fuller employment, higher incomes, and a higher standard of living can result. An effective marketing system is important to the future of our nation – and all nations.

### WORD STUDY

1. overrate – to put too high a value or quality, ability, etc.;
2. utility – the degree of usefulness;
3. possession – 1) the state of having, holding or owning something; 2) a piece of personal property;
4. tangible – clear and certain; real; not imaginary;
5. guide – to show the way by leading; to control, to influence strongly;
6. schedule – to plan for a certain future time;
7. value – 1) the usefulness, helpfulness or importance of something, especially in comparison with other things; 2) the worth of something in money or as compared with other goods for which it might be exchanged;
8. available – able to be had, obtained, used, seen, etc.;
9. appointment – an arrangement for a meeting at an agreed time and place, especially a formal meeting with an important or official person;
10. resume – a short written account of a person's education and past employment, used especially when someone is looking for a job.

#### ***I. Match the words on the left with their synonyms on the right.***

- |               |                    |
|---------------|--------------------|
| 1. overrate   | a. ownership       |
| 2. possession | b. entirely, fully |
| 3. schedule   | c. plan            |
| 4. resume     | d. overestimate    |
| 5. completely | e. summary         |

II. *Match the words on the left with their antonyms on the right.*

- |              |                 |
|--------------|-----------------|
| 1. exciting  | a. unreal       |
| 2. top       | b. boring, dull |
| 3. stimulate | c. hamper       |
| 4. tangible  | d. bottom       |
| 5. basic     | e. minor        |

III. *Complete each item below by writing one word from the box on the answer line on the left. Use each word once in the necessary form.*

overrate	utility	possession	tangible	guide	schedule
value		available	appointment	resume	

1. It was a research project with limited practical ..?.. .
2. The meeting was ..?.. for Thursday.
3. The government will ..?.. the country through the difficulties ahead.
4. The director won't see you unless you have an ..?.. .
5. We want to make our products ..?.. to a wider market.
6. Because of continual price increases, the ..?.. of the pound has fallen in recent years.
7. I think that film is ..?.., it hasn't impressed me at all.
8. The police hasn't brought any ..?.. benefits yet.
9. When her uncle died, she came into ..?.. of a large fortune.
10. A ..?.. is a part of a marketing campaign to sell yourself to some employer.

COMPREHENSION QUESTIONS

1. Why can't people make most of the products they use?
2. What made the high standard of living that we enjoy possible?
3. Do you agree with the old saying "Make a better mousetrap and the world will beat a path to your door"?
4. What four basic economic utilities do production and marketing provide?
5. What is "form utility"?
6. What does "possession utility" mean?
7. What do "time" and "place utilities" mean?
8. How does marketing relate to production?
9. What are four main reasons for studying marketing?

### ***Text 3. HOW SHOULD WE DEFINE MARKETING?***

As we said earlier some people define marketing too narrow as “selling and advertising.” On the other hand, one authority defined marketing as “the creation and the delivery of a standard of living.” That definition is too broad.

An important difference between the two definitions may be less obvious. The first definition is a *micro*-level definition. It focuses on activities performed by an individual organization. The second is a *macro*-level definition. It focuses on the economic welfare of a whole society.

#### ***Micro- or macro-marketing?***

Which view is correct? Is marketing a set of activities done by individual firms or organization? Or is it a social process?

To answer this question, let’s go back to our tennis racket example. We saw that a producer of tennis rackets has to perform many customer – related activities besides just making rackets. The same is true for an insurance company, an art museum, or a family – service agency. This supports the idea of marketing as a set of activities done by individual organizations.

On the other hand, people can’t live on tennis rackets and art museums alone! In an advanced economy it takes thousands of goods and services to satisfy the many needs of society. A society needs some sort of marketing system to organize the efforts of all the producers and middlemen needed to satisfy the varied needs of all its citizens. So marketing is also an important social progress.

The answer to our question is that *marketing is both a) set of activities performed by organizations and social progress*. In other words, marketing exists at both the micro and macro level. Therefore, we will use two definitions of marketing – one for micro – marketing and another for macro – marketing. The first looks at customers and the organizations that serve them. The second takes a broad view of our whole production – distribution system.

#### **MICRO – MARKETING DEFINED**

**Micro – marketing** is the performance of activities that seek to accomplish an organization’s objectives by anticipating customer or client needs and directing a flow of need – satisfying goods and services from producer to customer or client. Let’s look at this definition.

To begin with, this definition applies to both profit and nonprofit organizations. Profit is the objective for most business firm. But other types of organizations may seek more members – or acceptance of an idea. Customers or clients may be individual consumers, business, nonprofit organizations, government agencies, or even foreign nations. While most customers and clients pay for the goods and services they receive, other may receive them free of charge or at a reduced cost through private or government support.

You already know that micro – marketing isn’t just selling and advertising. Unfortunately, many executives still think it is. They feel that the job of marketing



is to “get rid of” whatever the company happens to produce. In fact, the aim of marketing is to identify customers’ needs – and meet those needs so well that the product (goods and/or services) almost “sells itself.” If the whole thing is done well, the customer doesn’t need much persuading. He should be ready to buy.

*Marketing should begin with potential customer needs* – not with the production process. Marketing should try to anticipate needs. And then marketing, rather than production, should determine what goods and services are to be developed – including decision about product design and packaging; prices or fees; credit and collection policies; use of middlemen; transporting and storing policies; advertising and sales policies; and, after sale, installation, warranty, and perhaps even disposal policies.

This does not mean that marketing should try to take over production, accounting, and financial activities. Rather, it means that marketing – by interpreting customer’s needs – should provide direction for these activities and try to coordinate them. After all, the purpose of a business or nonprofit organization is to satisfy customer or client needs. It is not to supply goods and services that are convenient to produce and *might* sell or be accepted free.

#### WORD STUDY

1. delivery – the act of taking or giving something to someone, or the things, taken or given;
2. perform – to carry out a piece of work, duty, ceremony, etc., especially according to a usual or established method;
3. welfare – 1) health, comfort and happiness; 2) help, provided for people with social problems, money difficulties;
4. fee – a sum of money paid for professional services to a doctor, lawyer, private school, etc.;
5. distribute – to divide and give out among several people, places, etc.;
6. objective – an aim, especially one that must be worked towards over a long period;
7. executive – a person in an executive position, that is making and carrying out decisions, especially in business;
8. anticipate – to think likely to happen, to guess or imagine in advance;
9. warranty – a written guarantee;
10. disposal – the act of getting rid of something.

#### I. *Match the words on the left with their synonyms on the right.*

- |               |              |
|---------------|--------------|
| 1. perform    | a. expect    |
| 2. obvious    | b. goal      |
| 3. welfare    | c. wellbeing |
| 4. objective  | d. evident   |
| 5. anticipate | e. do, work  |

II. *Match the words on the left with their antonyms on the right.*

- |                  |                  |
|------------------|------------------|
| 1. distribute    | a. luckily       |
| 2. persuade      | b. reject        |
| 3. convenient    | c. uncomfortable |
| 4. accept        | d. dissuade      |
| 5. unfortunately | e. collect       |

III. *Complete each item below by writing one word from the box on the answer line on the left. Use each word once in the necessary form.*

delivery	perform	welfare	fee	distribute
objective	executive	anticipate	warranty	disposal

1. Waste ..?.. is a great problem of modern world.
2. The company has just taken ..?.. of a new computer system.
3. I tried to ..?.. the kind of questions they were likely to ask me at the interview.
4. In making this decision, the court's main concern is for the ..?.. of the children.
5. Our government's ..?.. is to achieve full employment.
6. The surgeon has ..?.. the operation.
7. The ..?.. in that private school is too high, so he can't afford it.
8. The role of marketing in the whole production - ..?.. system can't be underestimated.
9. He was appointed Chief ..?.. of the company last year.
10. The manufacturers will have to repair the car without charge because it's still under ..?.. .

COMPREHENSION QUESTIONS

1. What is marketing for micro-marketing and what's that for macro-marketing? Explain the difference.
2. What definition of micro-marketing applies to both profit and nonprofit organizations? Why?
3. What's the primary aim of marketing?
4. What should marketing begin with?
5. What important decisions should marketing make?

#### ***Text 4. THE FOCUS OF THIS TEXT – MANAGEMENT-ORIENTED MICRO-MARKETING***

Since most of you are preparing for a career in business, the main focus of this text will be on micro-marketing. We will see marketing through the eyes of the marketing manager. But most of this material will also be useful for those who plan to work for nonprofit organizations.

Marketing managers must remember that their organizations are just small parts of a larger macro-marketing system, however. Let's begin by defining macro-marketing and reviewing some basic ideas.

##### **MACRO-MARKETING DEFINED**

**Macro-marketing** is a social process that directs an economy's flow of goods and services from producers to consumers in a way that effectively matches supply and demand and accomplishes the objectives of society.

##### ***Emphasis is on whole system***

Like micro-marketing, macro-marketing is concerned with the flow of need-satisfying goods and services from producer to consumer. However, the emphasis with macro-marketing is not on the activities of individual organizations. Instead, the emphasis is on *how the whole marketing system works*. This includes looking at how marketing affects society and vice versa.

Every society needs a macro-marketing system to help match supply and demand. Different producers in a society have different objectives, resources, and skills. Likewise, not all consumers share the same needs, preferences, and wealth. In other words, within any society there are both heterogeneous supply capabilities and heterogeneous demands for goods and services. The role of a macro-marketing system is to effectively match this heterogeneous supply and demand *and* at the same time accomplish society's objectives.

##### ***Is it effective and fair?***

The effectiveness and fairness of a particular macro-marketing system must be evaluated in terms of that society's objectives. Obviously, all nations don't share the same objectives. For example, Swedish citizens receive many "free" services—like health care and retirement benefits. Goods and services are fairly evenly distributed among the Swedish population. In Venezuela, the distribution of goods and services is very uneven—with a big gap between the "have-nots" and the elite "haves." Whether each of these systems is judged "fair" or "effective" depends on the objectives of the society.

Let's look more closely at macro-marketing. And to make this more meaningful to you, consider (1) what kind of a macro-marketing system we have and (2) how effective and fair it is.

##### **EVERY SOCIETY NEEDS AN ECONOMIC SYSTEM**

All societies must provide for the needs of their members. Therefore, every society needs some sort of **economic system**—the way an economy organizes to

use scarce resources to produce goods and services and distribute them for consumption by various people and groups in the society.

How an economic system operates depends on a society's objectives and the nature of its political institutions. But, regardless of what form these take, all economic systems must develop some method—along with appropriate economic institutions—to decide what and how much is to be produced and distributed by whom, when, and to whom. How these decisions are made may vary from nation to nation. But the macro-level objectives are basically similar: to create goods and services and make them available when and where they are needed—to maintain or improve each nation's standard of living.

### WORD STUDY

1. supply and demand – the relationship between the amount of goods for sale and the amount that people want to buy, especially the way it influences prices;

2. accomplish – to succeed in doing something, especially after trying very hard, to achieve;

3. heterogeneous – consisting of parts or members that are very different from each other;

4. wealth – a large amount of money and possessions;

5. provide – to make sure that people get what they need, especially by giving it to them;

6. consumption – the amount of something used;

7. maintain – to make something continue in the same way or at the same high standards as before;

8. gap – a big difference between two situations, amounts, groups of people, etc.;

9. fair – a situation, system or way of treating people which seems reasonable and acceptable;

10. reduce – to make something smaller or less in size, amount or price.

#### I. *Match the words on the left with their synonyms on the right.*

1. improve

a. aim

2. appropriate

b. to make something better

3. operate

c. correct or suitable for something

4. standard

d. to work

5. objective

e. level of quality

#### II. *Match the words on the left with their antonyms on the right.*

1. gap

a. requiring payment

2. free

b. resemblance

3. fair

c. abundant, plentiful

4. scarce

d. unjust

5. reduce

e. increase

III. *Complete each item below by writing one word from the box on the answer line on the left. Use each word once in the necessary form.*

gap	wealth	objective	provide	fair	accomplish	supply and
demand	maintain	consumption	reduce			

1. The ..?.. of luxury goods is governed by psychological values like social prestige.
2. We hope that they will ..?.. the rent a little.
3. Everyone should have the right to a ..?.. trial.
4. Donors will be asked to fill ..?.. the between state funding and actual costs.
5. The country's ..?.. comes from its oil.
6. We have ..?.. all we set out to do.
7. The main ..?.. of this policy is to reduce unemployment.
8. The agricultural prices can be decided in large central market where forces of ..?.. and ..?.. exist.
9. The hotel ..?.. a shoe-cleaning service.
10. Britain wants to ..?.. its position as a world power.

#### COMPREHENSION QUESTIONS

1. What is macro-marketing?
2. What distinguishes micro-marketing from macro-marketing?
3. Why does every society need a macro-marketing system?
4. What's an economic system?

#### *Text 5. HOW ECONOMIC DECISIONS ARE MADE*

There are two basic kinds of economic systems: planned systems and market-directed systems. Actually, no economy is entirely planned or market-directed. Most are a mixture of the two extremes.

In a **planned economic system** government planners decide what and how much is to be produced and distributed by whom, when, and to whom. Producers generally have little choice about what goods and services to produce. Their main task is to meet their assigned production quotas. Prices are set by government planners and tend to be very rigid—not changing according to supply and demand. Consumers usually have some freedom of choice—it's impossible to control every single detail! But the assortment of goods and services may be quite limited. Activities such as market research, branding, and advertising usually are neglected. Sometimes they aren't done at all.

Government planning may work fairly well as long as an economy is simple and the variety of goods and services is small. It may even be necessary under certain conditions—during wartime, for example. However, as economies become more complex, government planning becomes more difficult. It may even break down. Planners may be overwhelmed by too many complex decisions. And

consumers may lose patience if the planners don't respond to their needs. Labor strikes in Poland illustrate this. The Polish workers want the government to change the plan — so that needed consumer products will be available.

In a **market-directed economic system**, the individual decisions of the many producers and consumers make the macro-level decisions for the whole economy. In a pure market-directed economy, consumers make a society's production decisions when they make their choices in the marketplace. They decide what is to be produced and by whom—through their dollar "votes."

### *Price is a) measure of value*

Prices in the marketplace are a rough measure of how society values particular goods and services. If consumers are willing to pay the market prices, then apparently they feel they are getting at least their money's worth. Similarly, the cost of labor and materials is a rough measure of the value of the resources used in the production of goods and services to meet these needs. New consumer needs that can be served profitably—not just the needs of the majority—will probably be met by some profit-minded businesses.

In summary, in a market-directed economic system the prices in both the production sector (for resources) and the consumption sector (for goods and services) vary to allocate resources and distribute income according to consumer preferences. The result is a balance of supply and demand and the coordination of the economic activity of many individuals and institutions.

### *Greatest freedom of choice*

Consumers in a market-directed economy enjoy maximum freedom of choice. They are not forced to buy any goods or services, except those that must be provided for the good of society—things such as national defense, schools, police and fire protection, highway systems, and public-health services. These are provided by the community—and the citizens are taxed to pay for them.

Similarly, producers are free to do whatever they wish—provided that they stay within the rules of the game set by government *and* receive enough dollar "votes" from consumers. If they do their job well, they earn a profit and stay in business. But profit, survival, and growth are not guaranteed.

### *Conflicts can result*

Conflicts and difficulties can come from producers and consumers making free choices. This is called the **micro-macro dilemma**: what is "good" for some producers and consumers may not be good for society as a whole.

Gun control is an example. Each year thousands of people in America are killed with handguns. There are producers who make and sell handguns at a profit. And there are many consumers who feel strongly about their right to own guns. But others argue that handguns are a threat to society. They want handgun sales banned and sales of all weapons limited. Should gun producers be allowed to sell guns to consumers who want them?

Sometimes such decisions don't involve a matter of life and death but are still important. Many Americans want the convenience of soft drinks in cheap, disposable aluminum cans. But often these same cans end up sprinkled along the roads and must be picked up at taxpayer expense. Should only can buyers (through special charges)—or all of us—have to pay for this littering?

### ***The role of government***

The American economy is mainly market-directed—but not completely. Society assigns supervision of the system to the government. For example, besides setting and enforcing the "rules of the game" the federal government controls interest rates and the supply of money. It also sets import and export rules that affect international competition, regulates radio and TV broadcasting, sometimes controls wages, and prices, and so on. Government also tries to be sure that property is protected, contracts are enforced, individuals are not exploited, no group unfairly monopolizes markets, and producers deliver the kinds and quality of goods and services they claim to be offering.

You can see that some of these government activities are needed to make sure the economy runs smoothly. However, some people worry that too much government "guidance" is a threat to the survival of the American market-directed system—and the economic and political freedom that goes with it. In the past decade, there has been much less "interference" by federal government—especially in markets for services such as banking, transportation, and communications. The vigorous competition among airlines is a good example of what follows. A few years ago a government agency controlled airline prices and routes. Now that agency doesn't exist, and these decisions are made by marketing managers—and consumers.

### WORD STUDY

1. quota – the amount or share of something that is officially expected;
2. price – the amount money for which something is sold, bought or offered;
3. neglect – to pay too little attention to something that you should do;
4. respond – to react to something that has been said or done;
5. strike – to stop working for a time because of a disagreement about payment, working conditions, etc.;
6. allocate – to decide officially that a particular amount of money, time or something such as a house or a job should be used for a particular purpose;
7. income – the money that you earn from your work or that you receive from investments;
8. defense – the act of protecting something or someone from attack;
9. survival – a situation in which only the strongest and most successful people or things continue to exist;
10. ban – an official order that forbids something from being used or done;
11. expense – the amount of money that you have to spend on something;
12. rigid – very strict methods and systems so that it's difficult to change them.

I. *Match the words on the left with their synonyms on the right.*

- |             |                  |
|-------------|------------------|
| 1. neglect  | a. control       |
| 2. respond  | b. ignore        |
| 3. change   | c. answer, reply |
| 4. affect   | d. vary          |
| 5. regulate | e. influence     |

II. *Match the words on the left with their antonyms on the right.*

- |            |             |
|------------|-------------|
| 1. rigid   | a. attack   |
| 2. defense | b. flexible |
| 3. argue   | c. allow    |
| 4. ban     | d. agree    |
| 5. smooth  | e. rough    |

III. *Complete each item below by writing one word from the box on the answer line on the left. Use each word once in the necessary form.*

quota	neglect	respond	income	expenses	prices	rigid
allocate	ban	strike				

1. Salesmen selling over the ..?.. receive a \$1000 bonus.
2. Fuel ..?.. are rising steadily.
3. Many of these ideas have been ..?.. by modern historians.
4. Betty finds it hard to keep to the school's ..?.. rules.
5. Clive ..?.. to my suggestion with a laugh.
6. The duty officer ..?.. us a cabin for the night.
7. Most of my ..?.. goes on my rent.
8. The President supports a global ..?.. on nuclear testing.
9. The students share all the household ..?.. .
10. The police are forbidden to ..?.. .

COMPREHENSION QUESTIONS

1. What are two basic kinds of economic systems?
2. What's a planned economy? What are its main features?
3. Dwell on the advantage of a planned economy.
4. Discuss the disadvantages of a planned economy.
5. What's the difference between a market economy and a planned economy?
6. Why do prices adjust in a market-directed economic system?
7. Explain in your own words what the "micro-macro dilemma" is.

***Text 6. ALL ECONOMIES NEED MACRO-MARKETING SYSTEMS***

At this point, you may be saying to yourself: all this sounds like economics—where does marketing fit in? Studying a macro-marketing system is a lot like



studying an economic system except we give more detailed attention to the "marketing" components of the system—including consumers and other customers, middlemen, and marketing specialists. The focus is on the activities they perform—and how the interaction of the components affects the effectiveness and fairness of a particular system.

In general, we can say that no economic system—whether centrally planned or market-directed—can achieve its objectives without an effective macro-marketing system. To see why this is true, we will look at the role of marketing in primitive economies. Then we will see how macro-marketing tends to become more and more complex in advanced economic systems.

### ***Marketing involves exchange***

In a **pure subsistence economy**, each family unit produces everything it consumes. There is no need to exchange goods and services. Each producer-consumer unit is totally self-sufficient. No marketing takes place because *marketing doesn't occur unless two or more parties are willing to exchange something for something else*.

### ***What is a market?***

The term *marketing* comes from the word **market**—which is a group of sellers and buyers who are willing to exchange goods and/or services for something of value. Of course, some negotiation may be needed. This can be done face-to-face at some physical location (for example, a farmers' market). Or it can be done indirectly—through a complex network of middlemen who link buyers and sellers who are far apart.

In primitive economies, exchanges tend to occur in central markets. **Central markets** are convenient places where buyers and sellers can meet face-to-face to exchange goods and services. We can understand macro-marketing better by seeing how and why central markets develop.

### ***Central markets help exchange***

Imagine a small village of five families—each with a special skill for producing some need-satisfying product. After meeting basic needs, each family decides to specialize. It's easier for one family to make two pots and another to make two baskets than for each one to make one pot and one basket. Specialization makes labor more efficient and more productive. It can increase the total amount of form utility created.

If these five families each specialize in one product, they will have to trade with each other. As Exhibit 1-2A shows, it will take the five families 10 separate exchanges to obtain some of each of the products. If the families live near each other, the exchange process is relatively simple. But if they are far apart, travel back and forth will take time. Who will do the travelling—and when?

Faced with this problem, the families may agree to come to a central market and trade on a certain day. Then each family makes only one trip to the market to

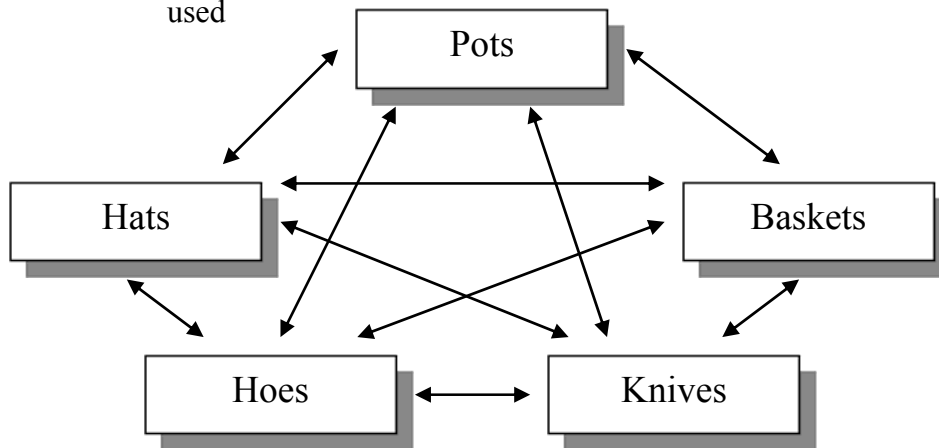
trade with all the others. This reduces the total number of trips to five, which makes exchange easier, leaves more time for producing and consuming, and also provides for social gatherings. In total, much more time, place, possession, and even form utility is enjoyed by each of the five families.

**Money system speeds trading**

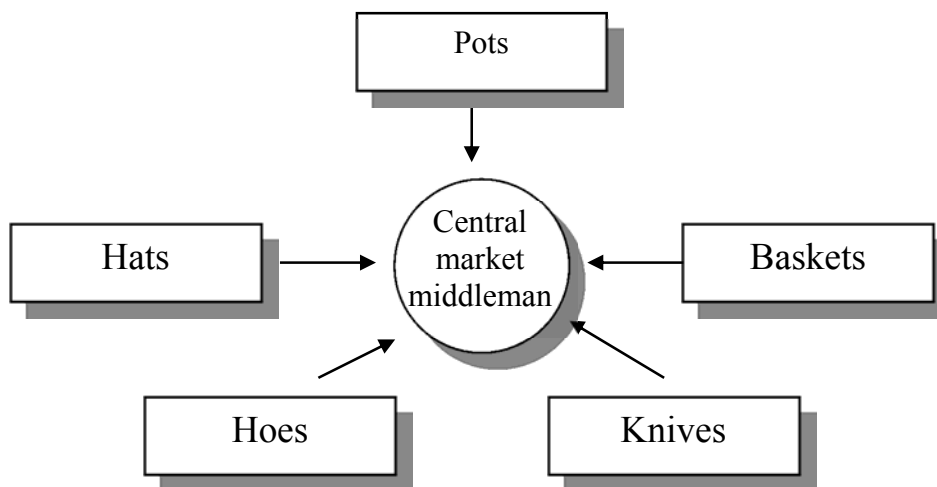
While a central meeting place simplifies exchange, the individual bartering transactions still take a lot of time. Bartering only works when someone else wants what you have, and vice versa. Each trader must find others who have products of about equal value. After trading with one group, a family may find itself with extra baskets, knives, and pots. Then it has to find others willing to trade for these products.

A money system changes all this. A seller only has to find a buyer who wants his products and agrees on the price. Then the seller is free to spend this income to buy whatever he wants.

**Exhibit 1 – 2** A. Ten exchanges required when a central market is not used



B. Only five exchanges are required when a middleman in a central market is used



The development of a central market and a money system simplifies the exchange process among the five families in our imaginary village. But a total of 10 separate transactions is still required. Thus, it still takes a lot of time and effort to carry out exchange among the five families.

This clumsy exchange process is made much simpler by the appearance of a **middleman**—someone who specializes in trade rather than production. A middleman is willing to buy each family's goods and then sell each family whatever it needs. He charges for his services, of course. But this charge may be more than offset by savings in time and effort.

In our simple example, using a middleman at a central market reduces the necessary number of exchanges for all five families from 10 to 5. See Exhibit 1-2B. Each family has more time for production, consumption, and leisure. Also, each family can specialize in production—creating more form utility. Meanwhile, by specializing in trade, the middleman provides additional time, place, and possession utility. In total, all the villagers may enjoy greater economic utility—and greater consumer satisfaction—by using a middleman in the central market.

Note that the reduction in transactions that results from using a middleman in a central market becomes more important as the number of families increases. For example, if the population of our imaginary village increases from 5 to 10 families, 45 transactions are needed without a middleman. Using a middleman requires only one transaction for each family.

Today such middlemen—offering permanent trading facilities—are known as *wholesalers* and *retailers*. The advantages of working with middlemen increase as the number of producers and consumers, their distance from each other, and the number and variety of competing products increase. That is why there are so many wholesalers and retailers in modern economies.

### WORD STUDY

1. interaction – a process by which two or more things have an effect on each other and work together;
2. middleman – someone who buys things in order to sell them to someone else, or who helps to arrange business deals for other people;
3. self-sufficient – providing all the things you need without help from outside;
4. negotiation – official discussions between the representatives of opposing groups, who are trying to reach an agreement, especially in business or politics;
5. location – a particular place, especially in relation to other areas, buildings, etc.;
6. transaction – the process of doing business;
7. obtain – to get something that you want;
8. barter – a system of exchanging goods and services for other goods and services rather than using money;
9. utility – 1) a service such as gas, electricity, etc. provided for people to use; 2) the amount of usefulness that something has;

10. clumsy – moving in an awkward way and tending to break things.

I. *Match the words on the left with their synonyms on the right.*

- |                    |                   |
|--------------------|-------------------|
| 1. tend            | a. deal           |
| 2. location        | b. independent    |
| 3. link            | c. acquire        |
| 4. occur           | d. move, develop  |
| 5. transaction     | e. position, spot |
| 6. obtain          | f. happen         |
| 7. self-sufficient | g. connect        |

II. *Match the words on the left with their antonyms on the right.*

- |              |                     |
|--------------|---------------------|
| 1. clumsy    | a. advanced         |
| 2. simple    | b. adroit           |
| 3. total     | c. complex          |
| 4. primitive | d. single, isolated |

III. *Complete each item below by writing one word from the box on the answer line on the left. Use each word once in the necessary form.*

interact	tend	negotiation	link	middleman	obtain
self-sufficient	location	convenient	transaction		

1. In a mixed economy the government and the private sector ..?.. in solving economic problems.
2. He acts as a ..?.. for British companies seeking contracts in the Gulf.
3. Interest rates are ..?.. upwards.
4. In those days the farm was largely ..?.. .
5. The treaty was a result of long and complex ..?.. .
6. The ..?.. of small shops in the same pedestrian-only area makes them very convenient to the consumer.
7. These traditional stories ..?.. the past and the present.
8. I find going to the supermarket once a month to be the most ..?.. way of shopping.
9. The bank charges a fixed rate for each ..?.. .
10. They've extended the growing season to ..?.. a larger crop.

COMPREHENSION QUESTIONS

1. When does marketing occur?
2. In what way do the development of a central market and a money system simplify the exchange process?
3. What is meant by “bartering”?
4. Why are wholesalers and retailers often called middlemen?

## ***Text 7. THE ROLE OF MARKETING IN ECONOMIC DEVELOPMENT***

Modern economies have advanced well beyond the five-family village, but the same ideas still apply. The main purpose of markets and middlemen is to make exchange easier and allow greater time for production, consumption, and other activities—including recreation.

Although it is tempting to conclude that more effective macro-marketing systems are the result of greater economic development, just the opposite is true. *An effective macro-marketing system is necessary for economic development.* Improved marketing may be the key to growth in less-developed nations.

### ***Breaking the vicious circle of poverty***

Without an effective macro-marketing system, the less-developed nations may not be able to escape the "vicious circle of poverty." Many people in these nations can't leave their subsistence way of life to produce for the market because there are no buyers for what they produce. And there are no buyers because everyone else is producing for their own needs. As a result, distribution systems and middlemen do not develop.

Breaking this vicious circle of poverty may require major changes in the inefficient micro- and macro-marketing systems that are typical in less-developed nations. At the least, more market-oriented middlemen are needed to move surplus output to markets where there is more demand. Peace Corps workers often help organize local production-distribution efforts—to show the possibilities. For example, local fresh vegetables have been assembled by producers cooperatives in East Africa and shipped to nearby cities where prices were much higher.

### ***Pepsi Barters with Cashless Buyers***

*Every country has a) money system. However, government planners in developing nations often won't let local customers spend cash on foreign-made products. They want the money—and the opportunities for jobs and economic growth—to stay in the local economy. To facilitate exchange in these markets, American firms have turned to counter-trade—a) special type of bartering. The U.S. company takes its payment in products, not money. For example, soft-drink bottlers in Mexico trade locally grown broccoli for Pepsi concentrate. Then PepsiCo finds a) market for the broccoli in the United States. Consumers in Nicaragua) sip Pepsi because the company takes sesame seeds and molasses in trade. Distribution systems and middlemen have not yet developed in these countries to handle this sort of exchange. In pursuing its own opportunities, Pepsi is also stimulating economic development. Pepsi is not alone in using countertrade. About 6 percent of all U.S. exports rely on countertrade.*

## CAN MASS PRODUCTION SATISFY A SOCIETY'S CONSUMPTION NEEDS?

Urbanization brings together large numbers of people. They must depend on others to produce most of the goods and services they need to satisfy their basic needs. Also, in advanced economies, many consumers have higher discretionary incomes. They can afford to satisfy higher-level needs as well. A modern economy faces a real challenge to satisfy all these needs.

### *Economies of scale mean lower cost*

Fortunately, advanced economies can often take advantage of mass production with its **economies of scale**—which means that as a company produces larger numbers of a particular product, the cost for each of these products goes down. You can see that a one-of-a-kind, custom-built car would cost much more than a mass-produced standard model.

Of course, even in our advanced society, not all goods and services can be produced by mass production—or with economies of scale. Consider medical care. It's difficult to get productivity gains in labor-intensive medical services—like brain surgery. Nevertheless, from a macro-marketing perspective, it is clear that we are able to devote resources to meeting these "quality of life" needs because we are achieving efficiency in other areas.

Thus, modern production skills can help provide great quantities of goods and services to satisfy large numbers of consumers. But mass production alone does not solve the problem of satisfying consumers' needs. Effective marketing is also needed.

### *Effective marketing is needed to link producers and consumers*

Effective marketing means delivering the goods and services that consumers want and need. It means getting products to them at the right time, in the right place, and at a price they're willing to pay. That's not an easy job—especially if you think about the variety of goods and services a highly developed economy can produce—and the many kinds of goods and services consumers want.

Effective marketing in an advanced economy is more difficult because producers and consumers are separated in several ways. As Exhibit 1-3 shows, exchange between producers and consumers is hampered by spatial separation, separation in time, separation in information and values, and separation of ownership. Exchange is further complicated by "discrepancies of quantity" and "discrepancies of assortment" between producers and consumers. That is, each producer specializes in producing and selling large amounts of a narrow assortment of goods and services, but each consumer wants only small quantities of a wide assortment of goods and services.

### ***Marketing functions help narrow the gap***

The purpose of a macro-marketing system is to overcome these separations and discrepancies. The "universal functions of marketing" help do this.

The **universal functions of marketing** are: buying, selling, transporting, storing, standardization and grading, financing, risk taking, and market information. They must be performed in all macro-marketing systems. *How* these functions are performed—and *by whom*—may differ among nations and economic systems. But they are needed in any macro-marketing system. Let's take a closer look at them now.

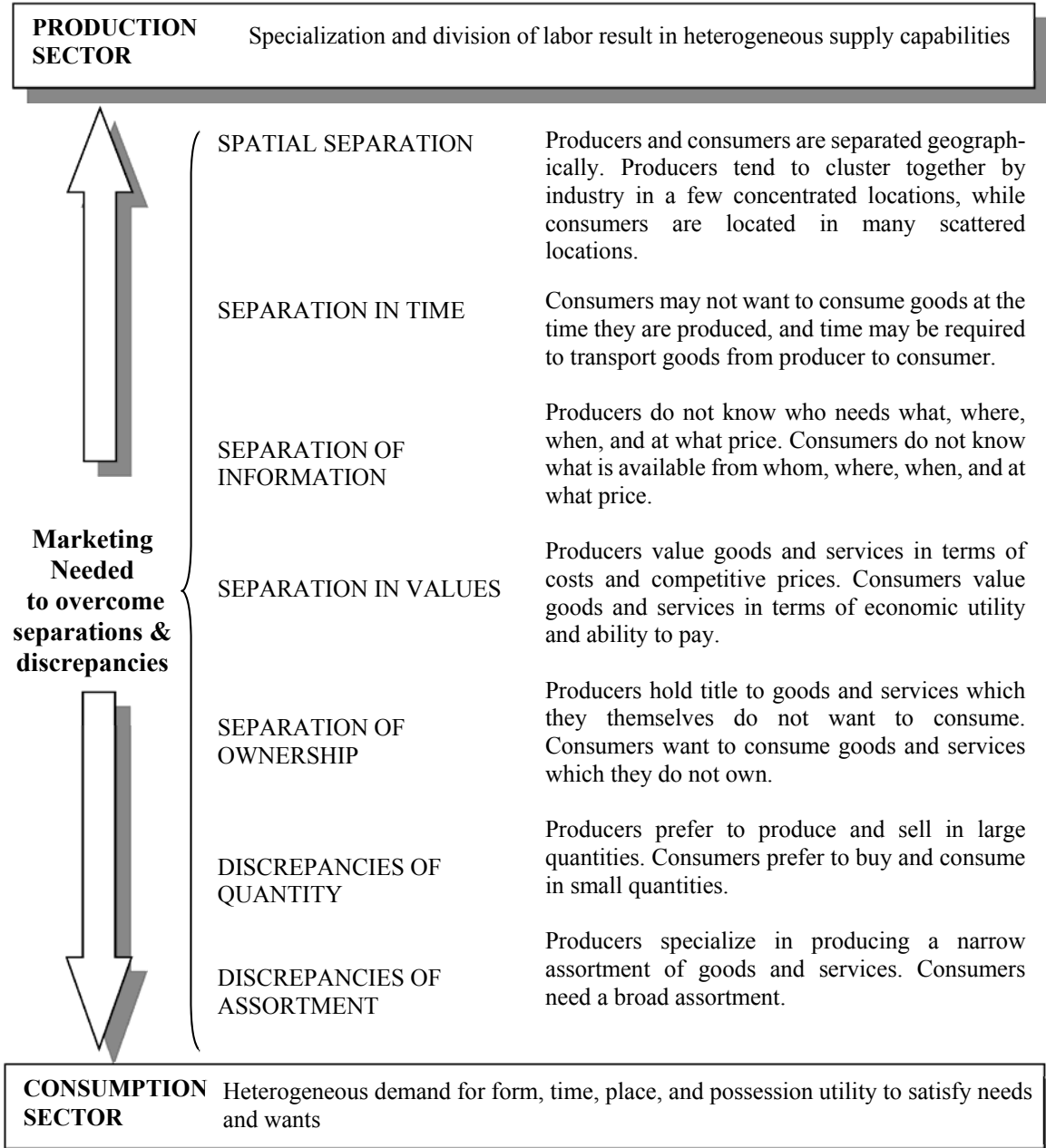
Exchange usually involves buying and selling. The **buying function** means looking for and evaluating goods and services. The **selling function** involves promoting the product. It includes the use of personal selling, advertising, and other mass selling methods. This is probably the most visible function of marketing.

The **transporting function** means the movement of goods from one place to another. The **storing function** involves holding goods until customers need them. **Standardization and grading** involve sorting products according to size and quality. This makes buying and selling easier because it reduces the need for inspection and sampling. **Financing** provides the necessary cash and credit to produce, transport, store, promote, sell, and buy products. **Risk taking** involves bearing the uncertainties that are part of the marketing process. A firm can never be sure that customers will want to buy its products. Products can also be damaged, stolen, or outdated. The **market information function** involves the collection, analysis, and distribution of all the information needed to plan, carry out, and control marketing activities.

## WORD STUDY

1. advance – to move forward in position, development, etc.;
2. vicious circle – a set of events in which cause and effect follow each other until this results in a return to the first usually undesirable or unpleasant position and the whole matter begins again;
3. cash – money in the form of coins and notes;
4. facilitate – to make easy or easier, help;
5. surplus – an additional amount to what is needed or used;
6. output – production;
7. discrepancy – lack of agreement or similarity;
8. subsistence – living with the smallest amount of food or money necessary;
9. competitive – able to compete because it is at least as good, cheap, etc. as the competitors;
10. overcome – to fight successfully against something.

### Exhibit 1-3 Marketing Facilitates Production and Consumption



**I. Match the words on the left with their synonyms on the right.**

<ol style="list-style-type: none"> <li>1. advance</li> <li>2. discrepancy</li> <li>3. consume</li> <li>4. goods</li> <li>5. overcome</li> </ol>	<ol style="list-style-type: none"> <li>a. products</li> <li>b. use</li> <li>c. difference</li> <li>d. get over</li> <li>e. improve</li> </ol>
---	---



II. *Match the words on the left with their antonyms on the right.*

- |               |                   |
|---------------|-------------------|
| 1. available  | a. broad          |
| 2. separation | b. vague, obscure |
| 3. narrow     | c. inaccessible   |
| 4. clear      | d. joining        |
| 5. facilitate | e. complicate     |

III. *Complete each item below by writing one word from the box on the answer line on the left. Use each word once in the necessary form.*

advance	vicious	circle	cash	facilitate	surplus
output	discrepancy	subsistence	competitive	overcome	

1. The car factory hopes to increase its ..?.. 30 percent next year.
2. The purpose of a macro-marketing system is to ..?.. separations and discrepancies between production and consumption sectors.
3. These poor families live at ..?.. level.
4. The country's economy has greatly ..?.. recently.
5. I always shop at that supermarket; its prices are very ..?.. .
6. Crime leads to prison, which leads to unemployment, which leads to crime. It's a ..?.. .
7. Mexico has a large ..?.. of oil.
8. The new underground railway will ..?.. the journey to the airport.
9. How would you like to pay – in ..?.. or by a credit card?
10. How do you explain these ..?.. in the accounts?

COMPREHENSION QUESTIONS

1. What's the main purpose of markets and middlemen?
2. How can an effective marketing system break the "vicious circle of poverty" from which many less-developed countries are suffering?
3. What does "economies of scale" mean?
4. What separations and discrepancies should a macro-marketing system overcome to join production and consumption sectors?
5. Can you name the universal functions of marketing? Explain what each of them means?

***Text 8. WHO PERFORMS MARKETING FUNCTIONS?***

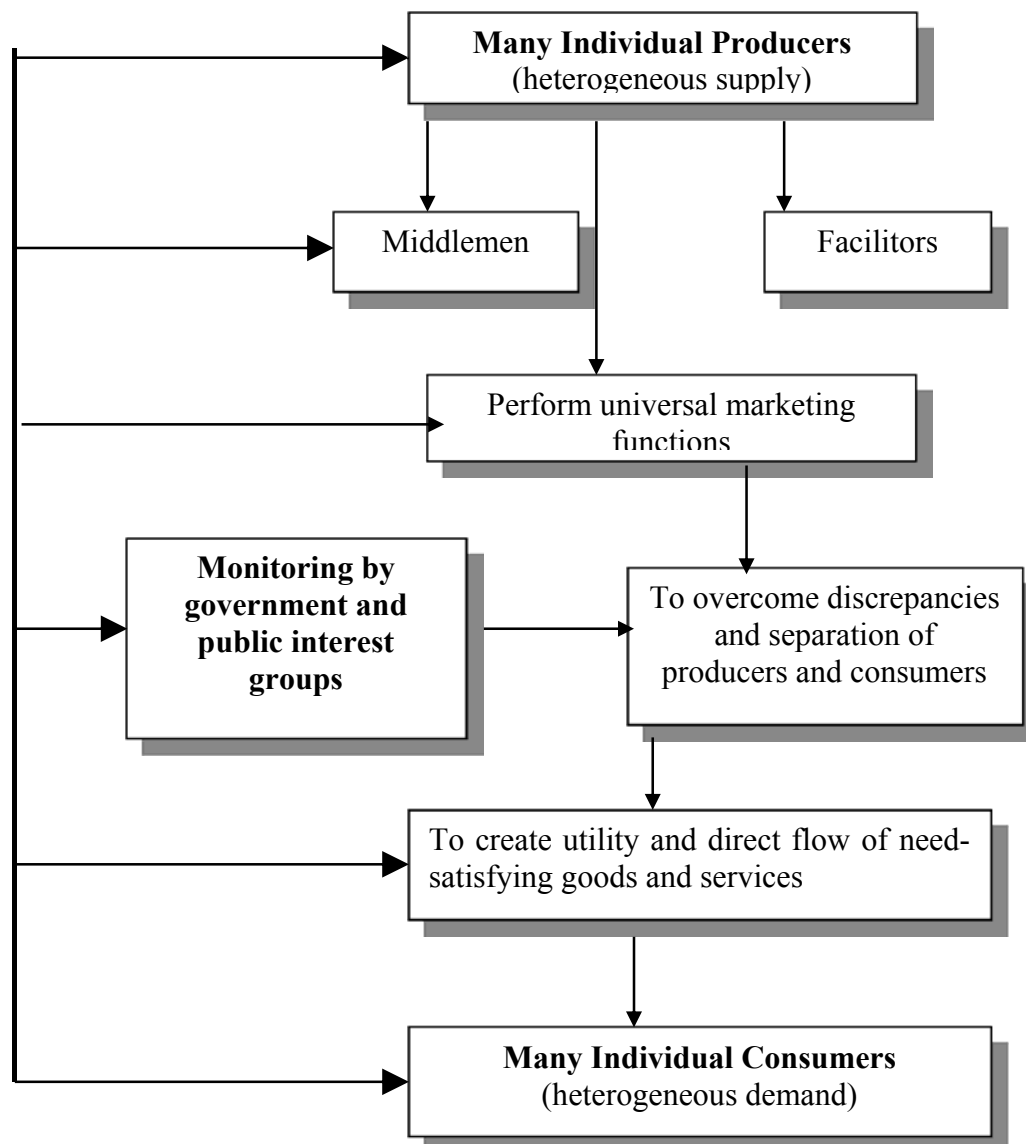
***Producers, consumers, and marketing specialists***

From a macro-level viewpoint, these marketing functions are all part of the marketing process—and must be done by someone. None of them can be eliminated. In a planned economy, some of the functions may be performed by

government agencies. Others may be left to individual producers and consumers. In a market-directed economy, marketing functions are performed by producers, consumers, and a variety of marketing specialists. See Exhibit 1-4.

Earlier you saw how producers and consumers benefited when marketing specialists (middlemen) took over some buying and selling. Producers and consumers also benefit when marketing specialists perform the other marketing functions. So we find marketing functions being performed not only by marketing middlemen but also by a variety of other facilitators—firms that provide one or more of the marketing functions other than buying or selling. These include advertising agencies, marketing research firms, independent product-testing laboratories, public warehouses, transporting firms, and financial institutions (including banks). Through specialization or economies of scale, marketing middlemen and facilitators are often able to perform the marketing functions better—and at a lower cost— than producers or consumers can. This allows producers and consumers to spend more time on production and consumption.

**Exhibit 1-4 Model of U.S. Macro – Marketing System\***



### ***Functions can be shifted and shared***

From a macro viewpoint, all of the marketing functions must be performed by someone. But, *from a) micro viewpoint, not every firm must perform all of the functions. Further, not all goods and services require all the functions at every level of their production.* "Pure services"—like a plane ride—don't need storing, for example. But storing is required in the production of the plane and while the plane is not in service.

Some marketing specialists perform all the functions. Others specialize in only one or two. Marketing research firms, for example, specialize only in the market information function. The important point to remember is this: *responsibility for performing the marketing functions can be shifted and shared in a) variety of ways, but no function can be completely eliminated.*

## HOW WELL DOES AMERICA'S MACRO-MARKETING SYSTEM WORK?

### ***It connects remote producers and consumers***

A macro-marketing system does more than just deliver goods and services to consumers—it allows mass production with its economies of scale. Also, mass communication and mass transportation allow products to be shipped where they're needed. Oranges from California are found in Minnesota stores—even in December—and electronic parts made in New York State are used in making products all over the country.

### ***It encourages growth and new ideas***

In addition to making mass production possible, market-directed, macro-marketing system of the USA encourages **innovation**—the development and spread of new ideas and products. Competition for consumers' dollars forces firms to think of new and better ways of satisfying consumer needs.

### ***It has its critics***

In explaining marketing's role in society, we described some of the benefits of the macro-marketing system. This approach is reasonable because the macro-marketing system of the USA has provided Americans—at least in material terms—with one of the highest standards of living in the world. It seems to be "effective" and "fair" in many ways.

We must admit, however, that marketing—as they know it in the United States—has many critics! Marketing activity is especially open to criticism because it is the part of business most visible to the public. There is nothing like a pocketbook issue for getting consumers excited!

Typical complaints about marketing include:

Advertising is too often annoying, misleading, and wasteful. Products are not safe—or the quality is poor.

Marketing makes people too materialistic—it motivates them toward "things" instead of social needs.

Easy consumer credit makes people buy things they don't need and really can't afford.

Packaging and labelling are often confusing and deceptive.

Middlemen add to the cost of distribution—and raise prices without providing anything in return.

Marketing creates interest in products that pollute the environment. Too many unnecessary products are offered. Marketing serves the rich and exploits the poor.

Note that some of these complaints deal with the whole macro-marketing system. Others apply to practices of specific firms and are micro-marketing oriented.

### ***Consumer complaints should be taken seriously***

Such complaints cannot and should not be taken lightly. They show that many Americans aren't happy with some parts of our marketing system. Certainly, the strong public support for consumer protection laws proves that not all consumers feel they are being treated like kings and queens. But some of the complaints occur because people don't understand what marketing is.

## WORD STUDY

1. eliminate – to remove or get rid of completely;
2. variety – a number or collection of different sorts of the same general type;
3. monitor – to watch or listen to something carefully over a certain period of time for a special purpose;
4. benefit – to be useful, profitable; to gain advantage;
5. warehouse – a large building for storing things, especially things that are to be sold;
6. shift – to change in position or direction; move from place to place;
7. share – to have, use, pay or take part in something with others or among a group, rather than singly;
8. allow – to let someone do something without opposing or trying to prevent;
9. approach – a method of doing something or dealing with a problem;
10. encourage – to give active approval; to support.

### ***I. Match the words on the left with their synonyms on the right.***

- |               |             |
|---------------|-------------|
| 1. eventually | a. sample   |
| 2. allow      | b. need     |
| 3. visible    | c. permit   |
| 4. test       | d. finally  |
| 5. require    | e. apparent |

II. *Match the words on the left with their antonyms on the right.*

- |              |                    |
|--------------|--------------------|
| 1. allow     | a. destroy         |
| 2. lightly   | b. lose            |
| 3. important | c. seriously       |
| 4. create    | d. prevent, forbid |
| 5. benefit   | e. petty           |

III. *Complete each item below by writing one word from the box on the answer line on the left. Use each word once in the necessary form.*

eliminate	variety	monitor	benefit	warehouse	shift
share	allow	approach	encourage		

1. I approve of your diplomatic ..?.. to the matter.
2. This instrument ..?.. the patient's heartbeats.
3. It's in companies' interests to ..?.. union membership.
4. The recent hijacking has ..?.. attention away from internal problems.
5. Walking on the grass is not ..?.. .
6. The company has built a new ..?.. for storing its products this year.
7. We ..?.. the cost of the meal.
8. These small businesses have ..?.. greatly from the fall in interest rates.
9. The shirt is available in a wide ..?.. of colours.
10. This new process has ..?.. the need for checking the products by hand.

COMPREHENSION QUESTIONS

1. Who performs marketing functions in a planned economy?
2. Who performs marketing functions in a market-directed economy?
3. What facilitators – firms that provide one or more of the marketing functions other than buying and selling – can you name?
4. How can the functions of marketing be shifted and shared?
5. Name the benefits and drawbacks of the macro-marketing system of the USA.

CONCLUSION

In this part, we defined two levels of marketing: micro-marketing and macro-marketing. Macro-marketing is concerned with the way the whole economy works. Micro-marketing focuses on the activities of individual firms. We discussed the role of marketing in economic development—and the functions of marketing and who performs them. We ended by raising some of the criticisms of marketing—both of the whole macro system and of the way individual firms work.

By learning more about market-oriented decision making, you will be able to make more efficient and socially responsible decisions. This will help improve the performance of individual firms and organizations (your employers). And, eventually, it will help our macro-marketing system work better.

We'll see marketing through the eyes of the marketing manager—maybe *you* in the near future. And we will show how you can contribute to the marketing process.

## QUESTIONS AND PROBLEMS

1. List your activities for the first two hours after you woke up this morning. Briefly indicate how marketing affected your activities.

2. It is fairly easy to see why people do not beat a path to a mousetrap manufacturer's door, but would they be similarly indifferent if some food processor developed a revolutionary new food product that would provide all necessary nutrients in small pills for about \$100 per year per person?

3. Distinguish between macro- and micro-marketing. Then explain how they are interrelated, if they are.

4. Distinguish between how economic decisions are made in a planned economic system and how they are made in a market-directed economy.

5. A committee of the American Marketing Association defined marketing as "the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives." Does this definition consider macro-marketing? Explain your answer.

6. Identify a "central market" in your city and explain how it facilitates exchange.

7. Discuss the nature of marketing in a socialist economy. Would the functions that must be provided and the development of wholesaling and retailing systems be any different than in a market-directed economy?

8. Discuss how the micro-macro dilemma relates to each of the following products: seat belts in cars, nuclear power, high-performance automobiles, and bank credit cards.

9. Describe a recent purchase you made and indicate why that particular product was available at a store and, in particular, at the store where you bought it.

10. Refer to Exhibit 1-3, and give an example of a purchase you recently made that involved separation of information and separation in time between you and the producer. Briefly explain how these separations were overcome.

11. Define the functions of marketing in your own words. Using an example, explain how they can be shifted and shared.

12. Explain, in your own words, why the emphasis in this text is on micro-marketing.

13. Explain why a small producer might want an advertising agency to be a facilitator to take over some of its advertising activities.

14. Explain why a market-directed macro-marketing system encourages innovation. Give an example.

## PART II. MARKETING'S ROLE WITHIN THE FIRM

### *Text 1. A) master plan to hit the target is the goal of a good marketing manager*

Marketing and marketing management are important in our society—and in business firms. Marketing is concerned with anticipating needs and directing the flow of goods and services from producers to consumers. This is done to satisfy the needs of consumers and achieve the objectives of the firm (the micro view) and of society as a whole (the macro view).

To get a better understanding of marketing, we are going to look at things from the point of view of the marketing manager—the one who makes a company's important marketing decisions. Let's consider a few decisions made by marketing managers.

In the 1980s, consumer interest in health and fitness increased demand for athletic shoes. Firms like Nike, Reebok, and Converse—as well as competing producers from Taiwan and Korea—battled to win a profitable share of the \$9 billion market. To come out on top in these "sneakers wars," Nike's managers had to make many decisions.

Nike's marketing research showed that consumer needs were changing. Consumers wanted fashionable, high-performance shoes for activities like aerobics, walking, and racquetball. Nike's marketing managers had to decide what new products to develop to meet these needs. They had to decide whether to rely on the familiar Nike name and label or to design a whole new look. Marketing managers also had to decide who would be the main target—and the best way to reach them. This included picking a theme for the advertising campaign and determining how much to spend on advertising—and where to spend it. Managers also had to decide how to promote the shoes to their wholesalers and retailers—the middle-men who actually distribute the products to places where the customers can buy them.

They had other decisions to make. In such large quantities a pair of shoes costs only \$25 to produce. Should the price stay at about \$70 a pair, or would a different price be more profitable? Should Nike offer introductory price rebates to help attract customers away from other brands? Should Nike start in some introductory regions of the country or distribute the new products in as many places as possible all at once? Should they try to expand the number of middlemen who carried Nike products, or should they focus on the ones who had sold their products in the past? Nike's managers did a good job with these decisions. Within a few years Nike dramatically increased its share of the market and its profits—in an increasingly competitive market.

Those were only a few of many decisions Nike's marketing managers had to make, but you can see that each of these decisions affects the others. Making marketing decisions is never easy. But knowing what basic decision areas have to be considered helps you to plan a better, more successful strategy.

## MARKETING'S ROLE HAS CHANGED A LOT OVER THE YEARS

From this Nike example, it's clear that marketing decisions are very important to a firm's success. But marketing hasn't always been so complicated. In fact, it's only in the last 40 years or so that an increasing number of producers, wholesalers, and retailers have adopted modern marketing thinking. Instead of just focusing on producing or selling products, these firms focus on customers—and try to integrate the company's total effort to satisfy them.

We will discuss five stages in marketing evolution: (1) the simple trade era, (2) the production era, (3) the sales era, (4) the marketing department era, and (5) the marketing company era. We'll talk about these eras as if they applied generally to all firms—but keep in mind that some managers still have not made it to the final stages. They are stuck in the past.

### *Specialization permitted trade—and middlemen met the need*

When societies first moved toward some specialization of production and away from a subsistence economy where each family raised and consumed everything it produced, traders played an important role. Early "producers for the market" made products that were needed by themselves and their neighbors. As bartering became more difficult, societies moved into the **simple trade era**—a time when families traded or sold their "surplus" output to local middlemen. These specialists resold the goods to other consumers or distant middlemen. This was the early role of marketing—and it didn't change much until the Industrial Revolution brought larger factories.

### *From the production to the sales era*

From the Industrial Revolution until the 1920s, most companies were in the production era. The **production era** is a time when a company focuses on production of a few specific products—perhaps because few of these products are available in the market. "If we can make it, it will sell" is management thinking characteristic of the production era. For example, at the end of the 19<sup>th</sup> century a firm could easily sell the safety razors it could produce because there were few available in the market.

By about 1930, companies had more production capability than ever before. Now the problem wasn't just to produce—but to beat the competition and win customers. This led many firms to enter the **sales era**. The sales era is a time when a company emphasizes selling because of increased competition.

### *To the marketing department era*

For most firms, the sales era continued until at least 1950. By then, sales were growing rapidly in most areas of the economy. The problem was deciding where to put the company's effort. Someone was needed to tie together the efforts of research, purchasing, production, shipping, and sales. As this situation became



more common, the sales era was replaced by the marketing department era. The marketing department era is a time when all marketing activities are brought under the control of one department to improve short-run policy planning and to try to integrate the firm's activities.

### *To the marketing company era*

Since 1960, most firms have developed at least some staff with a marketing management outlook. Many of these firms have even graduated from the marketing department era into the marketing company era. The **marketing company era** is a time when, in addition to short-run marketing planning, marketing people develop long-range plans—sometimes 10 or more years ahead—and the whole company effort is guided by the marketing concept.

## WHAT DOES THE MARKETING CONCEPT MEAN?

The **marketing concept** means that an organization aims all its efforts at satisfying its customers—at a profit. The marketing concept is a simple but very important idea.

It is not really a new idea in business—it's been around for a long time. But some managers act as if they are stuck at the beginning of the production era – when there were shortages of most products. They show little interest in customers' needs. These managers still have a **production orientation**—making whatever products are easy to produce and then trying to sell them. They think of customers existing to buy the firm's output rather than of firms existing to serve customers and—more broadly—the needs of society.

Well-managed firms have replaced this production orientation with a marketing orientation. A **marketing orientation** means trying to carry out the marketing concept. Instead of just trying to get customers to buy what the firm has produced, a marketing-oriented firm tries to produce what customers need.

Three basic ideas are included in the definition of the marketing concept:

- a customer orientation,
- a total company effort,
- profit—not just sales—as an objective.

These ideas deserve more discussion.

### *A) customer orientation guides the whole system*

"Give the customers what they need" seems so obvious that it may be hard for you to see why the marketing concept requires special attention. However, people don't always do the logical and obvious—especially when it means changing what they have done in the past. In a typical company 40 years ago, production managers thought mainly about getting out the product. Accountants were interested only in balancing the books. Financial people looked after the company's cash position. And salespeople were mainly concerned with getting orders. Each department thought of its own activity as the center of the business—

with others working around "the edges." No one was concerned with the whole system. As long as the company made a profit, each department went merrily on—"doing its own thing." Unfortunately, this is still true in many companies today.

***Work together ... do a) better job***

Ideally, all managers should work together because the output from one department may be the input to another. But some managers tend to build "fences" around their own departments. There may be meetings to try to get them to work together—but they come and go from the meetings worried only about protecting their own "turf."

We use the term production orientation as a shorthand way to refer to this kind of narrow thinking—and lack of a central focus—in a business firm. But keep in mind that this problem may be seen in sales-oriented sales representatives, advertising-oriented agency people, finance-oriented finance people, directors of nonprofit organizations, and so on. It is not just a criticism of people who manage production. They aren't necessarily any more guilty of narrow thinking than anyone else in a firm.

The "fences" come down in an organization that has accepted the marketing concept. There are still departments, of course, because specialization makes sense. But the total system's effort is guided by what customers want—instead of what each department would like to do.

In such a firm, it is more realistic to view the business as a box with both internal and external activities. Some internal departments—production, accounting, and research and development (R&D)—are mainly concerned with affairs inside the firm. The external departments are concerned with outsiders—sales, advertising, and sales promotion. Finally, some departments—warehousing, shipping, purchasing, finance, and personnel—work with both insiders and outsiders.

The important point is to have a guiding focus that all departments adopt. It helps the organization work as a total "system" rather than a lot of separate parts. The marketing concept, however, is more complete than many systems-oriented ideas. It actually specifies a high-level objective—customer satisfaction—that is logical for each and every part of the system. It also specifies a profit objective, which is necessary for the system's survival.

A nonprofit organization does not measure "profit" in the same way as a for-profit firm. But, as with any business firm, a nonprofit organization needs support to survive and achieve its objectives. This support may not come from those who receive the benefits the organization produces—animals protected by the World Wildlife Fund, for example. But if supporters don't think the benefits are worth what it costs to provide them, they will—and should—put their time and money elsewhere. So the marketing concept makes sense for nonprofit organizations, too.

***It's easy to slip into a) production orientation***

The marketing concept may seem obvious, but it's very easy to slip into a production-oriented way of thinking. For example, a retailer might prefer only weekday hours—avoiding nights, Saturdays, and Sundays when many customers would prefer to shop. Or a company might rush to produce a clever new product developed in its lab—rather than first finding if it will fill an unsatisfied need. A community theater group might decide to do a play that the actors and the director like— never stopping to consider what the audience might want to see.

Take a look at Exhibit 1. It shows some differences in outlook between adopters of the marketing concept and typical production-oriented managers. As the exhibit suggests, the marketing concept—if taken seriously—is really very powerful. It forces the company to think through what it is doing—and why. And it motivates the company to develop plans for accomplishing its objectives.

**Exhibit 1. Some differences in outlook between adopters of the marketing concept and the typical production-oriented managers.**

<b>Topic</b>	<b>Marketing orientation</b>	<b>Production orientation</b>
<b>Attitudes towards customers</b>	Customer needs determine company plans	They should be glad we exist, trying to cut costs and bringing our better products
<b>Product offering</b>	Company makes what it can sell	Company sells what it can make
<b>Role of marketing research</b>	To determine customer needs and how well company is satisfying them	To determine customer reaction, if used at all
<b>Interest in innovation</b>	Focus on locating new opportunities	Focus is on technology and cost cutting
<b>Importance of profit</b>	A critical objective	A residual, what's left after all costs are covered
<b>Role of customer credit</b>	Seen as a customer service	Seen as a necessary evil
<b>Role of packaging</b>	Designed for customer convenience and as a selling tool	Seen merely as protection for the product
<b>Inventory levels</b>	Set with customer requirements and costs in mind	Set to make production more convenient
<b>Transportation arrangements</b>	Seen as a customer service	Seen as an extension of production and storage activities, with emphasis on cost minimization
<b>Focus on advertising</b>	Need-satisfying benefits of products and services	Product features and how products are made
<b>Role of sales force</b>	Help the customer to buy if the product fits his needs, while coordinating with rest of firm	Sell the customer, don't worry about coordination with other promotion efforts or rest of firm

## WORD STUDY

1. goal – one’s aim or purpose; a position or object one wishes to reach or obtain;
2. residual – left over; remaining;
3. battle – to take part in a struggle, especially when trying to gain something or get somewhere;
4. share – the part belonging to, owed to or done by a particular person;
5. label – a piece of paper or other material, fixed to something which gives information about what it is, where it is to go, who owns it, etc.; brand;
6. wholesale – the business of selling goods in large quantities, especially to shopkeepers;
7. retail – the sale of goods in shops to customers, for their own use and not for selling to anyone else;
8. adopt – to take and use as one’s own, to begin to have;
9. concept – a thought, idea or principle;
10. effort – an attempt using all one’s powers.

### I. *Match the words on the left with their synonyms on the right.*

- |              |             |
|--------------|-------------|
| 1. aim       | a. remnant  |
| 2. principle | b. fight    |
| 3. effort    | c. goal     |
| 4. residual  | d. exertion |
| 5. battle    | e. concept  |

### II. *Match the words on the left with their antonyms on the right.*

- |              |           |
|--------------|-----------|
| 1. wholesale | a. reject |
| 2. effort    | b. lose   |
| 3. obtain    | c. retail |
| 4. adopt     | d. peace  |
| 5. battle    | e. rest   |

### III. *Complete the following sentences using the words from the box. Use each word once in the necessary form.*

goal	effort	concept	residual	battle
share	label	wholesale	retail	adopt

1. We ..?.. their production methods last year.
2. The company is selling off some of its buildings in an ..?.. to save money.
3. The sneakers cost 50\$ in the stores, but the ..?.. price is 35\$.
4. The company has achieved all its ..?.. this year.
5. We still have the largest market ..?.. but the competition is growing fast.

6. The ..?.. on the bottle says “Poison”.
7. It is difficult to grasp the ..?.. of infinite space.
8. ..?.. prices are higher than wholesale ones.
9. It is his ..?.. income, after all taxes have been paid.
10. He had to ..?.. to keep control of his company.

## COMPREHENSION QUESTIONS

1. What important decisions are marketing managers to make?
2. Can you characterize each stage of marketing evolution from the simple trade era to the marketing company era?
3. What does marketing concept imply? What basic ideas are included in its definition?
4. What is the difference between a product orientation and a marketing orientation?
5. In what way does marketing concept make sense for non-profit organizations?

### ***Text 2. ADOPTION OF THE MARKETING CONCEPT HAS NOT BEEN EASY***

The marketing concept seems so logical that you would think it would have been quickly adopted by most firms. But this isn't the case. Many firms are still production oriented. In fact, the majority are either production oriented—or regularly slip back that way—and must consciously refocus on customers' interests in their planning.

The marketing concept was first accepted by consumer products companies such as General Electric and Procter & Gamble. Competition was intense in some of their markets—and trying to satisfy customers' needs more fully was a way to win in this competition. Widespread publicity about the success of the marketing concept at companies like General Electric and Procter & Gamble helped spread the message to other firms.

Producers of industrial commodities—steel, coal, paper, glass, chemicals—have accepted the marketing concept slowly if at all. Similarly, many retailers have been slow to accept the marketing concept—in part because they are so close to final consumers that they "feel" they really know their customers.

#### ***Service industries are catching up***

"Service" industries—including airlines, banks, investment firms, lawyers, physicians, accountants, and insurance companies—were slow to adopt the marketing concept, too. But this has changed dramatically, partly due to government regulation changes that enabled many of these businesses to be more competitive.

Banks used to be open for limited hours that were convenient for bankers—not customers. Many closed during lunch hour! But now financial services are less regulated, and banks compete with companies like Merrill Lynch or American Express for checking accounts and retirement investments. The banks stay open longer, often during evenings and on Saturdays. They also offer more services for their customers—automatic banking machines that take credit cards or a "personal banker" to give financial advice. Most banks now aggressively advertise their special services and even interest rates so customers can compare bank offerings.

***Marketing concept applies directly to nonprofit organizations***

The same ideas apply to nonprofit organizations. Only the objectives against which possible plans are measured are different. The Girl Scouts, colleges, symphony orchestras, and the Post Office, for example, are all seeking to satisfy some consumer groups and at least survive—even though they aren't seeking profits.

A simple example shows how marketing concept thinking helped one nonprofit service organization do a better job achieving its objectives. A police chief in a small town was trying to fight increased robberies in residential areas. He asked the town manager for a larger budget—for more officers and cars to patrol neighborhoods. The town manager wasn't convinced a bigger police budget would solve the problem. Instead she tried a different approach. One police officer was taken "off the beat" and put in charge of a "community watch" program. This officer helped neighbors organize to look after each others' property and notify the police of any suspicious situations. He also set up a program to engrave ID numbers on belongings and installed signs warning thieves that a "community watch" was in effect. Break-ins all but stopped—without increasing the police budget. What the town really needed was more effective crime prevention—not just more police officers.

***How far should the marketing concept go?  
Should all consumer needs be satisfied?***

The marketing concept is so logical that it's hard to argue with it. Yet, it does raise some important questions—for which there are no easy answers.

When a firm focuses its efforts on satisfying some consumers—to achieve its objectives—the effect on society may be completely ignored. Further, some consumers want products that may not be safe or good for them in the long run. Some critics argue that businesses should not offer cigarettes, high-heeled shoes, alcoholic beverages, sugar-coated cereals, soft drinks, and many processed foods—because they aren't "good" for consumers in the long run. These critics raise the basic question: Is the marketing concept really desirable?

Many marketing managers and socially conscious marketing companies are trying to resolve this problem. Their definition of customer satisfaction includes

long-range effects—as well as immediate customer satisfaction. They try to balance consumer, company, and social interests.

*What if it cuts into profits?*

Being more socially conscious often seems to lead to positive customer response. For example, Gerber had great success when it improved the nutritional quality of its baby food.

But what about products consumers want but that may be risky to use? Bicycles, for example, are one of the most dangerous products identified by the Consumer Product Safety Commission. Should Schwinn stop production? What about skis, mopeds, and scuba equipment? Who should decide if these products will be offered to consumers? Is this a micro-marketing issue or a macro-marketing issue?

Being socially conscious and trying to carry out the marketing concept can be difficult. But business managers have to face this problem.

*Does it go far enough?*

Some critics say that the marketing concept doesn't go far enough in today's highly competitive markets. They think of marketing as "warfare" for customers—and argue that a marketing manager should focus on competitors, not customers. That viewpoint, however, misses the point. The marketing concept idea isn't just to satisfy customers—but to do it at a profit through an integrated, whole-company effort. All three must be considered simultaneously. Profit opportunities depend not only on outdoing some other firm—but also on doing the right thing. In fact, often the best way to beat the competition is to be first to find and satisfy a need that others have not even considered. The competition between Pepsi and Coke illustrates this.

Coke and Pepsi were spending millions of dollars on promotion—fighting head-to-head for the same cola customers. They put so much emphasis on the competitor that they missed opportunities. Then, Pepsi recognized consumer interest in a potential new product idea: a soft drink based on fruit juice. Pepsi's Slice brand soft drink was first on the market, and that helped Slice win loyal customers and space on middlemen's shelves.

## THE MANAGEMENT JOB IN MARKETING

Now that you know about the marketing concept—a philosophy to guide the whole firm—let's look more closely at how a marketing manager helps a firm to achieve its objectives. The marketing manager is a manager, so let's look at the marketing management process.

The **marketing management process** is the process of (1) planning marketing activities, (2) directing the implementation of the plans, and (3)

controlling these plans. Planning, implementation, and control are basic jobs of all managers—but here we will emphasize what they mean to marketing managers.

In the planning job, managers set guidelines for the implementing job—and specify expected results. They use these expected results in the control job—to determine if everything has worked out as planned. The link from the control job to the planning job is especially important. This feedback often leads to changes in the plans—or to new plans.

### ***Marketing managers should seek new opportunities***

Marketing managers must seek attractive new opportunities—as customers' needs change or as the organization's ability to meet customers' needs changes. Marketing managers cannot be satisfied just planning present activities. Markets are dynamic. Consumers' needs, competitors, and the environment keep changing.

Consider Parker Brothers, a company that seemed to have a "Monopoly" in family games. While it continued selling board games, firms like Atari and Nintendo zoomed in with "video game" competition. Of course, not every opportunity is "good" for every company. Really attractive opportunities are those that fit with what the whole company wants—and is able to do.

### ***Strategic management planning concerns the whole firm***

The job of planning strategies to guide a whole company is called **strategic (management) planning**—the managerial process of developing and maintaining a match between an organization's resources and its market opportunities. This is a top management job that includes planning not only for marketing activities but also for production, research and development, and other functional areas. We won't discuss whole-company planning, but you need to understand that marketing department plans are not whole company plans.

On the other hand, company plans should be market-oriented. And the marketing manager's plans can set the tone and direction for the whole company. So we will use strategy planning and marketing strategy planning to mean the same thing.

## WHAT IS MARKETING STRATEGY PLANNING?

### ***What is a) marketing strategy?***

Marketing strategy planning means finding attractive opportunities and developing profitable marketing strategies. But what is a "marketing strategy?" We have used these words rather casually so far. Now let's see what they really mean.

A **marketing strategy** specifies a target market and a related marketing mix. It is a "big picture" of what a firm will do in some market. Two interrelated parts are needed:



1. A **target market**—a fairly homogeneous (similar) group of customers to whom a company wishes to appeal.

2. A **marketing mix**—the controllable variables the company puts together to satisfy this target group.

The customer is surrounded by the controllable variables that we call the "marketing mix." A typical marketing mix includes some product, offered at a price, with some promotion to tell potential customers about the product, and a way to reach the customer's place.

For example, Compaq Computer's strategy aims at business-oriented users of microcomputers in urban areas. Compaq's strategy calls for a reliable, high-performance product that is compatible with popular business-oriented software produced by other firms. The strategy calls for the product to be readily available through full-service computer stores in major cities. To avoid the types of conflicts that IBM and Apple have had with their middlemen, Compaq does not sell directly to the final customers with its own sales force. However, the company supports the whole effort with much promotion—including personal selling to managers of computer stores, advertising to computer buyers, and sales promotion to both customers and computer stores. Compaq's pricing is more or less competitive with other well-known brands.

## SELECTING A MARKET-ORIENTED STRATEGY IS TARGET MARKETING

### *Target marketing is not mass marketing*

Note that a marketing strategy specifies some particular target customers. This approach is called "target marketing" to distinguish it from "mass marketing." **Target marketing** says that a marketing mix is tailored to fit some specific target customers. In contrast, **mass marketing**—the typical production-oriented approach—vaguely aims at "everyone" with the same marketing mix. Mass marketing assumes that everyone is the same—and considers everyone a potential customer. It may help to think of target marketing as the "rifle approach" and mass marketing as the "shotgun approach."

### *"Mass marketers" may do target marketing*

Commonly used terms can be confusing here. The terms mass marketing and mass marketers do not mean the same thing. Far from it! Mass marketing means trying to sell to "everyone," as we explained above. Mass marketers like General Foods and Sears are aiming at clearly defined target markets. The confusion with mass marketing occurs because their target markets usually are large and spread out.

### *Target marketing— can mean big markets and profits*

Target marketing is not limited to small market segments—only to fairly homogeneous ones. A very large market—even what is sometimes called the

"mass market"—may be fairly homogeneous, and a target marketer will deliberately aim at it. For example, there is a very large group of young urban professionals (sometimes called yuppies) who are homogeneous on many dimensions—including a high income level. This group accounts for about 70 percent of all stereo equipment purchases—so it should be no surprise that it is a major target market for companies like Sony and Pioneer.

The basic reason for a marketing manager to focus on some specific target customers is to gain a competitive advantage—by developing a more satisfying marketing mix that should also be more profitable for the firm.

### WORD STUDY

1. commodity – an article of trade or commerce;
2. catch up – to come up from behind and reach the same point or level;
3. insurance – agreement by contract to pay money to someone if something, especially a misfortune, such as illness, death or an accident happens to them;
4. notify – to inform;
5. loyal – 1) faithful to one's friends, principles, country, etc.; 2) always giving support;
6. implement – to carry out or put into practice;
7. feedback – remarks about or in answer to an action, process, etc., passed back to the person (or machine) in charge, so that changes can be made if necessary;
8. zoom in – to move quickly between a distant and a close view;
9. variables – something which can vary in quantity or size;
10. confusion – a state of great disorder.

#### I. *Match the words on the left with their synonyms on the right.*

- |                |               |
|----------------|---------------|
| 1. variable    | a. devoted    |
| 2. commodities | b. goods      |
| 3. catch up    | c. fulfill    |
| 4. loyal       | d. changeable |
| 5. implement   | e. overtake   |

#### II. *Match the words on the left with their antonyms on the right.*

- |              |                |
|--------------|----------------|
| 1. implement | a. fall behind |
| 2. loyal     | b. constant    |
| 3. confusion | c. neglect     |
| 4. variable  | d. unfaithful  |
| 5. catch up  | e. order       |

III. *Complete the following sentences using the words from the box. Use each word once in the necessary form.*

notify commodity confusion zoom in implement catch up insurance loyal  
feedback variables

1. The company welcomes ..?... from people who use its goods.
2. The camera ..?... in on the child's face.
3. The party is in complete ..?... after its election defeat.
4. Does your ..?... cover damage by flooding?
5. As far as I know he is a ..?... supporter of the government.
6. The time of the journey depends on a number of ..?... , such as the volume of traffic on the road.
7. Please, ..?... all the staff that the inspectors will be here on Monday.
8. The country is heavily dependent on its exports of agricultural ..?... .
9. At the moment our technology is more advanced than theirs, but they are ..?... fast.
10. The committee's suggestions will be ..?... immediately.

### COMPREHENSION QUESTIONS

1. Why do service industries have to adopt the marketing concept?
2. Is it possible that satisfying all consumer needs can do people harm?
3. What activities does the marketing management process imply?
4. What is the strategic planning?
5. How can a target market mean big markets and profits?

### ***Text 3. DEVELOPING MARKETING MIXES FOR TARGET MARKETS***

#### ***There are many marketing mix variables***

There are many possible ways to satisfy the needs of target customers. A product can have many different features and quality levels. Service levels can be adjusted. The package can be of various sizes, colors, or materials. The brand name and warranty can be changed. Various advertising media—newspapers, magazines, radio, television, billboards—may be used. A company's own sales force or other sales specialists can be used. Different prices can be charged. Price discounts may be given, and so on. With so many possible variables, the question is: is there any way to help organize all these decisions and simplify the selection of marketing mixes? And the answer is: yes.

#### ***The four "Ps" make up a) marketing mix***

It is useful to reduce all the variables in the marketing mix to four basic ones:

<b>Product.</b>	<b>Promotion.</b>
<b>Place.</b>	<b>Price.</b>

It helps to think of the four major parts of a marketing mix as the "four Ps."

***Customer is not part of the marketing mix***

The customer is surrounded by the four Ps. The customer is not part of the marketing mix. The customer should be the target of all marketing efforts. Exhibit 2 shows some of the variables in the four Ps.

**Exhibit 2. Strategy decision areas organized by the four Ps.**

<b>Product</b>	<b>Place</b>	<b>Promotion</b>	<b>Price</b>
<ul style="list-style-type: none"> <li>• Physical good</li> <li>• Service</li> <li>• Features</li> <li>• Quality level</li> <li>• Accessories</li> <li>• Installation</li> <li>• Instructions</li> <li>• Warranty</li> <li>• Product lines</li> <li>• Packaging</li> <li>• Branding</li> </ul>	<ul style="list-style-type: none"> <li>• Objectives</li> <li>• Channel type</li> <li>• Market exposure</li> <li>• Kinds of middlemen</li> <li>• Kinds and locations of stores</li> <li>• How to handle transporting and storing</li> <li>• Service levels</li> <li>• Recruiting middlemen</li> <li>• Managing channels</li> </ul>	<ul style="list-style-type: none"> <li>• Objectives</li> <li>• Promotion blend</li> <li>• Salespeople</li> <li>• Kind</li> <li>• Number</li> <li>• Selection</li> <li>• Training</li> <li>• Motivation</li> <li>• Advertising</li> <li>• Targets</li> <li>• Kinds of ads</li> <li>• Media type</li> <li>• Copy thrust</li> <li>• Prepared by whom</li> <li>• Sales promotion</li> <li>• Publicity</li> </ul>	<ul style="list-style-type: none"> <li>• Objectives</li> <li>• Flexibility</li> <li>• Level over product life cycle</li> <li>• Geographic terms</li> <li>• Discounts</li> <li>• Allowances</li> </ul>

For now, let's just describe each P briefly.

***Product—the right one for the target***

The Product area is concerned with developing the right "product" for the target market. This offering may involve a physical good, a service, or a blend of both. Keep in mind that Product is not limited to "physical goods." For example, the Product of H & R Block is a completed tax form. The important thing to remember is that your good—and/or service – should satisfy some customers' needs.

Along with other Product decisions, we will talk about developing and managing new products and whole product lines. We'll also discuss the characteristics of various kinds of products so that you will be able to make generalizations about product classes. This will help you to develop whole marketing mixes more quickly.

***Place—reaching the target***

Place is concerned with getting the "right" product to the target market's Place. A product isn't much good to a customer if it isn't available when and where it's wanted.

A product reaches customers through a channel of distribution. A **channel of distribution** is any series of firms (or individuals) from producer to final user or consumer.

Sometimes a channel system is quite short. It may run directly from a producer to a final user or consumer. Often it is more complex—involving many different kinds of middlemen and specialists. And if a marketing manager has several different target markets, several channels of distribution might be needed.

We will also see how physical distribution—transporting and storing—relates to the other Place decisions and the rest of the marketing mix.

### ***Promotion—telling and selling the customer***

The third P—Promotion—is concerned with telling the target market about the "right" product. Promotion includes personal selling, mass selling, and sales promotion. It is the marketing manager's job to blend these methods.

**Personal selling** involves direct communication between sellers and potential customers. Personal selling is usually face-to-face, but sometimes the communication is over the telephone. Personal selling lets the salesperson adapt the firm's marketing mix to each potential customer. But this individual attention comes at a price. Personal selling can be very expensive. Often this personal effort has to be blended with mass selling and sales promotion.

**Mass selling** is communicating with large numbers of customers at the same time. The main form of mass selling is **Advertising**—any paid form of non-personal presentation of ideas, goods, or services by an identified sponsor. **Publicity**—any unpaid form of nonpersonal presentation of ideas, goods, or services—is another important form of mass selling.

**Sales promotion** refers to those promotion activities—other than advertising, publicity, and personal selling—that stimulate interest, trial, or purchase by final customers or others in the channel. This can involve use of coupons, point-of-purchase materials, samples, signs, catalogs, novelties, and circulars. Sales promotion specialists try to help the personal selling and mass selling people.

### ***Price—making it right***

In addition to developing the right Product, Place, and Promotion, marketing managers must also decide the right Price. In setting a price, they must consider the kind of competition in the target market—and the cost of the whole marketing mix. They must also try to estimate customer reaction to possible prices. Besides this, they also must know current practices as to markups, discounts, and other terms of sale. Further, they must be aware of legal restrictions on pricing.

If customers won't accept the Price, all of the planning effort will be wasted. So you can see that Price is an important area for a marketing manager.

### ***Each of the four Ps contributes to the whole***

All four Ps are needed in a marketing mix. In fact, they should all be tied together. But is any one more important than the others? Generally speaking, the answer is no—all contribute to one whole. When a marketing mix is being developed, all (final) decisions about the Ps should be made at the same time. They all are equally important.

### ***Both jobs must be done together***

It is important to stress—it cannot be overemphasized—that selecting a target market and developing a marketing mix are interrelated. Both parts must be decided together. It is *strategies* that must be evaluated against the company's objectives—not alternative target markets or alternative marketing mixes.

### ***Understanding target markets leads to good strategies***

The needs of a target market virtually determine the nature of an appropriate marketing mix. So it is necessary for marketers to analyze their potential target markets with great care. We will explore ways of identifying attractive market opportunities and developing appropriate strategies.

These ideas can be seen more clearly with an example in the home decorating market.

### ***Strategy planning in the British home decorating market***

The experience of a paint producer in England illustrates the strategy planning process—and how strategy decisions help decide how the plan is carried out.

First, the paint producer's marketing manager interviewed many potential customers and studied the needs for the products he could offer. By combining several kinds of customer needs and some available demographic data, he came up with the view of the market shown in Exhibit 3. In the following description of these markets, note that useful marketing mixes come to mind immediately.

There turned out to be a large (but hard to describe) market for "general-purpose paint"—about 60 percent of the potential for all kinds of paint products. The producer did not consider this market because he did not want to compete "head-on" with the many companies already in this market. The other four markets are placed in the four corners of a market diagram to show that they are different markets. He called these markets Helpless Homemaker, Handy Helper, Crafty Craftsman, and Cost-Conscious Couple.

**Exhibit 3. The home decorating market (paint area) in England.**

<p><b>Helpless Homemaker</b></p>		<p><b>Crafty Craftsman</b></p>
<p><b>“Mass market” for general-purpose paint</b></p>		
<p><b>Handy Helper</b></p>		<p><b>Cost-Conscious Couple</b></p>

The producer found that the Helpless Homemaker really didn't know much about home painting or specific products. This customer needed a helpful paint retailer who could supply not only paint and other supplies—but also much advice. And the retailer who sold the paint would want it to be of fairly high quality so that the Homemaker would be satisfied with the results.

The Handy Helper was a jack-of-all-trades who knew a great deal about painting. He wanted a good-quality product and was satisfied to buy from an old-fashioned paint store or lumber yard—which usually sells to customers who know just what they want. The Crafty Craftsman knew more than most paint sales reps, so he didn't want much help from a retailer either. These older men didn't really want to buy standard paint at all. They wanted color tints, oils, and other things to mix their own custom colors.

Finally, the Cost-Conscious Couple was young, had low income, and lived in an apartment. In England, an apartment dweller must paint the apartment during the course of the lease. This is an important factor for some tenants as they choose their paint. If you were a young apartment dweller with limited income, what sort of paint would you want? Some couples in England, the producer discovered, did not want very good paint! In fact, something not much better than whitewash would do fine.

The paint producer decided to cater to Cost-Conscious Couples with a marketing mix flowing from the description of that market. That is, knowing what he did about them, he offered a low-quality paint (Product), made it available in lower-income apartment neighborhoods (Place), aimed his price-oriented ads at these areas (Promotion), and, of course, offered an attractive low price (Price). The producer has been extremely successful with this strategy—giving *his*

customers what they really want—even though other paint buyers might say that the product quality was too low.

### WORD STUDY

1. flexible – that can change or be changed to be suitable for new needs, conditions;
2. discount – a reduction made in the cost of goods;
3. allowance – 1) money, provided regularly or for a special purpose; 2) money taken off the cost;
4. recruit – to attract and obtain as a new member;
5. store – to make and keep supply of something for future use;
6. exposure – being exposed to the stated influence;
7. install – to set (an apparatus) up, ready for use;
8. tenant – a person who pays rent for the use of a room, building, land, etc.;
9. cater for – to provide what is needed or wanted;
10. lease – a written legal agreement by which the use of a building or a piece of land is given by its owner to someone for a certain time in return for rent.

#### I. *Match the words on the left with their synonyms on the right.*

- |              |              |
|--------------|--------------|
| 1. lease     | a. rebate    |
| 2. flexible  | b. dole      |
| 3. cater for | c. rent      |
| 4. allowance | d. supply    |
| 5. discount  | e. adaptable |

#### II. *Match the words on the left with their antonyms on the right.*

- |             |                 |
|-------------|-----------------|
| 1. install  | a. get rid of   |
| 2. recruit  | b. dismantle    |
| 3. store    | c. dismiss      |
| 4. flexible | d. extra charge |
| 5. discount | e. rigid        |

#### III. *Complete the following sentences using the words from the box. Use each word once in the necessary form.*

allowance	lease	store	flexible	exposure
tenant	discount	recruit	install	cater for

1. The scientists risked ..?.. to harmful radiation.
2. We can visit you on Saturday or Sunday, our plans are fairly ..?.. .
3. Our newspapers try to ..?.. for all opinions.
4. The staff at the shop get a ..?.. of ten per cent.



5. Do you know that a new computer ..?.. in the account department?
6. Do you own your house or are you just a ..?.. ?
7. This medicine should be ..?.. in a dry place.
8. He wants to ..?.. new members to the party.
9. The scholarship includes an ..?.. of 100 pounds for books.
10. We have taken a ..?.. on an office building.

## COMPREHENSION QUESTIONS

1. What are four basic variables in the marketing mix? Can you describe each of them?
2. In what way does a product reach customers?
3. Can you state the difference between personal and mass selling, advertising and publicity?
4. What does sales promotion imply?
5. What is necessary for successful strategy planning? Can you prove it using the example mentioned above?

### ***Text 4. THE MARKETING PLAN IS A GUIDE TO IMPLEMENTATION AND CONTROL***

#### ***Marketing plan fills out marketing strategy***

A marketing strategy sets a target market and a marketing mix. It is a "big picture" of what a firm will do in some market. A marketing plan goes farther. A **marketing plan** is a written statement of a marketing strategy *and* the time-related details for carrying out the strategy. It should spell out the following in detail: (1) what marketing mix will be offered, to whom (that is, the target market), and for how long; (2) what company resources (shown as costs) will be needed at what rate (month by month perhaps); and (3) what results are expected (sales and profits perhaps monthly or quarterly). The plan should also include some control procedures—so that whoever is to carry out the plan will know if things are going wrong. This might be something as simple as comparing actual sales against expected sales—with a "warning flag" to be raised whenever total sales fall below a certain level.

#### ***Implementation puts plans into operation***

After a marketing plan is developed, a marketing manager knows what needs to be done. Then he is concerned with **implementation**—putting marketing plans into operation.

Strategies work out as planned only when they are effectively implemented. Many **operational decisions**—short-run decisions to help implement strategies—may be needed.

Managers should make operational decisions within the guidelines set down during strategy planning. They develop product policies, place policies, and so on as part of strategy planning. Then, operational decisions within these policies probably will be necessary—while carrying out the basic strategy. Note, however, that as long as these operational decisions stay within the policy guidelines, managers are making no change in the basic strategy. If the controls show that operational decisions are not producing the desired results, however, the managers may have to reevaluate the whole strategy—rather than just "working harder" at implementing it.

It's easier to see the difference between strategy decisions and operational decisions if we illustrate these ideas using our paint producer example. Possible four-P or basic strategy policies are shown in the left-hand column in Exhibit 4, and likely operational decisions are shown in the right-hand column.

**Exhibit 4. Relation of strategy policies to operational decisions for paint manufacturer.**

<b>Marketing mix variable</b>	<b>Strategy policies</b>	<b>Likely operational decisions</b>
<b>Product</b>	Carry as limited a line of colors and sizes as will satisfy the target market.	Add, change, or drop colors and/or can sizes as customer tastes and preferences dictate.
<b>Place</b>	Try to obtain distribution in every conceivable retail outlet that will handle this type of paint in the areas where the target customers live or buy.	If a new retailer opens for business in these market areas, immediately solicit his order.
<b>Promotion</b>	Promote the "low price" and "satisfactory quality" to meet the needs of the market.	Regularly change the point-of-purchase and advertising copy to produce a "fresh" image. Media changes may be necessary also. Salespeople have to be trained, motivated, etc.
<b>Price</b>	Maintain a low "one-price" policy without "specials" or other promotional deals.	If paint companies in other markets cut prices, do not follow.

It should be clear that some operational decisions are made regularly—even daily—and such decisions should not be confused with planning strategy. Certainly, a great deal of effort can be involved in these operational decisions. They might take a good part of the sales or advertising manager's time. But they are not the strategy decisions that will be our primary concern.

Our focus is on developing marketing strategies. But it is also important to see that eventually marketing managers must develop and implement marketing plans.

***Several plans make a) whole marketing program***

Most companies implement more than one marketing strategy—and related marketing plan—at the same time. They may have several products—some of them quite different—that are aimed at different target markets. The other elements of the marketing mix may vary, too. Gillette's Right Guard deodorant, Atra Plus razor blades, and Liquid Paper typewriter correction fluid all have different marketing mixes. Yet the strategies for each must be implemented at the same time.

A marketing program blends all of the firm's marketing plans into one "big" plan. This program, then, is the responsibility of the whole company. Typically, the whole marketing program is an integrated part of the whole-company strategic plan.

Ultimately, marketing managers plan and implement a whole marketing program. However, we will emphasize planning one marketing strategy at a time, rather than planning—or implementing—a whole marketing program. This is practical, because it is important to plan each strategy carefully. Too many marketing managers fall into "sloppy thinking." They try to develop too many strategies all at once—and don't develop any very carefully. Good plans are the building blocks of marketing management.

***Control is analyzing and correcting what you've done***

The control job provides the feedback that leads managers to modify their marketing strategies. To maintain control, a marketing manager uses a number of tools—like computer sales analysis, marketing research surveys, and accounting analysis of expenses and profits.

***All marketing jobs require planning and control***

At first, it might appear that planning and control are of concern only to high-level management—or in really large companies. This is not true. Every organization needs planning—and without control it's impossible to know if the plans are working.

This means that marketing strategy planning may be very important to you soon—maybe in your present job or university activities.

## THE IMPORTANCE OF MARKETING STRATEGY PLANNING

We emphasize the planning part of the marketing manager's job for a good reason. The "one-time" strategy decisions—the decisions that decide what business the company is in and the strategies it will follow—usually determine success—or failure. An extremely good plan might be carried out badly and still

be profitable, while a poor but well-implemented plan can lose money. The case histories that follow show the importance of planning.

***Henry Ford's strategy worked—until General Motors caught up***

Henry Ford is famous for developing techniques to mass produce cars. His own view of his approach, however, was that mass production developed because of his basic decision to build an affordable car for the masses. Earlier cars were almost custom-built for wealthy buyers. Ford decided on a different strategy. He wanted to produce a car that could appeal to most potential buyers.

Certainly, new production ideas were needed to carry out Ford's strategy. But the really important decision was the initial market-oriented one that there was a market for millions of cars in the \$500 price range. Much of what followed was just implementing his decision. Ford's strategy to offer a low-priced car was an outstanding success—and millions of Model Ts were sold during the 1910s and 1920s. But there was a defect in his strategy. To keep the price down, Ford offered a very basic car in "any color you want as long as it's black."

In the 1920s, General Motors felt there was room for a new strategy. It hit on the idea of looking at the market as having several segments (based on price and quality)—and offered a full line of cars with different styles and colors in each price range. The GM strategy was not an immediate success. But GM stuck with it and slowly caught up with Ford. In 1927, Ford finally closed down his assembly line for 18 months, switched his strategy, and introduced the more market-oriented Model A. By then GM was already well on its way to the strong market position it still holds.

***General Motors didn't see all the opportunities***

While GM was successfully capturing a giant share of the car market, it was neglecting another very important market—for car replacement parts. GM saw supplying parts as more of a "necessary evil" than an important business in itself. As a result, this profitable market was left to many smaller suppliers. Even today, GM does not have the dominance in the repair parts and service market that it has in the car market. In other words, GM's successful strategy was concerned with making and selling cars—not with the broader business of meeting customers' needs for personal transportation and keeping the cars moving.

GM also failed to learn the lesson that it had, years earlier, hammered home to Ford. GM concentrated on producing and trying to sell what it wanted—high-priced big cars—even after rising gas prices changed some consumers' preferences to smaller, more economical cars. Foreign producers—Toyota, Honda, Nissan—had aimed at that target market in their own countries much earlier, and they successfully seized the opportunity when U.S. firms were slow to respond. They also upgraded quality and features to respond to preferences of U.S. buyers.

This tough competition hit Chrysler first. The company came close to bankruptcy. Lee Lacocca brought in new marketing managers to help lead

Chrysler to a marketing orientation. They went after specific target markets with fuel-efficient Voyager minivans, front-wheel-drive family sedans, and sporty LeBaron convertibles. GM also responded—with a view to world markets—with products like the Saturn. Ford put a new emphasis on "quality first" and targeted specific markets with successful offerings like the Sable and Escort.

Although U.S. producers were achieving successes and fending off competition for some target markets, they were slow to see opportunities posed by the growing number of wealthy, middle-aged professionals. They wanted high performance luxury cars, not the sluggish Cadillacs and Lincolns Detroit had been selling for 20 years. Mercedes, Volvo, BMW, and other European firms were quicker in developing marketing mixes that appealed to this target market. Here too, U.S. producers have improved their marketing mixes and responded to the changing market. Even so, it probably will be a long, hard battle for Detroit automakers to recapture customers lost to foreign competition.

### ***Time for new strategies in the watch industry***

The conventional watch makers—both domestic and foreign—had always aimed at customers who thought of watches as high-priced, high-quality symbols to mark special events—like graduations or retirement. Advertising was concentrated around Christmas and graduation time and stressed a watch's symbolic appeal. Expensive jewelry stores were the main retail outlets.

This commonly accepted strategy of the major watch companies ignored people in the target market that just wanted to tell the time—and were interested in a reliable, low-priced watch. So the U.S. Time Company developed a successful strategy around its "Timex" watches—and became the world's largest watch company. Timex completely upset the watch industry—both foreign and domestic—not only by offering a good product (with a one-year repair or replace guarantee) at a lower price, but also by using new, lower-cost channels of distribution. Its watches were widely available in drugstores, discount houses, and nearly any other retail stores that would carry them.

Marketing managers at Timex soon faced a new challenge. Texas Instruments, a new competitor in the watch market, took the industry by storm with its low-cost but very accurate electronic watches—using the same channels Timex had originally developed. But other firms quickly developed a watch that used a more stylish liquid crystal display for the digital readout. Texas Instruments could not change quickly enough to keep up—and the other companies took away its customers. The competition became so intense that Texas Instruments stopped marketing watches altogether.

While Timex and others were focusing on lower priced watches, Seiko captured a commanding share of the high-priced "gift" market for its stylish and accurate quartz watches by obtaining strong distribution. All of this forced many traditional watch makers—like some of the once-famous Swiss brands—to close their factories.

In 1983 Swatch launched its colorful, affordable plastic watches—and it changed what consumers see when they look at their watches. Swatch promoted its watches as fashion accessories and set them apart from those of other firms, whose ads squabbled about whose watches were most accurate and dependable. Swatch was also able to attract new middlemen by focusing its distribution on upscale fashion and department stores. The marketing mix Swatch developed around its "fashion watch" idea was so successful it didn't just increase Swatch's share of the market. The total size of the watch market increased because many consumers bought several watches to match different fashions.

Swatch's success prompted Timex, Seiko, and others to pay more attention to consumer fashion preferences. For example, Timex developed its fashionable "Wa-tercolors" line targeted at teens. Timex has also emphasized better styling to compete in the higher-priced market—and broadened its offering to defend its position in the low- to mid-priced segment.

Changes continue in this market. For example, Seiko is working on a watch powered by a tiny generator that translates the movement of the wearer's wrist into energy so consumers won't need to worry about changing a battery.

### ***Creative strategy planning needed for survival***

Dramatic shifts in strategy—like those described above—may surprise conventional, production-oriented managers. But such changes are becoming much more common—and should be expected. Industries or firms that have accepted the marketing concept realize that they cannot define their line of business in terms of the products they currently produce or sell. Rather, they have to think about the basic consumer needs they serve—and how those needs may change in the future. If they are too nearsighted, they may fail to see what's coming until too late.

Creative strategy planning is becoming even more important because firms can no longer win profits just by spending more money on plant and equipment. Moreover, domestic and foreign competition threatens those who can't create more satisfying goods and services. New markets, new customers, and new ways of doing things must be found if companies are to operate profitably in the future—and contribute to our macro-marketing system.

## STRATEGY PLANNING DOESN'T TAKE PLACE IN A VACUUM

### ***Strategy planning takes place within a framework***

The examples show that a marketing manager's strategy planning cannot take place in a vacuum. Instead, the manager works with controllable variables within a framework involving many uncontrollable variables (which must be considered even though the manager can't control them). The typical marketing manager must be concerned about the competitive environment, economic and technological environment, political and legal environment, cultural and social environment,

and the resources and objectives of the firm. It is clear that the framework in which the marketing manager operates affects strategy planning.

### MARKET-ORIENTED STRATEGY PLANNING HELPS NONMARKETING PEOPLE, TOO

While market-oriented strategy planning is helpful to marketers, it is also needed by accountants, production and personnel people, and all other specialists. A market-oriented plan lets everybody in the firm know what "ballpark" they are playing in—and what they are trying to accomplish. In other words, it gives direction to the whole business effort. An accountant can't set budgets if there is no plan, except perhaps by mechanically projecting last year's budget. Similarly, a financial manager can't project cash needs without some idea of expected sales to target customers—and the costs of satisfying them.

The term *marketing manager* is for editorial convenience, but really, when talking about marketing strategy planning, we are talking about the planning that a market-oriented manager should do when developing a firm's strategic plans. This kind of thinking should be done—or at least understood—by everyone in the organization who is responsible for planning. And this means even the lowest-level salesperson, production supervisor, retail buyer, or personnel counselor.

### WORD STUDY

1. outlets – shops, companies, etc., through which products are sold;
2. target – any object which one aims to reach;
3. failure – 1) lack of success; 2) inability of a business to continue, especially through lack of money;
4. afford – to be able to buy or pay for;
5. capture – to take control of something, usually by force; to win, to gain;
6. dominance – the fact or position of dominating; importance, power, or controlling influence;
7. economical – using money, time, goods, etc., carefully and without waste;
8. sluggish – slow-moving, not very active or quick;
9. conventional – following accepted customs or standards;
10. launch – to begin an activity, plan, way of life, etc.

#### ***I. Match the words on the left with their synonyms on the right.***

- |                 |                |
|-----------------|----------------|
| 1. launch       | a. goal        |
| 2. sluggish     | b. traditional |
| 3. failure      | c. start       |
| 4. conventional | d. languid     |
| 5. target       | e. ruin        |

#### ***II. Match the words on the left with their antonyms on the right.***

- |             |            |
|-------------|------------|
| 1. sluggish | a. success |
|-------------|------------|

- |                 |              |
|-----------------|--------------|
| 2. conventional | b. energetic |
| 3. capture      | c. original  |
| 4. failure      | d. lose      |
| 5. economical   | e. wasteful  |

III. *Complete the following sentences using the words from the box. Use each word once in the necessary form.*

outlets	dominance	target	economical	failure
sluggish	afford	conventional	capture	launch

1. More and more people are turning away from ..?.. Western medicine to alternative methods of treatment.
2. We have failed to reach this year's production ..?.. of 25,000 cars.
3. Thanks to the success of the business, we can ..?.. a new car this year.
4. The ..?.. of his company broke his heart.
5. The manager is sure it is not a very ..?.. method of heating.
6. Next week this new product will be in all retail ..?.. in the neighborhood.
7. Trading on the stock exchange has been ..?.. today.
8. She is planning to ..?.. a company to make electronic toys.
9. Our ..?.. of the market is seriously threatened by this new product.
10. They ..?.. over 60 % of a large share of the market.

### COMPREHENSION QUESTIONS

1. What is the difference between a marketing strategy and a marketing plan?
2. Can you explain the difference between strategy decisions and operational decisions?
3. What does the notion "a firm's marketing program" include?
4. What do you think of a good strategy planning and a poor one? Use the examples given above.
5. In what way can market-oriented strategy planning help nonmarketing people?

### CONCLUSION

Marketing's role within a marketing-oriented firm is to provide direction for a firm. The marketing concept stresses that the company's efforts should focus on satisfying some target customers—at a profit. Production-oriented firms tend to forget this. Often the various departments within a production-oriented firm let their natural conflicts of interest lead them to building fences.

The job of marketing management is one of continuous planning, implementing, and control. The marketing manager must constantly study the environment— seeking attractive opportunities and planning new strategies. Possible target markets must be matched with marketing mixes the firm can offer.



Then, attractive strategies—really, whole marketing plans—are chosen for implementation. Controls are needed to be sure that the plans are carried out successfully. If anything goes wrong along the way, this continual feedback should cause the process to be started over again—with the marketing manager planning more attractive marketing strategies.

A marketing mix has four variables: the four Ps— Product, Place, Promotion, and Price. Most of this part is concerned with developing profitable marketing mixes for clearly defined target markets.

### QUESTIONS AND PROBLEMS

1. Define the marketing concept in your own words and then explain why the notion of profit is usually included in this definition.

2. Define the marketing concept in your own words and then suggest how acceptance of this concept might affect the organization and operation of your university.

3. Distinguish between "production orientation" and "marketing orientation," illustrating with local examples.

4. Explain why a firm should view its internal activities as part of a "total system." Illustrate your answer for (a) a large grocery products producer, (b) a plumbing wholesaler, and (c) a department store chain.

5. Does the acceptance of the marketing concept almost require that a firm view itself as a "total system?"

6. Distinguish clearly between a marketing strategy and a marketing mix. Use an example.

7. Distinguish clearly between mass marketing and target marketing. Use an example.

8. Why is the customer placed in the center of the four Ps? Explain, using a specific example from your own experience.

9. Explain, in your own words, what each of the four Ps involves.

10. Evaluate the text's statement, "A marketing strategy sets the details of implementation."

11. Distinguish between strategic and operational decisions, illustrating for a local retailer.

12. Distinguish between a strategy, a marketing plan, and a marketing program, illustrating for a local retailer.

13. Outline a marketing strategy for each of the following new products: (a) a radically new design for a toothbrush, (b) a new fishing reel, (c) a new "wonder drug," (d) a new industrial stapling machine.

14. Provide a specific illustration of why marketing strategy planning is important for all businesspeople, not just for those in the marketing department.

## PART III. FINDING TARGET MARKET OPPORTUNITIES WITH MARKET SEGMENTATION

### *Text 1. Finding attractive target markets is part of marketing strategy planning*

Study the example situation:

Motel A saw an opportunity. Most motels were pretty much alike—but some travellers were not satisfied with what they offered. These customers didn't want to pay extra for room service, a fancy restaurant, or someone to turn down their sheets at night. They just wanted a clean room, a good location, and a budget price for a one-night stay. Marketing managers for Motel A identified several groups of customers—vacation travellers in the 55-plus age bracket, salespeople who pay their own travel expenses, and young families—with similar "budget-oriented" interests. Then they developed a marketing mix specifically targeted at these segments. They built less costly motels without showy lobbies, swimming pools, and restaurants. They located near highways and inexpensive eateries like McDonald's that appealed to their target customers. They used radio ads—rather than costly TV and print ads—to convey their message. They set the price low—about half what most motels charged. This budget-oriented strategy was very profitable—and other motels began to copy it. To stay ahead, Motel A has made some changes—like adding free color TVs and free local calls—while sticking with its basic strategy.

Other motels and hotels are also targeting segments of the market with special needs. For example, Marriott's Residence Inns target guests who want a nice place to stay for a week or more. Residence Inns feature fully equipped kitchens and grocery shopping services, fireplaces, and convenient recreation areas. The Ritz-Carlton in Atlanta caters to its Japanese guests by offering room information in their language, traditional slippers, green tea, and sake. The staff is even tutored in Japanese culture. The Hyatt Regency in Los Angeles attracts upscale business travellers with fancy conference rooms and a full library of general interest, business, and research books.

### WHAT ARE ATTRACTIVE OPPORTUNITIES?

The main focus of this part is on marketing strategy planning—an important part of which is finding attractive target markets. But how do you identify target market and decide if it offers good opportunities? Why would a company like Marriott that in the past had focused on motels seek to serve travellers in a new way—by offering food preparation services to airlines?

In this part you will learn how to find possible market opportunities and choose the ones to be turned into strategies and plans. Look first at how to identify attractive target markets. See Exhibit 3-1.

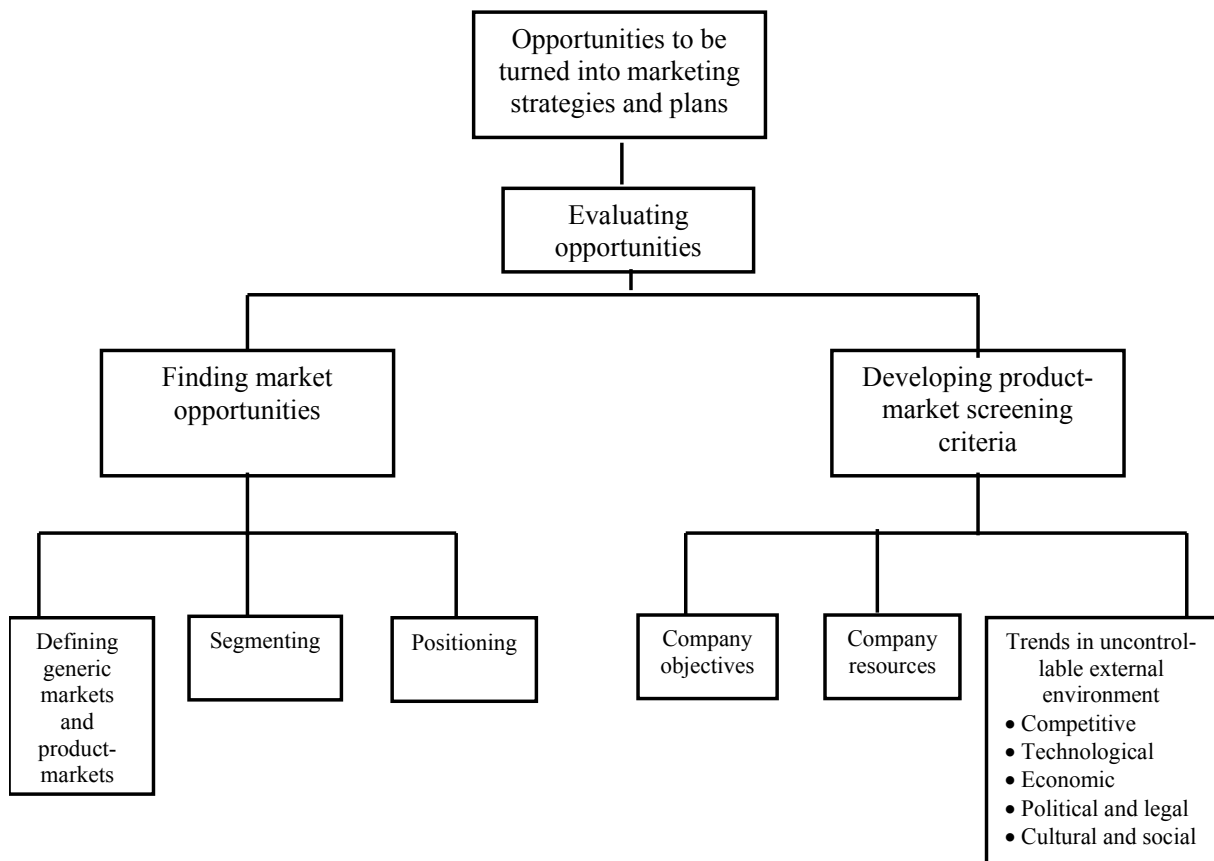
Possible opportunities are evaluated against screening criteria. These criteria grow out of analysis of the company's resources, the long-run trends in the uncontrollable environments facing the firm, as well as the objectives of top management.

Attractive opportunities for a particular firm are those that the firm has some chance of doing something about—given its resources and objectives. Marketing strategy planning tries to match opportunities to the firm's resources—what it can do—and its objectives—what it wants to do.

***Breakthrough opportunities are best***

How many opportunities a firm "sees" depends on the thinking of top management—and the objectives of the firm. Some want to be innovators and eagerly search out new opportunities. Others are willing to be creative imitators of the leaders. And others are risk-avoiding "me-too" marketers.

Exhibit 3-1. Finding and Evaluating Marketing Opportunities.



It is necessary to emphasize finding **breakthrough** opportunities—opportunities that help innovators develop hard-to-copy marketing strategies that will be very profitable for a long time. Finding breakthrough opportunities is

important because imitators are always waiting to try to "share" the profits—if they can.

***Competitive advantage is needed—at least***

Even if a breakthrough opportunity isn't possible, a firm should try to obtain a competitive advantage to increase its chances for profit or survival. **Competitive advantage** means that a firm has a marketing mix that the target market sees as better than a competitor's mix.

The search for breakthrough opportunities and competitive advantage sometimes involves only "fine-tuning" a firm's marketing mix(es). Sometimes it may require new facilities, new people, and totally new ways of solving problems. But it is vital to have some competitive advantage—so the promotion people have something unique to sell and success doesn't hinge on offering lower and lower prices.

## TYPES OF OPPORTUNITIES TO PURSUE

Most people have unsatisfied needs—and alert marketers can find opportunities all around them. Starting with the firm's present product-markets is useful. By carefully defining its markets, the firm may see new opportunities. Or it may see opportunities beyond its present activities.

It helps to see the kinds of opportunities firms may find. Exhibit 3-2 shows the four broad possibilities: market penetration, market development, product development, and diversification. Some firms may pursue more than one type of opportunity at the same time.

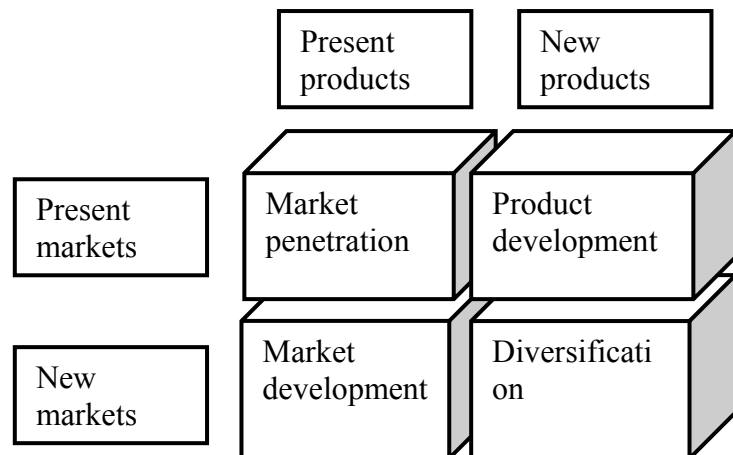
***Market penetration***

**Market penetration** is trying to increase sales of a firm's present products in its present markets—probably through a more aggressive marketing mix. The firm may try to increase the customers' rate of use or attract competitors' customers or current nonusers. For example, Coca Cola has increased advertising to encourage people to take a morning Coke break instead of a coffee break and to switch from Pepsi to Diet Coke.

New promotion appeals alone may not be effective. A firm may need to add more stores in present areas for greater convenience. Short-term price cuts or coupon offers may help. AT&T has increased advertising and offered special discounts to encourage customers to choose AT&T over other long-distance telephone services.

Obviously, effective planning is aided by a real understanding of why some people are buying now and what will motivate them to shift brands, buy more, or begin or resume buying.

Exhibit 3-2. Four Basic Types of Opportunities.



### *Market development*

**Market development** is trying to increase sales by selling present products in new markets. This may only involve advertising in different media to reach new target customers. Or it may mean adding channels of distribution or new stores in new areas. For example, McDonald's is reaching new customers by opening outlets in airports, office buildings, zoos, casinos, hospitals, and military bases. And it's rapidly expanding into international markets with outlets in places like Brazil, Hong Kong, and Australia.

Market development may also involve a search for new uses for a product, as when Upton provides recipes showing how to use its dry soup mixes to make party dip for potato chips.

### *Product development*

**Product development** is offering new or improved products for present markets. Here, the firm should know the market's needs; it may see ways of adding or modifying product features, creating several quality levels, or adding more types or sizes to better satisfy them. Computer software firms like Microsoft boost sales by introducing new versions of popular programs. Microsoft has also developed other types of new products for its customers. It now sells computer books and even computer hardware.

### *Diversification*

**Diversification** is moving into totally different lines of business—which may include entirely unfamiliar products, markets, or even levels in the production-marketing system. Until recently, Sony was strictly a producer of electronic equipment. With its purchase of CBS records, it has expanded into producing music—and it is considering other moves that will take it further yet from its traditional business.

### ***Which opportunities come first?***

Usually, attractive opportunities are fairly close to markets the firm already knows. It makes sense to build on a firm's strengths and avoid its weaknesses. This may allow the firm to capitalize on changes in its present markets—or more basic changes in the uncontrollable environments.

Most firms think first of greater market penetration. They want to increase profits where they already have experience and strengths. But if they already have as big a share as they can get in their present markets, they may think of market development—finding new markets for their present products—including expanding regionally, nationally, or even internationally.

Marketers who have a good understanding of their present markets may see opportunities in product development—especially because they already have a way of reaching their present customers.

The most challenging opportunities involve diversification. Here, both new products *and* new markets are involved. The further the opportunity is from what the firm is already doing, the more attractive it may look to the optimists—and the harder it will be to evaluate. Opportunities that are far from a firm's current experiences involve higher risks. The landscape is littered with failed efforts at diversification. For example, Holiday Corporation learned fast that making mattresses (like the ones used in its Holiday Inn motels) was *not* one of its strengths.

### WORD STUDY

1. opportunity – a favourable moment or occasion for doing something;
2. customer – a person who buys goods or services from a shop;
3. charge – to ask in payment;
4. profitable – producing or resulting in profit or advantage;
5. staff – the group of workers who carry on a job or do the work of an organization, especially of a teaching or business organization;
6. diversify – to make or become different in form, quality, aims, or activities;
7. innovation – 1) a new idea, method, or invention; 2) the introduction of new things;
8. imitation – 1) the act or an action of imitating; 2) a copy of the real thing;
9. breakthrough – ( the making of ) an important advance or discovery, often after earlier failures;
10. advantage – 1) something that may help one to be successful or to gain a favourable result; 2) a favourable condition resulting from a particular course of action.

#### ***I. Match the words on the left with their synonyms on the right.***

- |                |              |
|----------------|--------------|
| 1. opportunity | a. to price  |
| 2. customer    | b. chance    |
| 3. to charge   | c. personnel |

- |             |             |
|-------------|-------------|
| 4. staff    | d. copyist  |
| 5. imitator | e. consumer |

II. *Match the words on the left with their antonyms on the right.*

- |                    |                   |
|--------------------|-------------------|
| 1. profitable      | a. failure        |
| 2. breakthrough    | b. drawback       |
| 3. innovative      | c. unification    |
| 4. advantage       | d. unremunerative |
| 5. diversification | e. conservative   |

III. *Complete the following sentences using the words from the box. Use each word once in the necessary form.*

opportunity	customer	charge	profitable	staff
diversify	innovation	imitation	breakthrough	advantage

- The hotel ..?.. me 15 pounds for the night.
- If our industries shy away from ..?.., we will never compete successfully with other countries.
- This is a special car park for the senior ..?.. .
- My flight was delayed so it was a good ..?.. for doing some shopping.
- The negotiators have made a dramatic ..?.. in the arms control talks.
- One of the ..?.. of this method is that it saves a lot of fuel.
- Our factory is trying to ..?.. its range of products.
- The new shop across the road has taken away most of my ..?.. .
- It is not real leather: it is only an ..?.. .
- It is a very ..?.. little business.

### COMPREHENSION QUESTIONS

- What are attractive opportunities?
- Can you explain what the term “breakthrough opportunities” means?
- Would you rather be an innovator, an imitator or a “me-too” maker in your own business?
- What is competitive advantage?
- Can you name four basic types of opportunities and define each of them?
- What opportunities come first?

## ***Text 2. SEARCH FOR OPPORTUNITIES CAN BEGIN BY UNDERSTANDING MARKETS***

### ***Breakthrough opportunities from understanding target markets***

When marketing managers really understand their target markets, they may see breakthrough opportunities, as this Eastman Kodak example shows. Eastman Kodak—maker of cameras and photographic supplies—also produces an industrial product, X-ray film. At first, Kodak felt all this market wanted was faster X-ray pictures at cheaper prices. But closer study showed that the real need in hospitals and health-care units was saving the radiologist's time. Time was precious—but just giving the radiologist a faster picture wasn't enough. Something more was needed to help do the whole job faster—and better.

Kodak came to see that its business was not just supplying X-ray pictures, but also helping to improve the health care supplied to patients. As a result, Kodak came up with new time-savers for radiologists: a handy cassette film pack and a special identification camera that records all vital patient data directly on X ray at the time the X ray is made. Before, such tagging had to be done during developing, which took more time and created the risk of error. This new marketing mix aimed at satisfying a different need. And it worked very well.

### ***What is a) company's market?***

What is a company's market is an important but sticky question. A **market** is a group of potential customers with similar needs and sellers offering various products—that is, ways of satisfying those needs.

Market-oriented managers develop marketing mixes for *specific* target markets. This is very different from production-oriented managers—who just see a mass market of customers who are pretty much the same. Target marketers aim at specific "somebodies."

Getting the firm to focus on specific target markets is vital. Target marketing requires a "narrowing down" process—to get beyond mass market thinking. But this narrowing down process is often misunderstood. Exhibit 3-3 shows the narrowing down process.

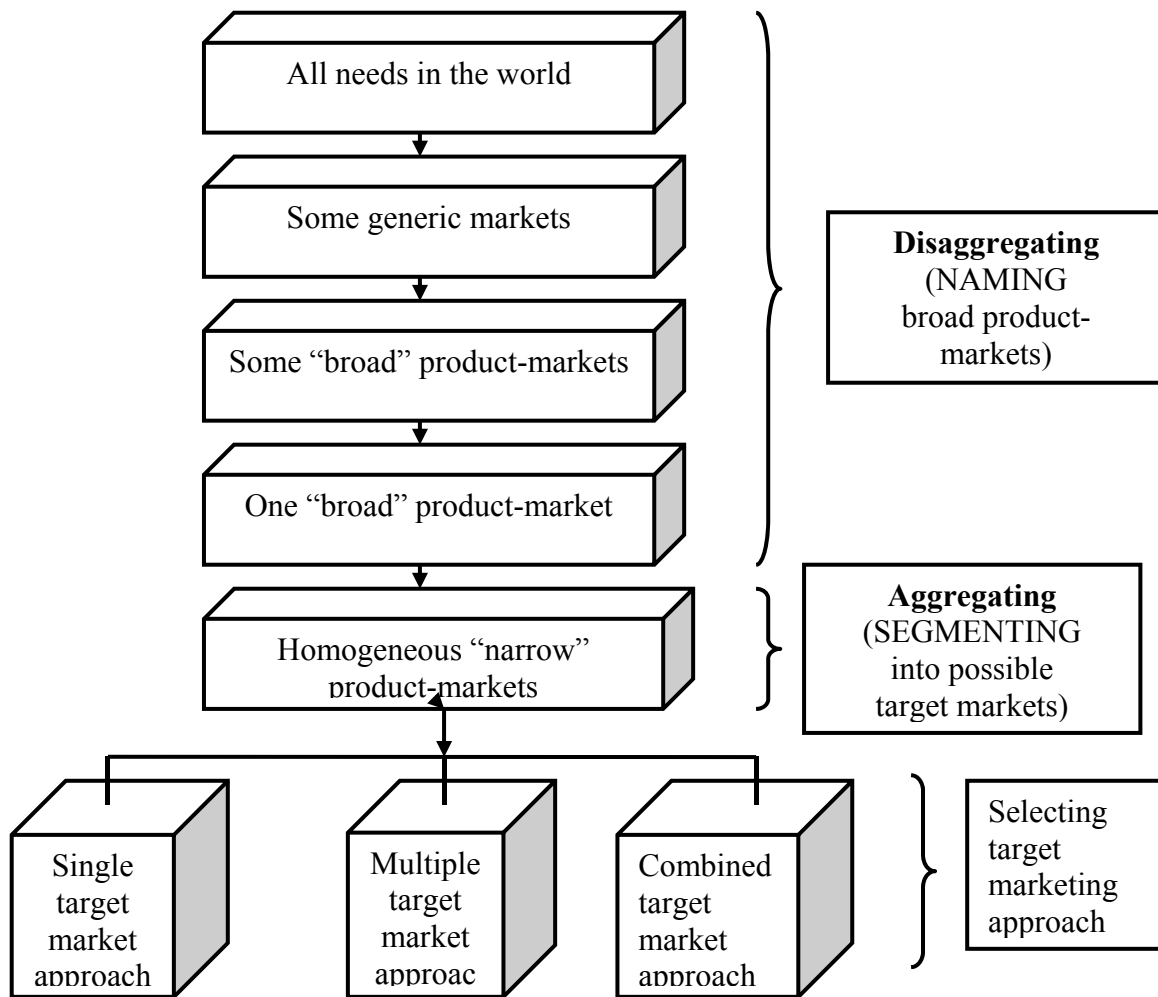
### ***Don't just focus on the product***

Some production-oriented managers ignore the tough part of defining markets. To make the narrowing down process easier, they just describe their markets in terms of *products* they sell. For example, producers and retailers of greeting cards might define their market as the "greeting-card" market. But this production-oriented approach ignores customers—and customers make a market! This also leads to missed opportunities. Hallmark isn't missing these opportunities. Instead, Hallmark aims at the "personal-expression" market. It offers all kinds of products that can be sent as "memory makers"—to express one person's feelings towards another. Hallmark has expanded far beyond Christmas and birthday



cards—the major greeting card days—to jewellery, gift wrap, plaques, candles, and puzzles as well as to all-occasion and humorous cards.

Exhibit 3-3. Narrowing Down to Target Markets.



### *From generic markets to product-markets*

It's useful to think of two basic types of market. A **generic market** is a market with *broadly* similar needs—and sellers offering various—*often diverse*—ways of satisfying those needs. In contrast, a **product-market** is a market with *very* similar needs and sellers offering various *close substitute* ways of satisfying those needs.

A generic market description looks at markets broadly and from a customer's viewpoint. Status-seekers, for example, have several very different ways to satisfy status needs. A status-seeker might buy a new Mercedes, a Lindblad tour, or designer fashions from Neiman-Marcus. Any one of these *very different* products may satisfy this status need. Sellers in this generic status-seeker market have to focus on the need(s) the customers want satisfied—not on how one seller's product (car, vacation, or designer label) is better than that of another producer.

It is sometimes hard to understand and define generic markets because *quite different product types may compete with each other*. But if customers see all these products as substitutes—as competitors in the same generic market—then marketers must deal with this complication.

Suppose, however, that one of our status-seekers decides to satisfy this status need with a new, expensive car. Then—in this product-market—Mercedes, Cadillac, and BMW may compete with each other for the status-seeker's money. In this *product-market* concerned with cars and status (not just transportation!), consumers compare similar products to satisfy their status need.

Most companies quickly narrow their focus to product-markets because of the firm's past experience, resources, or management preferences. But, when looking for opportunities, the broader generic market view should be considered.

### ***Broaden market definitions to find opportunities***

Broader market definitions—including generic market definitions and broader product-market definitions—can help firms find opportunities. But deciding *how* broad to go isn't easy. Too narrow a definition will limit a firm's opportunities—but too broad a definition will make the company's efforts and resources seem insignificant.

The strategy planning process helps in defining relevant markets. One should try to match opportunities to a firm's resources and objectives, so the *relevant market for finding opportunities* should be bigger than the firm's present product-market—but not so big that the firm couldn't expand and be an important competitor. A small manufacturer of screwdrivers, for example, shouldn't define its market as broadly as "the worldwide tool users market" or as narrowly as "our present screwdriver customers." But it may have the production and/or marketing potential to consider "the U.S. handyman's hand-tool market." Careful naming of your product-market can help you see possible opportunities.

## NAMING PRODUCT-MARKETS AND GENERIC MARKETS

Product-related terms are not—by themselves—an adequate description of a market. A complete product-market definition includes a four-part description.

What:	1. Product Type
To Meet What:	2. Customer (User) Needs
For Whom:	3. Customer Types
Where:	4. Geographic Area

In other words, a product-market description must include customer-related terms—not just product-related terms. Let us refer to these four-part descriptions as product-market "names" because most managers label their markets when they think, write, or talk about them. Such a four-part definition can be clumsy, however, so it's often practical to use a "nickname"—as long as everyone understands the underlying four-part terms. And it's desirable to have the

nickname refer to people—not products—because, as it was emphasized , people make markets!

### ***Product type***

*Product type* describes the goods and/or services the customers want. (Note: a particular product type may include no physical good. Many products are pure services.)

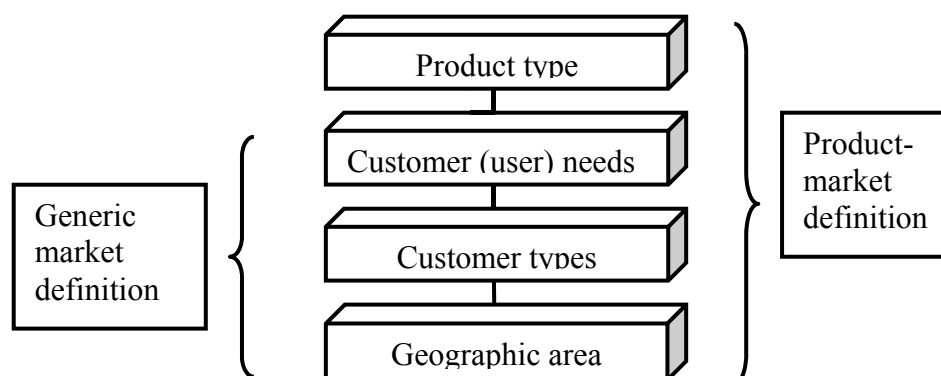
*Customer (user) needs* refer to the needs the product type will satisfy for the customer. At a very basic level, product types usually provide functional benefits such as nourishing, protecting, warming, cooling, transporting, cleaning, holding, drilling, assembling, and so forth. We should identify such "basic" needs first. But usually it's necessary to go beyond these "basic" needs to emotional needs—such as needs for fun, excitement, pleasing appearance, or status. Correctly defining the need(s) relevant to a market is crucial and requires a good understanding of customers.

Both product type and customer need(s) should be defined together. Sometimes naming the product type reveals the needs at the same time. For example, floor-wax products are for waxing. In other cases, naming the needs requires much thought because the same product type may satisfy several needs—or even several sets of needs. Cars, for example, can be for transporting *and* socializing *and* status *and* fun. When a single product may satisfy different needs, marketers have a basis for identifying two or more different product-markets.

*Customer type* refers to the final consumer or user of a product type. One should choose a name that describes all present (possible) types of customers.

The emphasis in defining customer type should be on identifying the final consumer or user of the product type, rather than the buyer—if they are different. If the product type flows through middlemen on the way to final customers, marketers should avoid treating middlemen as a customer type—unless these middlemen actually use the product in their own business.

Exhibit 3-4. Relationship between Generic and Product-Market Definitions.



The *geographic area*) is where a firm is competing—or thinking of competing—for customers. While naming the geographic area may seem trivial, it should be taken seriously. Just understanding geographic boundaries of a market can suggest new opportunities. A supermarket in Los Angeles is not catering to all consumers in the Los Angeles area—so there may be opportunities for expansion to unsatisfied customers in that market. Similarly, if a firm is only aiming at the U.S. market, this may suggest world market opportunities.

***No product type in generic market names***

A generic market description *doesn't include any product-type terms*. It consists of the last three parts of a product-market definition—omitting the product type. This emphasizes that any product type that satisfies the needs of the customer can be a competitor in this generic market. Recall that in the "status-seeker" market example, very different product types were competitors. Exhibit 3-4 shows the relationship between generic market and product-market definitions.

***Creativity is needed in naming markets***

Creative analysis of the needs and attitudes of present and potential target markets—in relation to the benefits being offered by the firm and competitors—will help you see new opportunities. Defining markets only in terms of current products is not the best way to find new opportunities—or plan marketing strategies.

**WORD STUDY**

1. come up with – to think of a plan, reply, etc.; to produce;
2. generic – shared by or typical of a whole class of things;
3. diverse – different, showing variety;
4. substitute – to put something or someone in place of another; to be used instead;
5. homogeneous – formed of parts of the same kind; the same all through;
6. aggregate – 1) to bring or come together into a group or mass; 2) to reach a total of; add up to;
7. focus – to direct one's attention to something;
8. experienced – having skill or knowledge as a result of much experience;
9. resource – 1) any of the possessions or qualities of a person, an organization, or a country; 2) a means of comfort or help; something one turns to when one is in difficulty;
10. relevant – 1) directly connected with the subject; 2) having practical value or importance;

**I. Match the words on the left with their synonyms on the right.**

- |                    |                       |
|--------------------|-----------------------|
| 1. to come up with | a. to replace         |
| 2. diverse         | b. to concentrate on  |
| 3. to substitute   | c. different          |
| 4. to focus on     | d. reserve            |
| 5. resource        | e. to find or produce |

**II. Match the words on the left with their antonyms on the right.**

- |                 |                           |
|-----------------|---------------------------|
| 1. generic      | a. diverse                |
| 2. homogeneous  | b. unsophisticated        |
| 3. to aggregate | c. incongruous            |
| 4. experienced  | d. to separate, to detach |
| 5. relevant     | e. heterogeneous          |

**III. Complete the following sentences using the words from the box. Use each word once in the necessary form.**

come up with	generic	diverse	substitute	homogeneous
aggregate	focus	experience	resource	relevant

1. The programme deals with subjects as ..?.. as pop music and ancient Greek drama.
2. ..?.. your attention on your current duties.
3. His earnings from all sources ..?.. £100,000 last year.
4. She found the case easy since she was an ..?.. lawyer.
5. The job called for all my ..?.. of energy and patience.
6. The airline has ..?.. a novel solution to the problem of jet-lag.
7. His nationality isn't ..?.. to whether he is a good lawyer.
8. Those on slimming diets should ..?.. the sugar with saccharin.
9. Timber men prefer to deal with ..?.. woods.
10. A ..?.. market description does not include any product-type terms.

### COMPREHENSION QUESTIONS

1. Why is understanding target markets so important?
2. What is a company's market?
3. How can focusing on the product lead to missed opportunities?
4. What is a generic market?
5. What is a product-market?
6. Who are "status-seekers" and how do they satisfy their customer needs?
7. In what way broadening market definitions can help firms find opportunities?

### ***Text 3. MARKET SEGMENTATION DEFINES POSSIBLE TARGET MARKETS***

#### ***Market segmentation is a) two-step process***

Market segmentation is a two-step process of: (1) *naming* broad product-markets and (2) *segmenting* these broad product-markets in order to select target markets and develop suitable marketing mixes.

This two-step process isn't well understood. First-time market segmentation efforts often fail because beginners start with the whole "mass market" and try to find one or two demographic characteristics to segment this market. Customer behaviour is usually too complex to be explained in terms of just one or two demographic characteristics. For example, not all old men—or all young women—buy the same products or brands. Other dimensions usually must be considered—starting with customer needs.

#### ***Naming broad product-markets is disaggregating***

The first step in effective market segmentation is naming a broad product-market of interest to the firm. This involves "breaking apart"—disaggregating—all possible needs into some generic markets and broad product-markets in which the firm may be able to operate profitably. No one firm can satisfy everyone's needs. So, the naming—disaggregating—step involves "brainstorming" about very different solutions to various generic needs and selecting some broad areas—broad product-markets—where the firm has some resources and experience. This means that a car manufacturer would probably ignore all the possible opportunities in food and clothing markets and focus on the generic market, "transporting people in the world," and probably on the broad product-market, "cars and trucks for transporting people in the world."

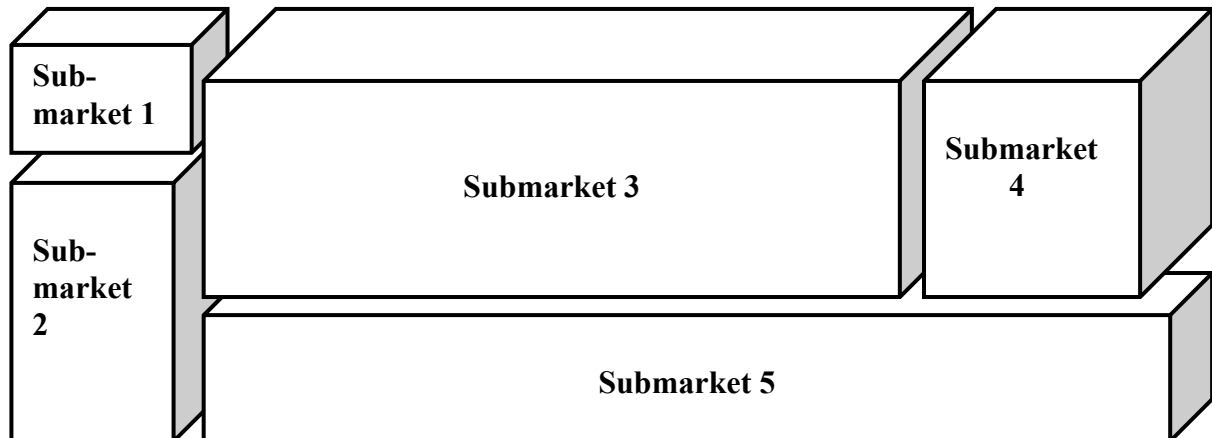
Disaggregating is a practical, "rough-and-ready" approach that tries to "narrow down" the marketing focus to product-market areas where the firm is more likely to have a competitive advantage—or even to find breakthrough opportunities. It looks easy, but it actually requires a lot of thought and judgment about what the firm may be able to do for some consumers—and do better than some or all competitors— so it will have a competitive advantage.

#### ***Market grid is a) visual aid to market segmentation***

Assuming that any market may consist of submarkets, it helps to picture a market as a rectangle with boxes representing smaller, more homogeneous product-markets. See Exhibit 3-5.

Exhibit 3-5. Market Grid Diagram with Submarkets (numbered).

**Broad product-market name goes here**



Think of the whole rectangle as representing a generic market—or broad product-market. Now, think of the boxes as submarkets—product-markets. In the generic "transporting market" discussed above, for example, one might see submarkets for bicycles, mopeds, motorcycles, airplanes, ships, buses, and "others."

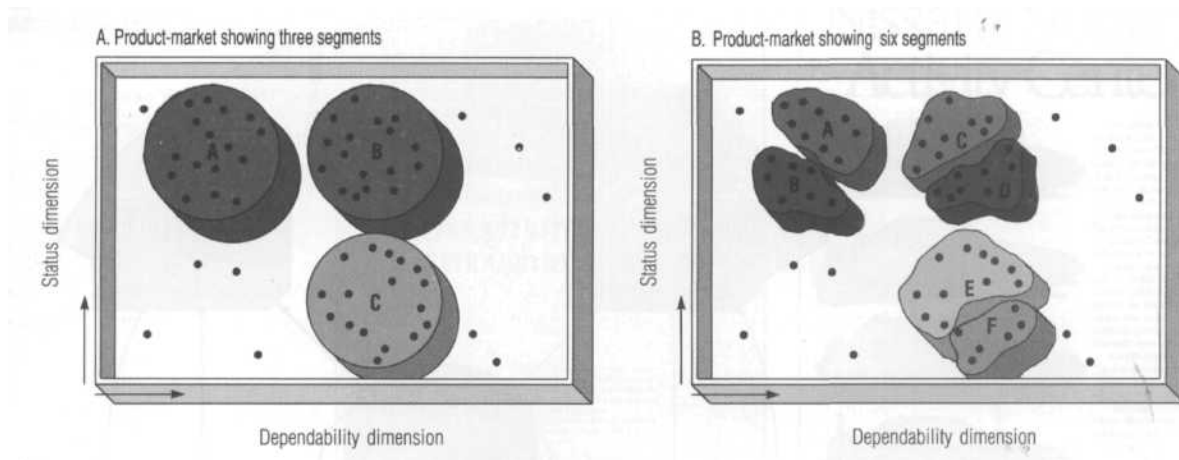
***Segmenting is an aggregating process***

Marketing-oriented managers think of **segmenting** as an aggregating process—clustering together people with similar needs into a "market segment." A **market segment** is a (relatively) homogeneous group of customers who will respond to a marketing mix in a similar way.

This part of the market segmentation process takes a different approach than the naming part. Here, you are looking for similarities rather than basic differences in needs. Segmenters start with the idea that each person is "one of a kind" but that it may be possible to aggregate some more or less homogeneous people into a product-market.

Segmenters see each of these one-of-a-kind people as having a unique set of dimensions. This is shown in Exhibit 3-6A. Here the many dots show each person's position in a product-market with two dimensions—need for status and need for dependability. While each person's position is unique, you can see that many of them are similar in terms of how much status and dependability they want. So a segmenter may aggregate these people into three (an arbitrary number) relatively homogeneous submarkets—A, B, and C. Group A might be called "Status Oriented" and Group C "Dependability Oriented." Members of Group B want both and might be called the "Demanders."

Exhibit 3-6. Every Individual Has His or Her Own Unique Position in a Market—Those with Similar Positions Can Be Aggregated into Potential Target Markets.



### ***How far should the aggregating go?***

The segmenter wants to aggregate individual customers into some workable number of relatively homogeneous target markets—and then treat each target market differently.

Look again at Exhibit 3-6A. Remember about three segments. But this was an arbitrary number. As Exhibit 3-6B shows, there may really be six segments. What do you think—does this broad product-market consist of three segments or six segments?

Another difficulty with segmenting is that some potential customers just don't "fit" neatly into market segments. For example, not everyone in Exhibit 3-6B was put into one of the groups. Forcing them into one of the groups would have made these segments more heterogeneous—and harder to please. Further, forming additional segments for them probably wouldn't be profitable. They are too few and not very similar in terms of the two dimensions. These people are simply too "unique" to be catered to and may have to be ignored—unless they are willing to pay a high price for special treatment.

The number of segments that should be formed depends more on judgment than on some scientific rule. But the following guidelines can help.

### ***Criteria) for segmenting a) broad product-market***

Ideally, "good" market segments meet the following criteria (see Exhibit 3-7):

1. *Homogeneous (similar) within*—the customers in a market segment should be as similar as possible with respect to their likely responses to marketing mix variables *and* their segmenting dimensions.

2. *Heterogeneous (different) between*—the customers in different segments should be as different as possible with respect to their likely responses to marketing mix variables *and* their segmenting dimensions.



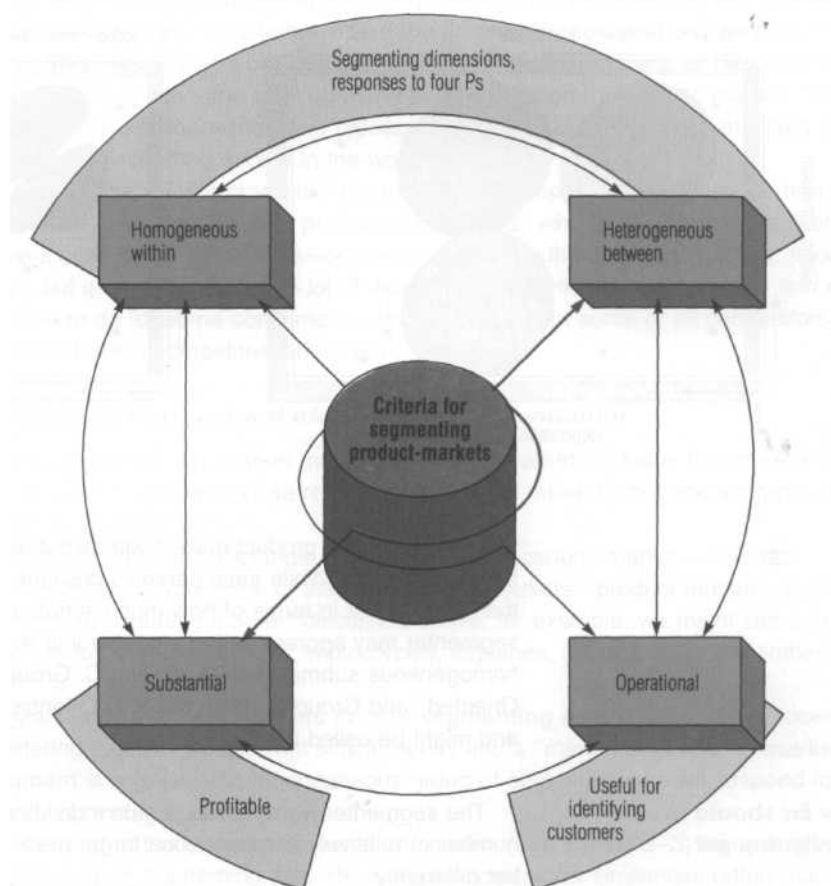
3. *Substantial*—the segment should be big enough to be profitable.

4. *Operational*—the segmenting dimensions should be useful for identifying customers and deciding on marketing mix variables.

It is especially important that segments be *operational*. This means you should avoid dimensions that have no practical use. A personality trait such as moodiness, for example, might be found among the traits of heavy buyers of a product, but how could you use this fact? Personal salespeople would have to give a personality test to each buyer—an impossible task. Similarly, advertising media buyers or copywriters couldn't make much use of this information. So although moodiness might be related in some way to previous purchases, it would not be a useful dimension for segmenting.

The need for segments to be operational may lead marketers to include demographic dimensions such as age, income, location, and family size to help in planning marketing mixes. Information on these dimensions is readily available, and this can be very useful—at least for Place and Promotion planning. In fact, it is difficult to make some Place and Promotion decisions without such information.

Exhibit 3-7. Criteria for Segmenting.



***Target marketers aim at specific targets***

Once you accept the idea that broad product-markets may have submarkets, you can see that target marketers usually have a choice among many possible target markets.

There are three basic ways of developing market-oriented strategies in a broad product-market.

1. The **single target market approach**—segmenting the market and picking one of the homogeneous segments as the firm's target market.

2. The **multiple target market approach**—segmenting the market and choosing two or more segments, each of which will be treated as a separate target market needing a different marketing mix.

3. The **combined target market approach**—combining two or more submarkets into one larger target market as a basis for one strategy.

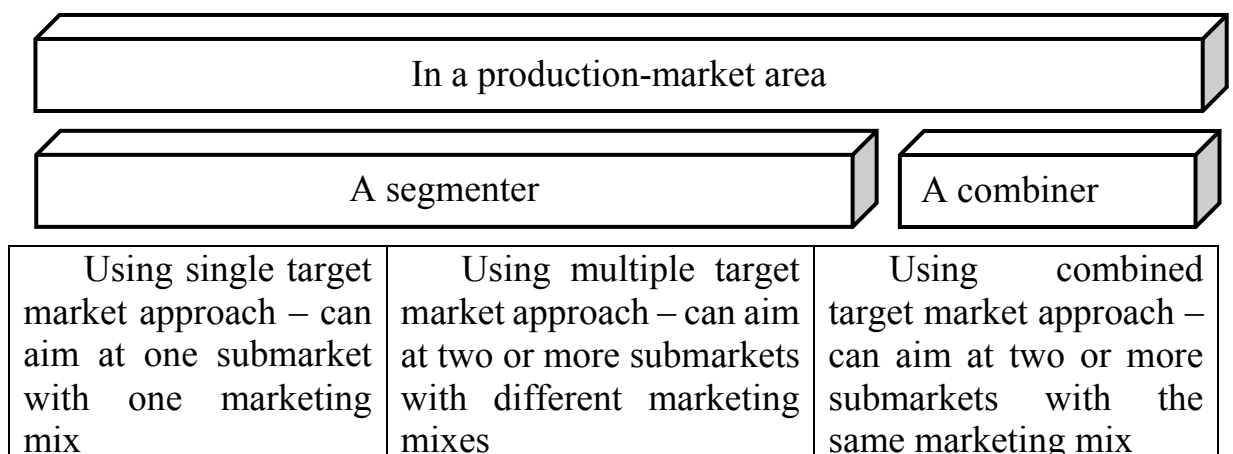
Note that all three approaches involve target marketing—they all aim at specific—and clearly defined—target markets. See Exhibit 3-8. For convenience, let us call people who follow the first two approaches the "segmenters" and the people who use the third approach "combiners."

***Combiners try to satisfy pretty well***

**Combiners** try to increase the size of their target markets by combining two or more segments—perhaps to gain some economies of scale, to reduce risk, or just because they don't have enough resources to develop more than one marketing mix.

Combiners look at various submarkets for similarities rather than differences. Then they try to extend or modify their basic offering to appeal to these "combined" customers with just one marketing mix. See Exhibit 3-8. For example, combiners may try a new package, more service, a new brand, or new flavours. But even if they make product or other marketing mix changes, they are not trying to uniquely satisfy smaller submarkets. Instead, combiners try to improve the general appeal of their marketing mix to appeal to a bigger "combined" target market.

Exhibit 3-8. Target Marketers Have Specific Aims.



### ***Segmenters try to satisfy "very well"***

Segmenters, on the other hand, aim at one or more homogeneous segments and try to develop a different marketing mix for each segment. They want to satisfy each one very well.

Segmenters may make more basic changes in marketing mixes—perhaps in the product itself—because they are aiming at smaller target markets.

Instead of assuming that the whole market consists of a fairly similar set of customers (like the mass marketer does) or merging various submarkets together (like the combiner), a segmenter sees submarkets with their own demand curves—as shown in Exhibit 3-9. Segmenters believe that aiming at one of these smaller markets will provide greater satisfaction to the target customers and greater profit potential for the firm.

### ***Segmenting may produce bigger sales***

Note that a segmenter is not settling for a smaller sales potential. Instead, by aiming at only a part of a larger product-market, the segmenter hopes to get a much larger share of his target market(s). In the process, total sales may be larger. The segmenter may even get a monopoly in "his" market(s).

### ***Should you segment or combine?***

Which approach should be used? This depends on the firm's resources, the nature of competition, and—most important—the similarity of customer needs, attitudes, and buying behaviour.

It is tempting to aim at larger combined markets instead of smaller segmented markets. If successful, such a strategy can result in economies of scale. Also, offering one marketing mix to two or more submarkets usually requires less investment—and may seem less risky—than offering different marketing mixes to different submarkets.

### ***Too much aggregating is risky***

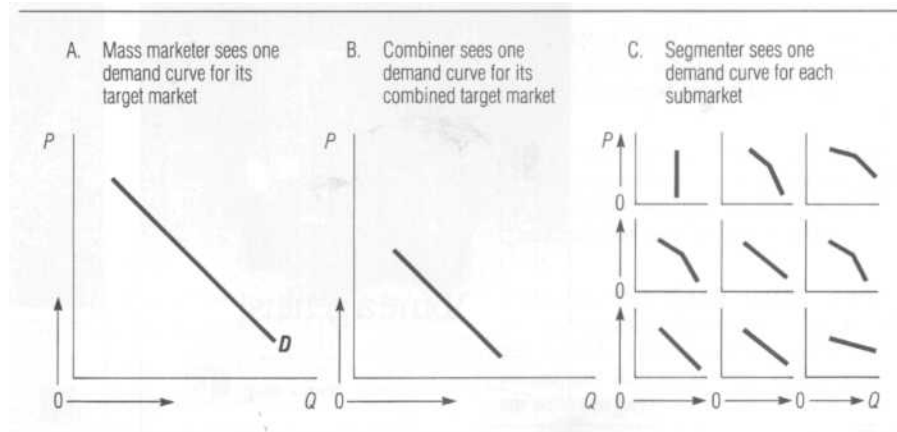
Combiners must be careful not to aggregate too far. As they enlarge the target market, it becomes less homogeneous—and individual differences within each submarket may begin to outweigh the similarities. This makes it harder to develop marketing mixes that can do an effective job of reaching and satisfying potential customers within each of the submarkets.

A combiner faces the continual risk of innovative segmenters "chipping away" at the various segments of the combined target market—by offering more attractive marketing mixes to more homogeneous submarkets.

In the extreme, a combiner may create a fairly attractive marketing mix but then watch segmenters capture one after another of its submarkets with more targeted marketing mixes—until finally the combiner is left with no customers at all!

In general, it's usually safer to be a segmenter—that is, to try to satisfy some customers *very* well instead of many just *fairly* well. That's why many firms use the single or multiple target market approach instead of the combined target market approach. Procter & Gamble, for example, offers many products that seem to compete directly with each other (e.g., Tide versus Cheer or Crest versus Gleem). However, P&G offers "tailor-made" marketing mixes to each submarket that is large enough—and profitable enough—to deserve a separate marketing mix. This approach can be extremely effective but may not be possible for a smaller firm with more limited resources. A smaller firm may have to use the single target market approach—aiming at the one submarket niche where it sees the best opportunity.

Exhibit 3-9. There May Be Different Demand Curves in Different Market Segments.



### ***AFG Finds a) Window of Opportunity with Segmenting***

In the 1970s, AFG Industries of Irvine, California, manufactured sheets of plain old window glass used in construction. AFG was competing head-on against larger producers who had stronger distribution channels and lower costs. Recurring downturns in construction further shattered AFG's thin profit margins. In searching for new opportunities, marketing managers at AFG looked beyond the construction product-market and focused on the needs of companies that used tempered and colored glass in their production. There were many possibilities—so they focused their efforts where AFG could develop a competitive advantage. They used a multiple target market approach and planned marketing mixes for "niche" segments that bigger producers didn't target. Because of careful segmenting, AFG now sells 70 percent of the glass for microwave oven doors and 75 percent of the glass for shower enclosures and patio tabletops. Segments that buy specialty glass now account for more than half of AFG's fast-growing \$400 million in sales. And instead of competing to sell commodity glass, AFG earns the best profit margins in its industry.

### ***Profit is the balancing point***

Target marketers develop and implement whole strategies—they don't just segment markets. In practice, this means that cost considerations probably encourage more aggregating—to obtain economies of scale—while demand considerations suggest less aggregating—to satisfy needs more exactly.

Profit is the balancing point. It determines how unique a marketing mix the firm can afford to offer to a particular group.

## WHAT DIMENSIONS ARE USED TO SEGMENT MARKETS?

Market segmentation forces a marketing manager to decide which product-market dimensions might be useful for planning marketing mixes. The dimensions should help guide marketing mix planning. Consumers have many dimensions. And several may be useful for segmenting a broad product-market. Exhibit 3-10 shows some possible consumer market segmenting dimensions and their typical breakdowns. As Exhibit 3-10 shows, there are customer-related dimensions and situation-related dimensions—either of which may be more important in some cases.

Exhibit 3-11 shows some possible dimensions for segmenting industrial markets and typical breakdowns.

With so many possible segmenting dimensions—and knowing that several dimensions may be needed to show what is really important in specific product-markets—how should one proceed?

### ***What are the qualifying and determining dimensions?***

To select the important segmenting dimensions, it is useful to think about two different types of dimensions. Qualifying dimensions are the dimensions that are relevant to including a customer type in a product-market. Determining dimensions are the dimensions that actually affect the customer's purchase of a specific product or brand in a product-market. These are the segmenting dimensions you are seeking.

Exhibit 3-10. Possible Segmenting Dimensions and Typical Breakdowns for Consumer Markets.

Dimensions	Typical breakdowns
<b>Customer related</b>	
<i>Geographic</i>	
Region .....	Pacific, Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England
City, county, MSA size .....	Under 5,000; 5,000–19,999; 20,000–49,999; 50,000–99,999; 100,000–249,999; 250,000–499,999; 500,000–999,999; 1,000,000–3,999,999; 4,000,000 or over
<i>Demographic</i>	
Age .....	Infant, under 6; 6–11; 12–17; 18–24; 25–34; 35–49; 50–64; 65 and over
Sex .....	Male, female
Family size .....	1, 2, 3–4, 5 or more
Family life cycle .....	Young, single; young, married, no children; young, married, youngest child under 6; young, married, youngest child 6 or over; older, married, with children; older, married, no children under 18; older, single; other
Income .....	Under \$5,000; \$5,000–\$9,999; \$10,000–\$14,999; \$15,000–\$19,999; \$20,000–\$29,999; \$30,000–\$39,999; \$40,000 and over
Occupation .....	Professional and technical; managers, officials, and proprietors; clerical sales; craftsmen, foremen; operatives; farmers; retired; students; housewives; unemployed
Education .....	Grade school or less, some high school, high school graduate, some college, college graduate
Race .....	White, Black, Oriental, other
Nationality .....	American, British, French, German, etc.
Social class .....	Lower-lower, upper-lower, lower-middle, upper-middle, lower-upper, upper-upper
<b>Situation related</b>	
<i>Benefits offered</i>	
Need satisfiers .....	PSSP, economic, and more detailed needs
Product features .....	Situation specific, but to satisfy specific or general needs
<i>Consumption or use patterns</i>	
Rate of use .....	Heavy, medium, light, nonusers
Use with other products ...	Situation specific, e.g., gas with a traveling vacation
<i>Brand familiarity</i> .....	Insistence, preference, recognition, nonrecognition, rejection
<i>Buying situation</i>	
Kind of store .....	Convenience, shopping, specialty
Kind of shopping .....	Serious versus browsing, rushed versus leisurely
Depth of assortment .....	Out of stock, shallow, deep
Type of product .....	Convenience, shopping, specialty, unsought

A prospective car buyer, for example, has to have enough money—or credit—to buy a car. He also must have—or be able to get—a driver's license. This still doesn't guarantee that he'll buy a car. He may just rent one, or continue borrowing his parents' or friends' cars, or hitchhike. He may not get around to actually buying a car until his status with his buddies is falling because he doesn't have "wheels." This need may lead him to buy *some* car. But this dimension is not determining with respect to a specific brand or a specific model.

## Exhibit 3-11 Possible Segmenting Dimensions for Industrial Markets

<b>Type of organization</b>	Manufacturing, institutional, government, public utility, military, farm, etc.
<b>Demographics</b>	Size Number of employees Sales volume SIC code Number of facilities Geographic location: East, Southeast, South, Midwest, Mountains, Southwest, West Large city—rural
<b>Type of product</b>	Installations, accessories, components, raw materials, supplies, services
<b>Type of buying situation</b>	Decentralized—centralized Buyer—multiple buying influence Straight rebuy—modified rebuy—new buy
<b>Source loyalty</b>	Weak—strong loyalty Last resort—second source—first source
<b>Kinds of commitments</b>	Contracts, agreements, financial aids
<b>Reciprocity</b>	None—complete

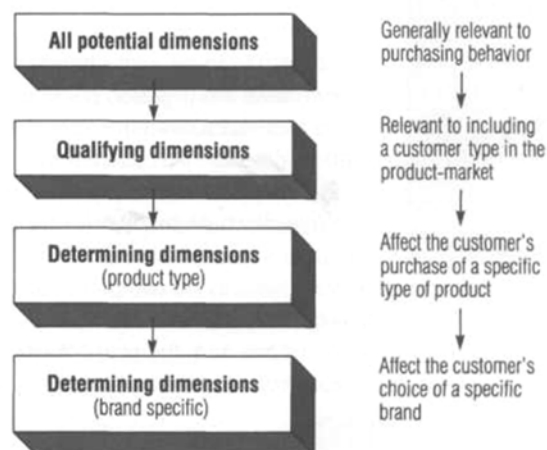
### ***Determining dimensions may be very specific***

How specific the determining dimensions are depends on whether you are concerned with a general product type or a specific brand. See Exhibit 3-12. The more specific you want to be, the more particular the determining dimensions may be. In a particular case, the determining dimensions may seem minor. But they are important because they *are* the determining dimensions. In the car status-seekers market, for example, paint colors or the brand name may determine which cars people buy.

### ***Qualifying dimensions are important, too***

The qualifying dimensions help identify the "core features" that must be offered to everyone in a product-market. Qualifying and determining dimensions work together in marketing strategy planning.

Exhibit 3-12 Finding the Relevant Segmenting Dimensions



### ***Different dimensions needed for different submarkets***

Note that each different submarket within a broad product-market may be motivated by a different set of dimensions. In the snack food market, for example, health food enthusiasts are interested in nutrition, dieters may care only about calories, and economical shoppers with lots of kids may want volume to "fill them up." The related submarkets might be called: health-conscious snack food market, dieters' snack food market, and kids' snack food market. They would be in different boxes in a market grid diagram for the snack food market.

### **WORD STUDY**

1. segmentation – division into segments;
2. dimension – 1) a measurement in any one direction as used for establishing the position of something in space; 2) a particular side or part of a problem, subject, etc.;
3. substantial – large enough to be noticeable or to have an important effect;
4. purchase – 1) an act of buying; 2) an article that has just been bought;
5. aim at – to direct one's efforts towards doing or obtaining something;
6. strategy – a particular plan for gaining success in a particular activity, e.g. in a war, a game, or a competition, or for personal advantage;
7. outweigh – to be more important than;
8. investment – 1) the act of investing; 2) something invested or in which one invests;
9. consideration – careful thought, thoughtful attention;
10. prospective – expected or intended; likely to be or become.

#### ***I. Match the words on the left with their synonyms on the right.***

- |                  |                    |
|------------------|--------------------|
| 1. dimension     | a. to intend       |
| 2. strategy      | b. to prevail over |
| 3. to aim at     | c. reflection      |
| 4. to outweigh   | d. aspect          |
| 5. consideration | e. policy          |

#### ***II. Match the words on the left with their antonyms on the right.***

- |                  |                |
|------------------|----------------|
| 1. segmentation  | a. disregard   |
| 2. substantial   | b. former      |
| 3. consideration | c. integration |
| 4. prospective   | d. sale        |
| 5. purchase      | e. unimportant |



III. *Complete the following sentences using the words from the box. Use each word once in the necessary form.*

segmentation dimension substantial purchase aim at strategy outweigh investment consideration prospective
---

1. She made several ..?.. in the dress shop.
2. I think we have worked out a ..?.. for dealing with this situation.
3. He sold off all his ..?.. in South Africa.
4. They made ..?.. changes to the arrangements yesterday.
5. After due ..?.. , I have decided to recommend him for this position in the company.
6. Jane has arranged an appointment with the ..?.. buyer of her house.
7. In this case the disadvantages far ..?.. the advantages.
8. There is another ..?.. to this problem which you haven't considered.
9. Proper market ..?.. is extremely important for successful marketing.
10. The factory must ..?.. at increased production.

### COMPREHENSION QUESTIONS

1. Which steps does the process of market segmentation include?
2. What does *naming* broad product-markets imply?
3. What is segmenting ?
4. What criteria should “good” market segments meet?
5. What are the three basic ways of developing market-oriented strategies in a broad product-market?

### ***Text 4.A) SEVEN-STEP APPROACH TO SEGMENTING CONSUMER PRODUCT-MARKETS***

Now let's go on to a logical, seven-step approach to market segmentation. Marketing research could help fine-tune some of the decisions made with this approach. But even without additional research *this approach works*—and has led to successful strategies. It is especially useful for finding the determining dimensions for product types. When you want to get down to dimensions for specific brands—especially when there are several competing brands—more sophisticated techniques may be needed.

To be sure you understand the approach, let us review each step separately, explain its importance, and use an ongoing example to show how each step works. The example is rental housing—in particular, the apartment market in a big urban area.

#### **1. Name the broad product-market.**

First, decide what broad product-market the firm wants to be in. This may be stated in the firm's objectives. Or if the firm is already in some product-market, its

current position might be a good starting point. If it is just starting out, however, then many more choices are open—although the available resources, both human and financial, will limit the possibilities. It is better to build on the firm's strengths while avoiding its weaknesses—and competitors' strengths.

*Example:* A firm is building and renting small utility apartments for low-income families. A narrow view—considering only the products now being produced— might lead the firm to think only of more low-income housing. A bigger view might see such apartments as only a small part of the total apartment market or total rental housing market—or even the total housing market in the firm's geographic area. Taking an even bigger view, the firm could consider expanding to other geographic areas—or moving into other kinds of products (like office buildings or shopping centers).

There has to be some balance between naming the product-market too narrowly (same old product, same old market) and naming it too broadly (the whole world and all its needs). Here, the firm decided on the whole apartment renter's market in one city—because this is where the firm had some experience.

## **2. List potential customers' needs.**

Write down as many relevant needs as you can—considering all of the potential customers in the broad product-market. This is a "brainstorming" step. The list doesn't have to be complete yet, but should provide enough input to really stimulate thinking in the next steps. Possible needs can be seen by thinking about *why* some people buy the present offerings in this broad product-market.

*Example:* In the apartment renter's market, it is fairly easy to list some possible needs: basic shelter, parking, play space, safety and security, distinctiveness, economy, privacy, convenience (to something), enough living area, attractive interiors, and good supervision and maintenance to assure trouble-free and comfortable living.

## **3. Form "homogeneous" submarkets—i.e., "narrow" product-markets.**

Assuming that some people will have different needs than others, form one sub-market around yourself (or some "typical" customer) and then aggregate similar people into this segment as long as they could be satisfied by the same marketing mix. Write the important need dimensions of these people in a column to help decide whether each new person should be included in the first segment. Also, note the people-related characteristics (including demographics) of the product-markets you are forming—so you can name them later.

For example, if the people in one market (column) are college students looking for a "party environment," this will help you understand what they want and why— and will help you name the market (perhaps as "the partiers").

People who are not "homogeneous"—who don't fit in the first segment—should be used to form a new submarket. List their different need dimensions in another column. Continue this classifying until three or more submarkets emerge.

Obviously, some judgment is needed here. But you should have some ideas about how you behave—and you can see that others have different needs and attitudes. We all have different preferences, but experienced observers do tend to agree, at least roughly, on how and why people behave.

*Example:* A college student living off campus probably wants an apartment to provide basic shelter, parking, economy, convenience to school and work, and enough room somewhere to have parties. An older married couple, on the other hand, has quite different needs—perhaps for basic shelter and parking, but *also* for privacy and good supervision so that they don't have to put up with the music that might appeal to the partiers.

#### **4. Identify the determining dimensions.**

Review the list of need dimensions for each possible segment (column) and identify the determining dimensions (perhaps putting parentheses around them). Although the qualifying dimensions are important—perhaps reflecting "core needs" that should be satisfied—they are not the *determining* dimensions you are seeking now.

Careful thinking about the needs and attitudes of the people in each possible segment will help identify which are the determining dimensions. They may not seem very different from market to market, but if they are determining to those people then they *are* determining!

*Example:* With our apartment renters, the need for basic shelter, parking, and safety and security are probably not determining. Everyone has these qualifying needs. Ignoring these common needs helps you see the determining dimensions—such as the needs for privacy, club facilities, strong management, and so on. See Exhibit 3-13.

Exhibit 3-13. Segmenting the Broad Apartment Renters Market in a Metropolitan Area.

	<b>Need dimensions (benefits sought)</b>	<b>Customer-related characteristics</b>	<b>Nickname of product-market</b>
<b>1</b>	Shelter Parking Security (Common facilities) (Close-in location) (Economy) Friendly management	Young, unmarried, active, fun-loving, party-going	<b>Swingers</b>
<b>2</b>	Shelter Parking Security (Distinctive design) (Privacy) (Interior variety) (Strong management) Club facilities	Older and more mature than swingers. Also, more income and education. More desire for comfort and individuality	<b>Sophisticates</b>
<b>3</b>	Shelter Parking Security (Room size) (Play space) (Economy)	Young families with children and not enough income to afford own home	<b>Family</b>
<b>4</b>	Shelter Parking Security (Close-in location) (Strong management) (Economy)	Single adults, widows, or divorcees. Not much discretionary income and want to be near job	<b>Job-centered</b>
<b>5</b>	Shelter Parking Security (Distinctive design) (Close-in location) (Strong management)	Former suburban home owners who now want to be close to city attractions	<b>Urban-centered</b>
<b>6</b>	Shelter Parking Security (Privacy) (Strong management) Club facilities	Younger, but no longer swingers. Want a home but don't have enough money yet. Both work so economy not necessary	<b>Newly married</b>

**Apartment Renters in a Metro Area**

<b>Swingers</b>	<b>Newly married</b>	<b>Job-centered</b>
<b>Sophisticates</b>	<b>Family</b>	<b>Urban-centered</b>

### **5. Name (nickname) the possible product-markets.**

Review the determining dimensions—market by market—and name (nickname) each one based on the relative importance of the determining dimensions (and aided by your description of the customer types). A market grid is a good way to help visualize this broad product-market and its narrow product-markets.

Draw the market grid as a rectangle with boxes inside representing smaller, more homogeneous segments. See Exhibit 3-13. Think of the whole rectangle as representing the broad product-market with its name on top. Now think of each of the boxes as narrow product-markets. Since the markets within a broad product-market usually require very different dimensions, don't try to use the same two dimensions to name the markets—or to label the sides of the market grid boxes. Rather, just think of the grid as showing the relative sizes of product-market segments. Then, label each segment with its nickname.

*Example:* You can identify the following apartment renter submarkets: swingers, sophisticates, family-oriented, job-centered, and urban-centered. See Exhibit 3-13. Note that each segment has a different set of determining dimensions (benefits sought) that follows directly from customer type and needs.

### **6. Evaluate why product-market segments behave as they do.**

After naming the markets as we did in Step 5, think about what else is known about each segment to help you understand how and why these markets behave the way they do. Different segments may have similar—but slightly different—needs. This may explain why some competitive offerings are more successful than others. It also can lead to splitting and renaming some segments.

*Example:* Newly married couples might have been treated as "swingers" in Step 5 because the "married" characteristic did not seem important. But with more thought, we see that while some newly married couples are still swingers at heart, others have begun to shift their focus to buying a home. For these newly marrieds, the apartment is a temporary place. Further, they are not like the sophisticates and probably should be treated as a separate market. The point here is that these market differences might only be discovered in Step 6. It is at this step that the "newly married" market would be named—and a related column created to describe the new segment.

### **7. Make a rough estimate of the size of each product-market segment.**

Remember, you are looking for *profitable* opportunities. So now you must try to tie product-markets to demographic data—or other customer related characteristics—to make it easier to estimate the size of these markets. You shouldn't estimate your likely sales yet. Now you only want to provide a basis for later forecasting and marketing mix planning. The more you know about possible target markets, the easier those jobs will be.

Fortunately, much demographic data is available. And bringing in demographics adds a note of economic reality. Some possible product-markets

may have almost no market potential. Without some hard facts, the risks of aiming at such markets are great.

To refine the market grid, redraw the inside boxes so that they give a better idea of the size of the various segments. This will help highlight the larger—and perhaps more attractive—opportunities.

*Example:* It's possible to tie the swingers to demographic data. Most of them are between 21 and 35. The U.S. Census Bureau publishes detailed age data by city. Given age data and an estimate of what percentage are swingers, it's easy to estimate the number of swingers in a metropolitan area.

### ***Market dimensions suggest a) good mix***

Once you have followed all seven steps, you should at least be able to see the outlines of the kinds of marketing mixes that would appeal to the various markets. Let's take a look.

You know that swingers are active, young, unmarried, fun-loving, and party-going. The determining dimensions (benefits sought) in Exhibit 3-13 show what the swingers want in an apartment. (It's interesting to note what they do *not* want—strong management. Most college students will probably understand why!)

A Dallas-area apartment complex made a very successful appeal to local swingers by offering a swimming pool, a putting green, a nightclub with bands and other entertainment, poolside parties, receptions for new tenants, and so on. And to maintain the image, management insists that tenants who get married move out shortly—so that new swingers can move in.

As a result, apartment occupancy rates have been extremely high. At the same time, other builders often have difficulty filling their apartments—mostly because their units are just "little boxes" with few unique and appealing features.

### **SEVEN-STEP APPROACH APPLIES IN INDUSTRIAL MARKETS, TOO**

A similar seven-step approach can be used for industrial markets, too. The major change is in the first step—selecting the broad product-market. The needs are different.

Industrial customers usually have basic functional needs. Their demands are derived from final consumer demands—so the industrial market is concerned with purchases that help produce finished products. The functions industrial buyers are concerned about include, but are not limited to: forming, bending, grading, digging, cutting, heating, cooling, conducting, transmitting, containing, filling, cleaning, analyzing, sorting, training, and insuring.

Defining the relevant broad product-market using both geographic dimensions and basic functional needs usually ensures that the focus is broad enough—that is, not exclusively on the product now being supplied to present customers. But it also keeps the focus from vaguely expanding to "all the industrial needs in the world."

It is better to focus on needs satisfied by products, *not* product characteristics themselves. New ways of satisfying the need may be found—and completely surprise and upset current producers—if the product-market is defined too narrowly. For example, desktop computers and printers now compete in what some producers thought was the "typewriter market." And telephone calls and fax machines are replacing letters—further reducing the need for typing. Perhaps this broad product-market is concerned with "thought processing and transmitting." Certainly, the "typewriter" view is too narrow. Market-oriented strategy planners try to avoid surprises that result from such tunnel vision.

After the first step in the seven-step approach, the other steps are similar to segmenting consumer markets. The main difference is that segmenting dimensions like those shown in Exhibit 3-11 are used.

### WORD STUDY

1. sophisticated – 1) experienced in and understanding the ways of society; 2) produced or developed with a high level of skill and knowledge;
2. expand – to increase in size, number, volume, degree, etc.;
3. potential – that may happen or become so, although not actually existing at present;
4. stimulate – to cause to become more active, grow faster, etc.;
5. privacy – 1) the desirable state of being away from other people, so that they cannot see or hear what one is doing; 2) secrecy, avoidance of being noticed or talked about publicly;
6. emerge – to come out or appear from inside or from being hidden;
7. facilities – things such as buildings, shops, or services that are useful or help one to do something;
8. ensure – to make something certain happen;
9. hinge on – to have as a necessary condition;
10. concerned about/for – 1) worried; 2) having an active personal interest.

#### I. *Match the words on the left with their synonyms on the right.*

- |                |                         |
|----------------|-------------------------|
| 1. facilities  | a. to guarantee         |
| 2. to ensure   | b. anxious              |
| 3. to hinge on | c. to depend            |
| 4. concerned   | d. resources, equipment |
| 5. potential   | e. possible, implied    |

#### II. *Match the words on the left with their antonyms on the right.*

- |                  |                           |
|------------------|---------------------------|
| 1. sophisticated | a. to reduce, to cut down |
| 2. to expand     | b. to discourage          |
| 3. to emerge     | c. publicity              |
| 4. to stimulate  | d. to disappear           |
| 5. privacy       | e. innocent               |

III. *Complete the following sentences using the words from the box. Use each word once in the necessary form.*

sophisticated expand potential stimulate privacy  
emerge facilities ensure hinge on concerned with

1. The intention of lowering interest rates is to ..?.. the economy.
2. The university has excellent sporting ..?.. .
3. The company has ..?.. its operations in Scotland by building a new factory there.
4. The success of the operation ..?.. the support we get from our allies.
5. There's not much ..?.. in these flats because of the large windows and thin walls.
6. This change in the law will ..?.. fair treatment for people of all races.
7. He made this decision after weighing up the ..?.. benefits and disadvantages of investing in the new industry.
8. He has never been very ..?.. about what other people think of him.
9. Several interesting new products of the company have ..?.. in recent years.
10. The fashion magazines show what the ..?.. woman is wearing this year.

#### COMPREHENSION TASK

Imagine you run your own business. Make a strategy for your firm using the seven-step approach to segmenting consumer product-markets. Dwell on each step developing your example situation in detail.

#### ***Text 5. MORE SOPHISTICATED TECHNIQUES MAY HELP IN SEGMENTING***

The seven-step approach is inexpensive, logical, practical—and *it works*. But computer-aided methods can help, too. A brief discussion of some approaches will give you a flavour of how computer-aided methods work.

#### ***Clustering usually requires a) computer***

**Clustering techniques** try to find similar patterns within sets of data. "Clustering" groups customers who are similar on their segmenting dimensions into homogeneous segments. Clustering approaches use computers to do what previously was done with much intuition and judgment.

The data to be clustered might include such dimensions as demographic characteristics, the importance of different needs, attitudes toward the product, and past buying behaviour. The computer searches all the data for homogeneous groups of people. When it finds them, marketers study the dimensions of the people in the groups to see why the computer clustered them together. If the results make some sense, they may suggest new, or at least better, marketing strategies.



A cluster analysis of the toothpaste market, for example, might show that some people buy toothpaste because it tastes good (the sensory segment), while others are concerned with the effect of clean teeth on their social image (the sociables). Others are worried about decay (the worriers), and some are just interested in the best value for their money (the economic men). See Exhibit 3-14. Each of these market segments calls for a different marketing mix—although some of the four Ps may be similar.

Finally, a marketing manager has to decide which one (or more) of these segments will be the firm's target market(s).

You can see that these techniques only *aid* the manager. Judgment is still needed to develop an original list of possible dimensions—and then to name the resulting clusters.

### ***Positioning segments by product features***

Another approach to segmenting—**positioning**—shows where customers locate proposed and/or present brands in a market. It requires some formal marketing research but may be helpful when competitive offerings are quite similar. The results are usually plotted on graphs to help show where the products are "positioned" in relation to competitors. Usually, the products' positions are related to two product features that are important to the target customers.

Exhibit 3-14 Toothpaste Market Segment Description

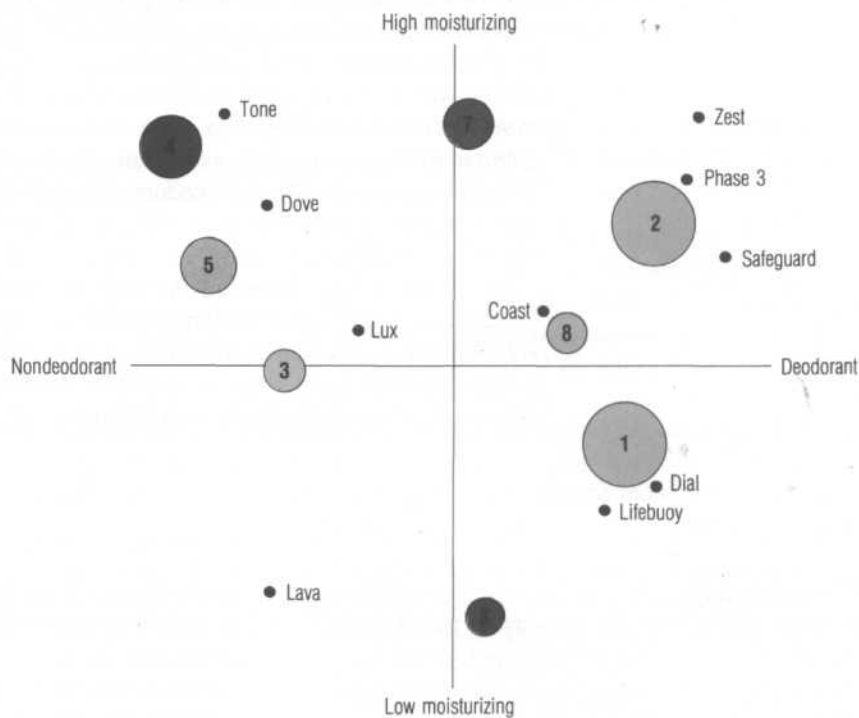
	Segment name			
	The sensory segment	The sociables segment	The worriers segment	The independent segment
Principal benefit sought	Flavor, product appearance	Brightness of teeth	Decay prevention	Price
Demographic strengths	Children	Teens, young people	Large families	Men
Special behavioral characteristics	Users of spearmint flavored toothpaste	Smokers	Heavy users	Heavy users
Brands disproportionately favored	Colgate, Stripe	Macleans, Plus White Ultra Brite	Crest	Brands on sale
Personality characteristics	High self-involvement	High sociability	High hypochondriasis	High autonomy
Life-style characteristics	Hedonistic	Active	Conservative	Value-oriented

Assuming the picture is reasonably accurate, managers then decide whether they want to leave their product (and marketing mix) alone or reposition it. This may mean *physical changes* in the product or simply *image changes based on promotion*. For example, most beer drinkers can't pick out their "favourite" brand in a blind test—so physical changes might not be necessary (and might not even work) to reposition a beer brand.

The graphs for positioning decisions are obtained by asking product users to make judgments about different brands—including their "ideal" brand—and then using computer programs to summarize the ratings and plot the results.

Exhibit 3-15 shows the "product space" for different brands of bar soap using two dimensions—the extent to which consumers think the soaps moisturize and deodorize their skin. For example, consumers see Dial as quite low on moisturizing but high on deodorizing. Lifebuoy and Dial are close together—implying that consumers think of them as similar on these characteristics. Dove is viewed as different and is further away on the graph. Remember that positioning maps are based on *customers' perceptions*—the actual characteristics of the products (as determined by a chemical test) might be different!

Exhibit 3-15. "Product Space" Representing Consumers' Perceptions for Different Brands of Bar Soap.



The circles on Exhibit 3-15 show sets of consumers clustered near their "ideal" soap preferences. Groups of respondents with a similar ideal product are circled to show apparent customer concentrations. In this graph, the size of the circles suggests the size of the segments for the different ideals.

Ideal clusters 1 and 2 are the largest and are close to two popular brands—Dial and Safeguard. It appears that customers in cluster 1 want more moisturizing than they see in Dial and Lifebuoy. However, exactly what these brands should do about this isn't clear. Perhaps both of these brands should leave their physical products alone—but emphasize moisturizing more in their promotion to make a stronger appeal to those who want moisturizers.

Lava doesn't seem to satisfy any of the ideal clusters very well. Therefore, some attempt probably should be made to reposition Lava—either through physical or image changes.

Note that ideal cluster 7 is not near any of the present brands. This may suggest an opportunity for introducing a new product—a strong moisturizer with some deodorizers. If some firm chooses to follow this approach, you would think of it as a segmenting effort.

### ***Combining versus segmenting***

Positioning analysis may lead a firm to combining—rather than segmenting—if managers think they can make several general appeals to different parts of a "combined" market. For example, by varying its promotion, Coast might try to appeal to clusters 8, 1, and 2 with one product. On the other hand, there may be clearly defined submarkets—and some parts of the market may be "owned" by one product or brand. In this case, segmenting efforts may be practical—moving the firm's own product into another segment of the general market area where competition is weaker.

### ***Positioning as part of broader analysis***

The major value of positioning is to help managers understand how customers see their market. It is a visual aid to understanding a product-market. But positioning usually focuses on specific product features—that is, it is product-oriented. There is the risk that important customer-related dimensions—including needs and attitudes—may be overlooked. But as part of a broader analysis of target markets, positioning can be very useful. The first time such an analysis is done, managers may be shocked to see how much customers' perceptions of a market differ from their own. For this reason alone, positioning is useful.

Premature emphasis on product features is dangerous, however. And it's easy to do if you start with a product-oriented definition of a market—as in the bar soap example. This leads to positioning bar soaps against bar soaps. But this can make a firm miss more basic shifts in markets. For example, bars might be losing popularity to liquid soaps. Or other products, like bath oils or bubble baths, may be part of the relevant competition. Such shifts would not be seen by only looking at alternative bar soap brands—the focus is just too narrow.

If customers are treating quite different products as substitutes, then a firm has to position itself against those products, too. It must avoid focusing on physical product characteristics that are not the determining dimensions of the target market.

## WORD STUDY

1. technique – method of doing something that needs skill;
2. supervision – the act or fact of keeping watch over a job or activity, or the people doing it by the person in charge;
3. cluster – to gather in one or more groups;
4. judgement – 1) the ability to make decisions that are based on careful consideration of facts, principles, etc.; 2) an opinion;

5. brand – 1) a class of goods which is the product of a particular company or producer; 2) a mark made to show the owner or producer of something;

6. competitor – a person, team, firm, product, etc., competing with another or others;

7. appeal – 1) to make a strong request for help, support, mercy, etc.; 2) to please, attract, or interest;

8. aid – 1) support; 2) something that provides help and makes a process easier and more effective;

9. emphasis – special force or attention given to something to show it is particularly important;

10. pursue – 1) to follow in order to catch; 2) to continue steadily with.

**I. Match the words on the left with their synonyms on the right.**

- |               |              |
|---------------|--------------|
| 1. brand      | a. call      |
| 2. emphasize  | b. trademark |
| 3. appeal     | c. help      |
| 4. aid        | d. stress    |
| 5. competitor | e. rival     |

**II. Match the words on the left with their antonyms on the right.**

- |                |                 |
|----------------|-----------------|
| 1. supervision | a. to disperse  |
| 2. judgement   | b. to dislike   |
| 3. rival       | c. ally         |
| 4. to appeal   | d. uncontrol    |
| 5. to cluster  | e. recklessness |

**III. Complete the following sentences using the words from the box. Use each word once in the necessary form.**

. technique supervision cluster judgement brand 6. competitor appeal aid emphasize pursue
--

1. We lost the contract to our ..?.. .
2. A dictionary is an invaluable ..?.. in learning a new language.
3. What is your favourite ..?.. of chocolate?
4. There have appeared new ..?.. for producing special effects in films.
5. The new economic policy puts great ..?.. on reducing inflation.
6. Bad luck has ..?.. the company through the year.
7. The authorities want to remove that small ..?.. of old buildings from the modern city centre.
8. In my ..?.. we should accept the employer's offer.
9. Does the idea of working abroad ..?.. to you?
10. The work was done under my ..?.. .

## COMPREHENSION QUESTIONS

1. What computer-aided methods can be used for segmenting consumer markets?
2. What is *clustering*?
3. What does *positioning* imply?
4. What is the major value of *positioning*?

## CONCLUSION

Creative strategy planning is needed for survival in our increasingly competitive markets. Now you know how to find attractive target opportunities. You saw that carefully defining generic markets and product-markets can help find new opportunities. The shortcomings of a too narrow product-oriented view of markets were emphasized. You also learnt about market segmentation—the process of naming and then segmenting broad product-markets to find potentially attractive target markets. Some people try to segment markets by starting with the "mass market" and then dividing it into smaller submarkets based on a few dimensions. But this can lead to poor results. Instead, market segmentation should first focus on a broad product- market, and then group similar customers into homogeneous submarkets. The more similar the potential customers are, the larger the submarkets can be. Four criteria for evaluating possible product-market segments were presented.

Once a broad product-market has been segmented, marketing managers can use one of three approaches to market-oriented strategy planning: (1) the single target market approach, (2) the multiple target market approach, and (3) the combined target market approach. In general, we encourage marketers to be segmenters rather than combiners. A practical—"rough-and-ready"—seven-step approach to market segmentation that works for both consumer and industrial markets was discussed. Some computer-aided segmenting approaches—clustering techniques and positioning were also discussed. In summary, good marketers should be experts on markets and likely segmenting dimensions. By creatively segmenting markets, they may spot opportunities—even breakthrough opportunities—and help their firms to succeed against aggressive competitors offering similar products. Segmenting is basic to target marketing. And the more you practice segmenting, the more meaningful market segments you will see.

## QUESTIONS AND PROBLEMS

1. Distinguish between an attractive opportunity and a breakthrough opportunity. Give an example.
2. Explain how new opportunities may be seen by defining a firm's markets more precisely. Illustrate for a situation where you feel there is an opportunity—namely, an unsatisfied market segment—even if it is not very large.

3. Distinguish between a generic market and a product-market. Illustrate your answer.

4. Explain the major differences among the four basic types of opportunities discussed in the text and cite examples for two of these types of opportunities.

5. Explain why a firm may want to pursue a market penetration opportunity before pursuing one involving product development or diversification.

6. Explain what market segmentation is.

7. List the types of potential segmenting dimensions and explain which you would try to apply first, second, and third in a particular situation. If the nature of the situation would affect your answer, explain how.

8. Explain why segmentation efforts based on attempts to divide the mass market using a few demographic dimensions may be very disappointing.

9. Illustrate the concept that segmenting is an aggregating process by referring to the admissions policies of your own college and a nearby college or university.

10. Explain how positioning can help a marketing manager identify target market opportunities.

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