

Lesson 1

December-03-13 8:06 PM

1.1 The concept of Business and profit

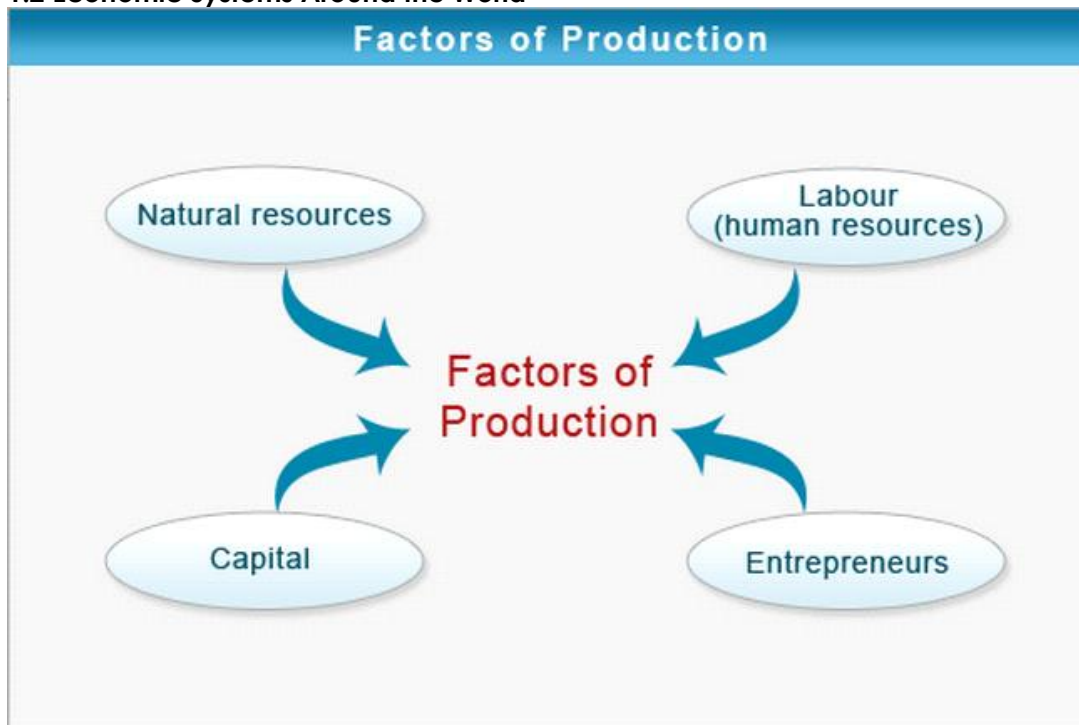
Business

- Businesses produce or sell products in order to make a profit

Profit

- The money left over from revenues after a firm pays its expenses
- Motivates individuals to engage in business activities

1.2 Economic Systems Around the World



Types of Economic Systems

- Command economies
 - o Communist
 - o Socialist
- Market economies
- Mixed economies

The Communist Model

- Government owns the factors of production and makes all decisions regarding distribution of resources
- Government owns all industries, including essential services

The Socialist Model

- The government owns and operates all critical industries
- such as utilities and major institutions
- Individuals own non-critical businesses

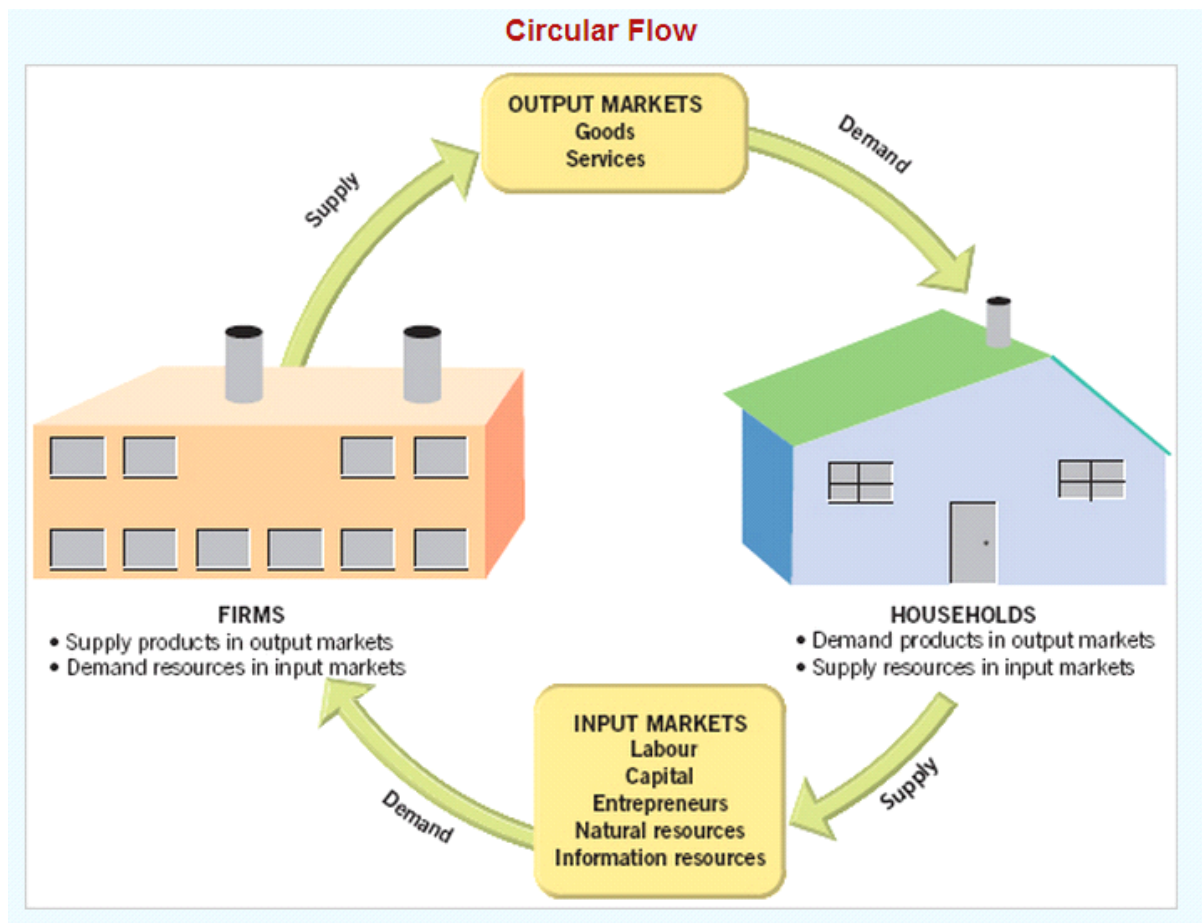
Market Economy

- Economic basis is supply and demand
- Political basis is capitalism
- Ownership of the factors of production is open to all
- Buyers and sellers have freedom of choice
- The market is the mechanism for the exchange of goods and services

Input and Output Markets

- Input market: firms buy resources from households
- Output market: households buy goods and services from firms

Market Economy



The Mixed Economy

A combination of both freedom and government intervention

- No country has a pure communist, socialist, or capitalist system
- Eastern Europe is moving to a mixed economy by privatization - converting many of their state run enterprises into private companies
- Deregulation – reducing laws and government intervention affecting business activity

1.3 Interactions between Business and Government

The many roles of government:

- Competitor
- Regulator
- Taxation agent
- Provider of essential services
- Customer
- Provider of incentives

Economic Administration and Regulation

The government manages and regulates business in a number of ways:

- Competition Act
- Textile Labelling Act
- Tobacco Act
- Food and Drug Act
- Hazardous Products Act
- Canada Water Act
- Environmental Contaminants Act
- Weights and Measures Act
- Canadian Wheat Board
- Canadian Transport Commission
- Canadian Radio–television and Telecommunications Commission (CRTC)
- Fisheries Act
- Provincial Boards

Government as Tax Agent

- Revenue taxes
 - o designed to generate cash, including income taxes
- Income tax
 - o is paid by individuals and businesses and represents monies received during a single year
- Restrictive taxes
 - o designed to lessen the consumption of “unhealthy” products, including liquor and tobacco
- They also raise revenue through import duties and gasoline taxes

Government Incentives

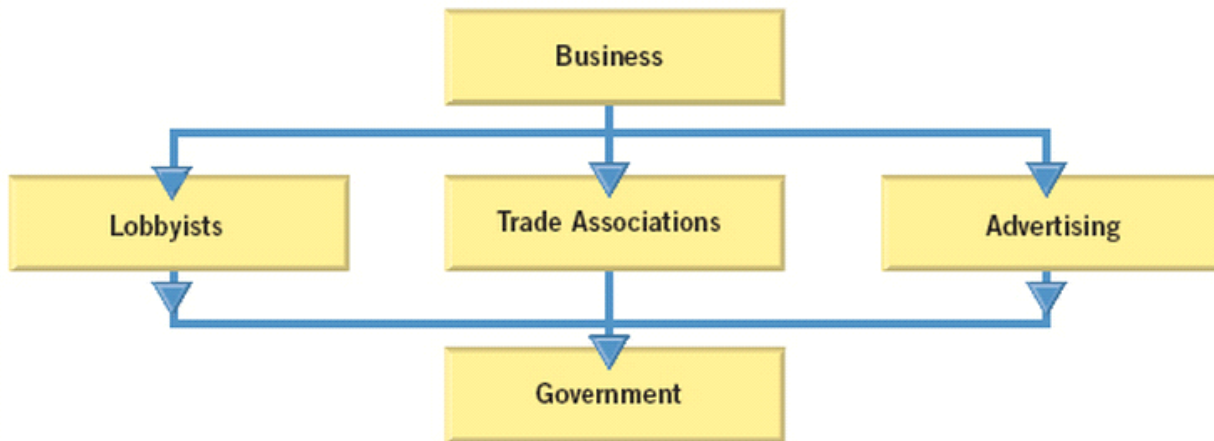
- Government provides aid and assistance to small businesses and non-profit organizations
- Incentives stimulate growth in revenues and employment

Government Provider of Essential Services

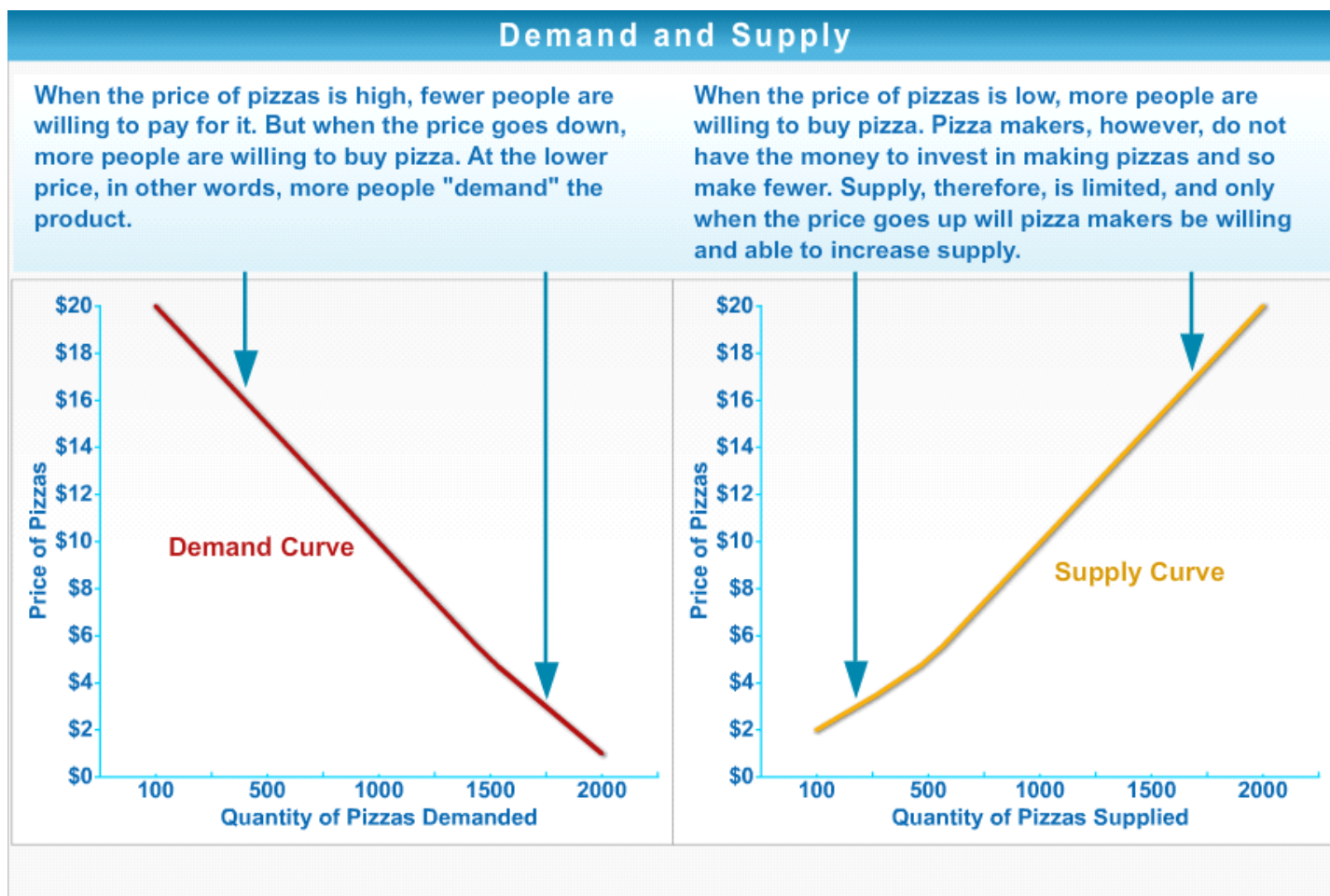
All three levels of government provide various services.

- Highways
- Postal service
- Money
- Military
- Information
- Sewer and sanitation
- Emergency services
- Health services
- Education

How Business Influences Government



Demand and Supply



Private Enterprise

- Private enterprise occurs in a market economy
- Under this system, individuals:
 - Can own property
 - Have freedom of choice
 - Have the freedom to earn profits
 - Have freedom to compete
 - Government interference is minimal

Competition

- When businesses vie for the same resources or customers in a particular market or industry.

- Motivates business to operate efficiently
- Forces business to make products better or cheaper

Degrees of Competition	Perfect Competition	Monopolistic Competition
<ul style="list-style-type: none"> ▪ Pure Competition ▪ Monopolistic Competition ▪ Oligopoly ▪ Monopoly 	<ul style="list-style-type: none"> ▪ Has many sellers ▪ The product is basically identical ▪ Relatively easy to enter the industry ▪ Individual firms have no control over price <ul style="list-style-type: none"> • The buyer will purchase from the lowest price source 	<ul style="list-style-type: none"> ▪ Has few to many sellers ▪ The product is seen as unique by some buyers, but not necessarily all ▪ A differentiated brand provides the firm with some control over pricing

Oligopoly

- A few large suppliers dominate the market
- High barriers to entry
- The products are seen as similar; no supplier has an edge
- Each supplier knows what the others are charging
- Prices gravitate towards a common "market price"

Monopoly

- One producer and source of supply
- Unique product
- Complete control over price
- No competitors

Natural Monopoly

- A market or industry in which having only one producer can sufficiently meet demand
- It is the most efficient approach
 - For instance, electric power utility

1.5 A Brief History of Business in Canada

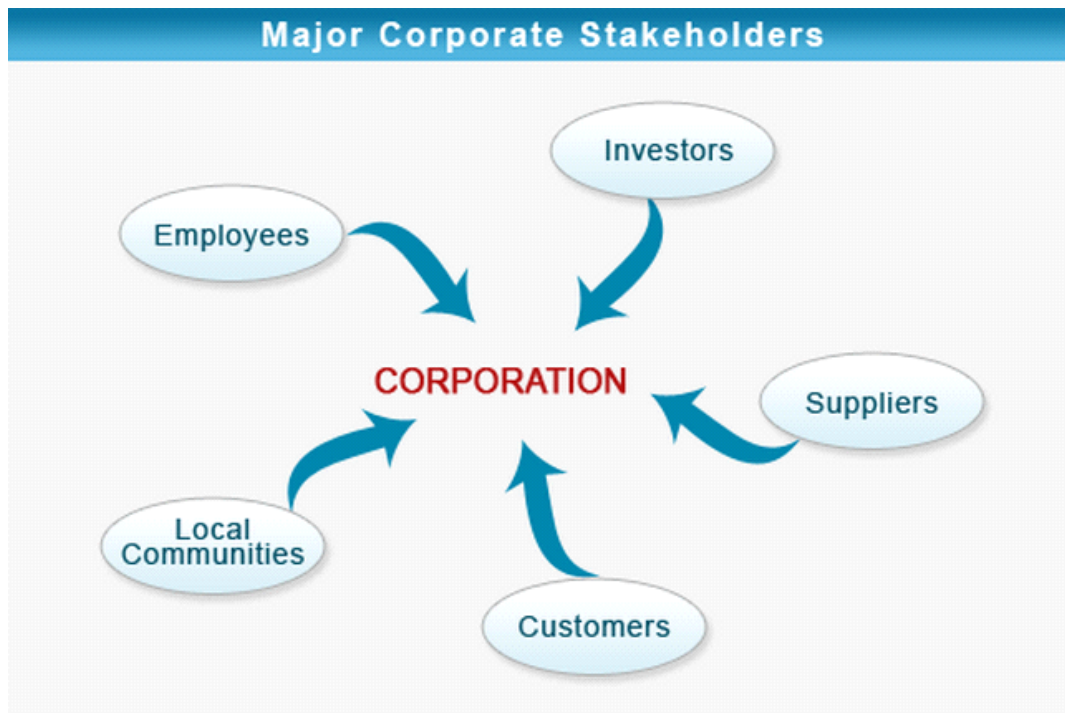
- The Early Years - 1500 through 1750
- The Industrial Revolution and The Factory System - 1750 through 1850
- The Entrepreneurial Era - 1850 through 1913
- The Production Era - 1913 through 1930s
- The Sales and Marketing Era - 1930s -1970s
- The Finance Era - 1980s
- The Global Era - recent past to the present, and still growing
- The Internet Era - 1995 to the present, and still growing

Lesson 2

December-03-13 8:25 PM

2.1 Social Responsibility

A business's collective code of ethics towards its stakeholders:



Screen clipping taken: 03/12/2013 8:25 PM

The Evolution of Social Responsibility in Canada			
Late 19th Century	Great Depression (1930s)	1960s - 1970s	Today
Laissez-faire attitude leads to business strife and exploitation of labour	Many feel that business greed led to job loss and failure of financial institutions	Business perceived as a negative social force leading to increased activism	Stress need for more social role for business

2.2 Areas of Social Responsibility

Towards Environment

Environmental Issues

Air Pollution	Water Pollution	Land Pollution
<ul style="list-style-type: none"> ▪ Climate change, global warming and greenhouse gases ▪ Created by chemical emissions in product manufacturing and the operation of motor vehicles ▪ Legislation has been directed at controlling or eliminating polluting practices 	<ul style="list-style-type: none"> ▪ Water contamination due to years of releasing toxic chemicals into lakes, rivers, and streams ▪ Chief offenders are businesses such as pulp and paper plants, and municipalities who dump raw sewage ▪ Practices are being curbed by legislation, education, and affordable new technology 	<ul style="list-style-type: none"> ▪ Contamination of grounds and soil due to dumping of toxic waste and mishandling of landfills ▪ Key issues today include curbing polluting practices and restoring contaminated lands ▪ New developments include: 1. Emphasis on recycling (biomass: turning waste into energy); 2. New forms of solid waste disposal; 3. Changes in forestry practices

Did you know?

All of the environmental issues listed occur due to emissions from automobiles and/or manufacturing plants. Much of Canada's pollution is a result of America's businesses. Legislation has been introduced to force clean up in some industries. In other cases, special interest groups are working to protect the environment against exploitation. However, in some industries the cost of the technology to clean up emissions is so great that it would force businesses out of business. This in itself is an ethical quandary.

Towards Customers

Consumer Rights Issues

Consumerism	Consumers Rights
<ul style="list-style-type: none"> ▪ social movement that seeks to protect and expand the rights of consumers in their dealings with businesses 	<ul style="list-style-type: none"> ▪ right to safe products ▪ right to be informed ▪ right to be heard ▪ right to choose what they buy <ul style="list-style-type: none"> ▪ The right to be educated about purchases ▪ The right to courteous service

Did you know?

Companies have two key areas which require interaction with customers. These areas are pricing and product. Responsibility to customers is concerned with the fair and ethical treatment of buyers in each of these areas.

Unfair Pricing Issues

- Illegal pricing practices may occur due to the intentional (illegal) limiting of competition
- Collusion:
 - a group of companies conspiring to fix prices
 - results in inflated prices and a lack of competition
- Price gouging during shortages

Ethics in Advertising

- Truth in Advertising Claims
- Advertising of Counterfeit Brands
- Stealth (Undercover) Advertising
 - Paying individuals to speak well of a product, but not admit they are being paid to do so
- Morally Objectionable Advertising

Towards Employees

Employee Responsibility Issues

- Human resource management issues
 - Provide equal opportunity for rewards and advancement without discrimination
- Social responsibility issues
 - Safe workplace, no abuse
- Privacy issues
 - Drug testing and computer monitoring
- Encouraging ethical behaviour
 - Whistle-blowers

Encouraging Ethical Employee Behaviour

- Top management support for ethical behaviour is critical
- “Whistle-blowers” are employees who call attention to unethical behaviour
 - the company should support its “whistle blowers” rather than threatening them with dismissal or other penalties
 - There is legislation to protect whistle-blowers

Towards Investors

Improper Financial Management

- Doing a poor job of managing the financial resources of a company
 - payment of high salaries, lavish expense accounts and other perks with little control over how money is spent
- May be legally unpunishable because no law has been broken
- It may be difficult to replace management because unrest in the firm may devalue its stock

Did you know?

Ownership and management of a corporation are separate from each other. Usually this is a good thing, allowing businesses to hire the expertise needed to provide a handsome return on investment to the owners. However, when the managers are unethical they can do more harm than good to the organization and those who own it.

Cheque Kiting

- Illegal practice of writing cheques against money that has not yet arrived in the bank account
- A creative "cheque kiter" can write cheques from account to account with very little money to back it up
- The assumption is that the money will arrive before the cheque needs to clear
 - Becoming difficult to do with modern-day computerized banking

Did you know?

Cheque kiting is not the same as post-dating a cheque, whereby the cheque is dated for the day the money will actually arrive in the account (post-dating is not illegal as the bank will hold the cheque until the processing date).

Insider Trading

- Using confidential (non-public) information to gain from the sale of stock
 - Martha Stewart (ImClone shares)
- Involves gaining knowledge of inside information about the company prior to making the purchase
- Can involve the collusion of investors buying and selling stock at the appropriate time to make huge profits

Did you know?

The only way the perpetrators know when the time is right for purchase or sale is through information they are not allowed to have, which other investors have no legal access to.

Misrepresenting Financial Information

- Companies must conform to accounting guidelines called "Generally Accepted Accounting Principles" (GAAP)
- Failure to follow GAAP in order to inflate expected profit figures can mislead investors

2.3 Forms of Business Ownership

Sole Proprietorship

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Freedom ▪ Simplicity ▪ Low start-up costs ▪ Tax benefits 	<ul style="list-style-type: none"> ▪ Unlimited liability ▪ Lack of continuity ▪ Difficult to raise money ▪ Reliance on one individual

Partnership

- Frequently used by professionals
- Two basic types
 - General partners
 - actively involved in management
 - have unlimited liability
 - must be at least one
 - Limited partners
 - not actively involved in management
 - liability limited to their investment

Advantages	Disadvantages
<ul style="list-style-type: none">▪ Larger talent pool▪ Larger money pool▪ Ease of formation▪ Tax benefits	<ul style="list-style-type: none">▪ Unlimited liability▪ Lack of continuity▪ Ownership transfer difficult▪ Potential conflict

Screen clipping taken: 03/12/2013 8:28 PM

Corporation

Rights and Characteristics

- Legal status as a separate entity
 - Liable for own debts
 - Owner's liability limited to investment
- Property rights and obligations
- Indefinite lifespan

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Limited liability ▪ Continuity ▪ Professional management ▪ Easier to raise money 	<ul style="list-style-type: none"> ▪ Start-up costs ▪ Double taxation ▪ Regulations ▪ Stockholder revolts

Stockholders

- Investors who buy shares of ownerships (stocks)
- Real owners of the corporation
- May share in profits through dividends

Board of Directors

- Governing body of the corporation
- Responsible for interests of shareholders
- Appoint management, set policy, make major decisions
 - Inside directors are employees
 - Outside directors are not employees

Types of Corporations

Public Corporation	Private Corporation	Income Trust
<ul style="list-style-type: none"> ▪ Stock is widely held and available for sale to public 	<ul style="list-style-type: none"> ▪ Stock held by only a few, restrictions on sale ▪ Most corporations are privately held ▪ May become public to raise money ▪ Initial Public Offering (IPO) 	<ul style="list-style-type: none"> ▪ Avoid tax by distributing most of their earnings to investors ▪ Government announced that it will begin taxing them in 2011

Formation of the Corporation

- **Canadian Business Corporation Act:** If operating in more than one province.
- **Provincial Corporation Acts:** If operating in only one province
- **Must use Limited (Ltd.), Incorporated (Inc.) or Corporation (Corp.) in name:** British firms use "PLC", Germans use "AG"

Cooperative

- An organization formed to benefit its owners in the form of reduced prices and the distribution of surpluses
- Each member has one vote

Types of Cooperatives

- Consumer
- Financial
- Insurance
- Marketing
- Service
- Housing

Screen clipping taken: 03/12/2013 8:28 PM

Characteristic	Sole Proprietorship	Partnership	Corporation	Cooperative
Protection against liability for bad debts	low	low	high	high
Ease of formation	high	high	medium	medium
Permanence	low	low	high	high
Ease of ownership transfer	low	low	high	high
Ease of raising money	low	medium	high	high
Freedom from regulation	high	high	low	medium
Tax advantages	high	high	low	high

2.4 The Legal Context of Human Resource Management

Equal Employment Opportunity

- Regulations protecting people from unfair, or inappropriate, discrimination in the workplace
 - Decisions are made whenever employees are hired or promoted
 - The regulations are there to prevent such decisions from being made on any basis other than job-related reasons

Canadian Human Rights Act

- Ensures that any individual who wishes to obtain employment has an equal opportunity to compete for it
- Key anti-discrimination legislation enacted in 1977
 - Applies to all federal agencies, federal Crown corporations, and firms that do business inter-provincially
 - Prohibits discrimination based on: age, race, colour, national/ethnic origin, physical handicap, religion, gender, marital status, or prison record (if pardoned)
 - Enforced by the Human Rights Commission

The Quebec Charter of Human Rights and Freedoms

Every person has a right to full and equal recognition and exercise of his human rights and freedoms, without distinction, exclusion or preference based on race, colour, sex, pregnancy, sexual orientation, civil status, age except as provided by law, religion, political convictions, language, ethnic or national origin, social condition, a handicap or the use of any means to palliate a handicap.

Bona Fide Occupational Requirement

- Allows an individual to be chosen over another due to job characteristics
 - Sometimes only a particular type of candidate is acceptable because of the nature of the job
 - For example, it is acceptable to hire only women to be attendants in women's washrooms

Employment Equity Act

- Federally legislated
- Designates four groups as employment disadvantaged:
 - women
 - visible minorities
 - aboriginal people
 - people with disabilities
- Companies covered by the act are required to publish statistics showing their employment of individuals from the four groups

Comparable Worth - Principle

- Equal wages should be paid for work of equal value to the firm
- Jobs must be classified based on the qualifications needed to do the job
- Jobs with similar requirements must be paid the same
- Critics argue that such approaches ignore the supply and demand aspects of labour; where more scarce employees should be paid more than those with plentiful skill sets

Dealing with Sexual Harassment

- Sexual harassment refers to requests for sexual favours, unwelcome or persistent sexual advances, or physical conduct of a sexual nature
- Develop clear and enforceable policies which respect the Canadian Human Rights Act
- Inform all employees of the policies
- Train employees to recognize and refrain from sexual harassment
- Take complaints seriously
- Establish a procedure to deal with complaints
- Take action against those involved

Employee Health and Safety

- Health and safety programs
 - reduce absenteeism and labour turnover
 - increase productivity and morale
 - make the workplace safer and healthier
- Each province has its own regulations
- Government inspectors come on-site, unannounced, to ensure that health and safety regulations are being met
- Canada places behind some other industrialized nations in safety for mining and construction

Retirement

- Regular retirement age is 65 years, but not mandatory in most provinces
- Retirement plans may allow early retirement, usually after the age of 55

- Research indicates that those staying past 65 are usually the most productive one

2.5 New Challenges in the Changing Workspace

Managing Workforce Diversity

- Everyone in the workforce must be treated equitably
- The workforce is becoming more diverse
- Gender
- Race
- Age
- Ethnicity
- Physical ability
- Sexual orientation

Managing Knowledge Workers

- Employees who are experts in specific fields
 - technology, engineering, science
- Identify with their profession rather than the firm
- Prefer to work independently
- Define performance based on their industry and peers rather than their employer
- Pose a special management challenge in training and retention
- May have higher salaries than managers in general fields that are above them in the organization

Contingent and Temporary Workers

- Contingent Workers
 - work for a firm on a basis other than permanent or full time
 - freelance, on-call, contract, part time
 - temporary workers (hired through outside agencies)
- Management Issues
 - fairness and cost issues
 - understand and plan strategy

2.6 Certifying a Union

- Demonstrate that at least 50% of employees are members of the organizing union
- Apply to the Provincial Labour Board for certification and for approval of the membership in each individual bargaining unit
- The nature of the bargaining unit employees
- Certification vote
 - supervised by a government representative to determine whether the union can be certified, and therefore legitimately exist
- Decertification
 - The process by which employees terminate their union's right to represent them

Types Of Unions

Craft Unions

- Craft: organized by trades (skilled workers: plumbers, electricians, carpenters, pilots, etc.)
- Organized by skill, not by industry
- Members may work for many employers on a contractual basis throughout one year
- Usually require an apprenticeship (training) program of all new members

Industrial Unions

- Organized by industry, not skill (steel, auto, truck drivers, etc.)
- May include workers with different skills and skill levels
- Often work for a single employer for a long period of time

Local Union

- Basic union organization
- Focused on a small geographic area
- All are members of the same craft or industrial union
- May make up the union in a single organization
- Powers of locals vary and may include: collective bargaining on behalf of members, disciplining members who violate contract standards, and handling employee grievances with management

National and International Unions

- National unions have members across Canada: Canadian Union of Public Employees (CUPE), National Railway Union (NRU), Canadian Airline Pilots Union (CAPU)
- International unions have members in more than one country: United Steelworkers of America (USWA)

Independent Local Union

- Not formally affiliated with any labour organization
- Conducts negotiations with management at a local level
- Collective agreement is binding only at the local level

Union Security

- The maintenance of a union's membership so that it continues to meet the criteria for certification
- An absolute majority of workers in the workplace is required for certification
- If membership falls below a majority, the union can be decertified (loss of legal right to represent employees)
- More difficult during tough economic times

Closed Shop

- Employer can hire only unionized workers
- All workers are members of the union and therefore pay union dues
- Common in craft trades, such as building/electrical contractors
- Provides the most security for union membership

Union Shop

- Employer may hire unionized or non-unionized employees
- New workers must join the union within a specified period of time (time period is usually 30 days)

Agency Shop

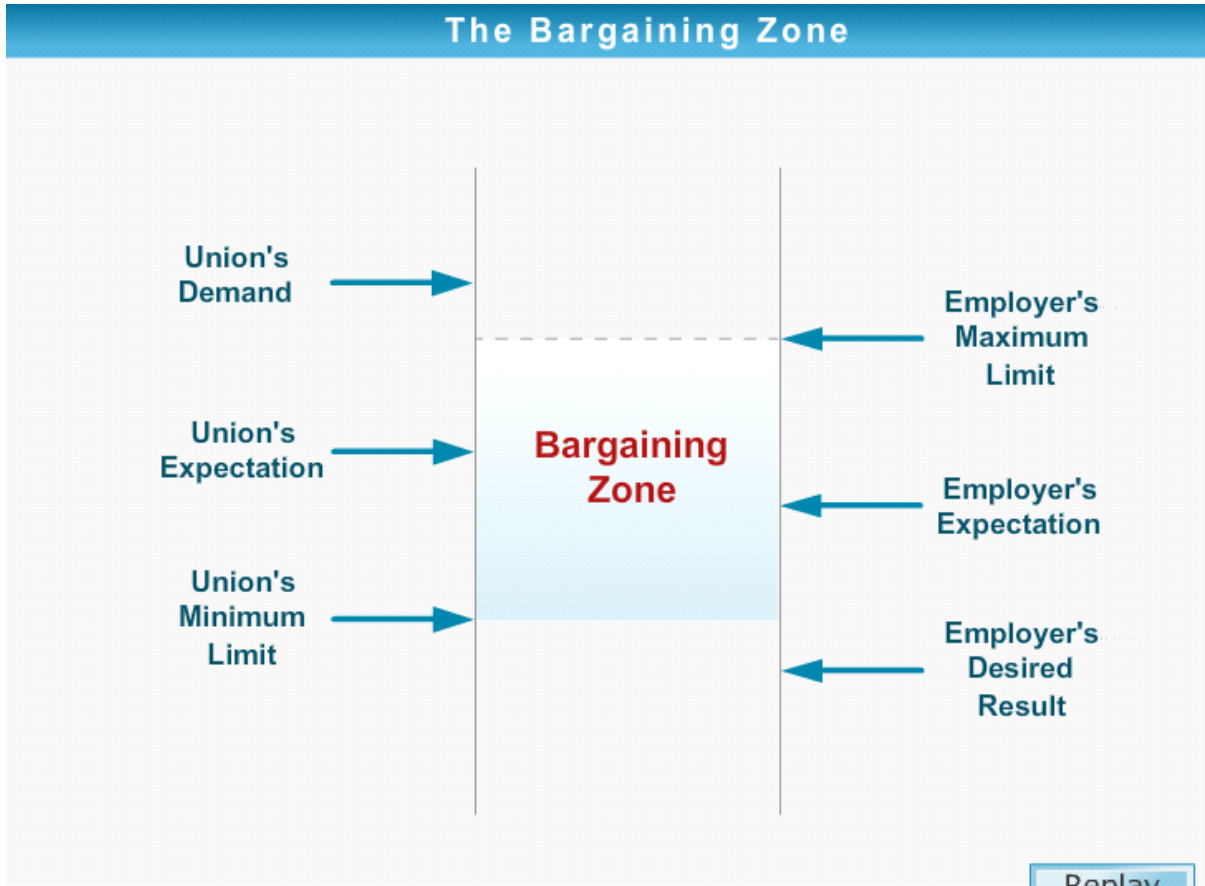
- An employee need not join the union
- Rand Formula: all employees who benefit from union negotiations are required to pay dues to the union whether or not they are a member. This applies to all unions certified under the Quebec Labour Code.

Open Shop

- An employer may hire union or non-union employees: employees are not required to join the union or pay union dues.

2.7 Collective Bargaining

- The bargaining cycle begins when representatives from the union and management get together to negotiate a contract. A “bargaining zone” is reached, which is a reasonable range of options acceptable to the parties
- A ratification vote is taken to accept or reject a tentative agreement
- If accepted, the contract is signed and becomes the collective agreement
- If rejected, management and union resort to different tactics to influence the process



Contract Issues

- Mandatory items
 - Compensation
 - cost-of-living adjustment (COLA)
 - wage reopener clause
 - Benefits
 - Working hours
- Permissive items
 - Job security

Union Tactics

- **Strike:** withdraw labour services
 - Economic strike occurs when there is an impasse over mandatory bargaining items (workers not paid try to convince public the company is unfair). Some strikes are illegal: *sympathy strikes* (one union strikes in sympathy with another union); *wildcat strikes* (unauthorized by union, contract still in place.)
- **Picket**
 - members may picket the company and have large signs at the company entrance
- **Boycott**
 - members refuse to buy products produced by their firm, and may lobby others to do the same
- **Slowdown**
 - workers perform their jobs at a slower pace, limiting production

Management Tactics

- **Lockout**
 - employees are not permitted on the premises to do their jobs
- **Hire strike-breakers**
 - employees who cross picket lines to work for management (often called "scabs")
- **Plant closures**
- **Contracting out**

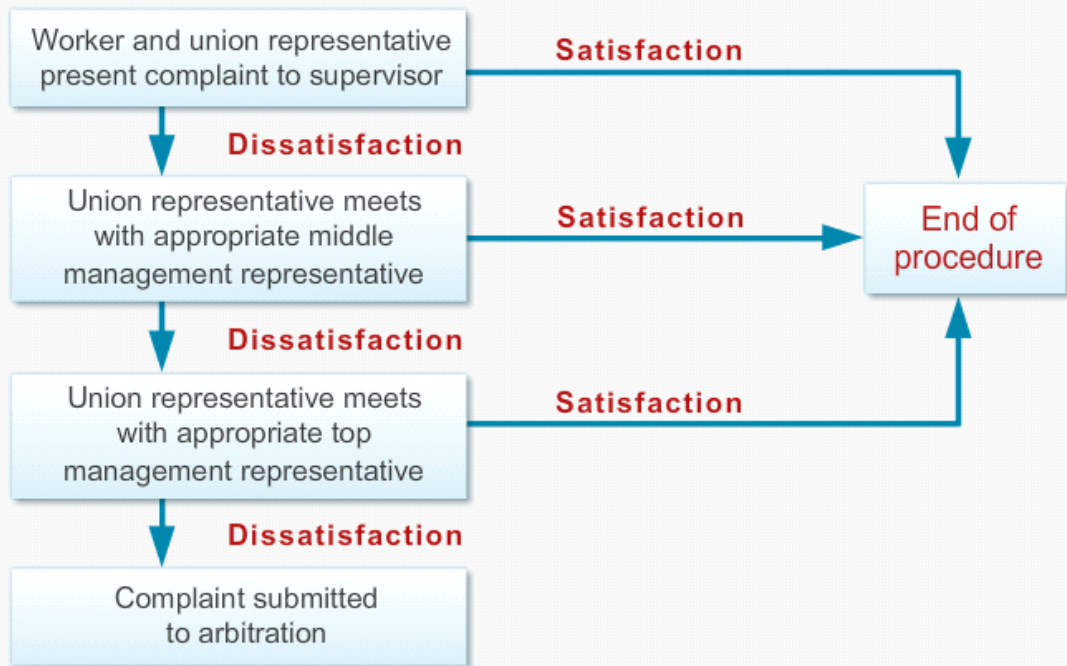
Conflict Resolution Methods

- Mediation
 - appoint a neutral third party to hear and advise
 - has no legal authority to enforce the recommendation
- Arbitration
 - appoint a third party to devise and impose a solution
 - has legal authority to do so
 - may be voluntary or compulsory

Contract Administration

- Both parties must adhere to the specifications of the collective agreement
- Differences of opinion taken to a shop steward
 - liaison between union members and supervisors
- If an employee feels that his/her rights have been violated, the employee may file a grievance
- Grievance:
 - a complaint on the part of the union that management is violating the collective agreement

A Typical Grievance Procedure



Replay

Screen clipping taken: 03/12/2013 8:40 PM

Lesson 3

December-02-13 10:00 PM

3.1 The Productivity-Quality Connection

Productivity and Quality

- Measure of efficiency
- Compares how much is produced with the resources used to produce it
 - grows if an organization can produce more of the right things with fewer resources
- Considers both amounts and quality
 - Quality = A product's fitness for use in terms of offering the features that consumers want

Measuring Productivity

- Productivity is measured as a ratio of outputs to inputs
- Often use labour as the input because the data is easily available
- Compared across firms, industries and countries
 - firms that compete internationally have more incentive to be more productive

$$\text{Labour Productivity} = \frac{\text{Gross Domestic Product (GDP)}}{\text{Total Number of Workers}}$$

Domestic Productivity

Productivity affects standard of living

- Countries with greater domestic productivity: have greater wealth for all citizens
- Countries with declines in productivity: can only allocate limited wealth to their citizens, can only increase an individual's wealth at the expense of others in the economic system
- Affects: employees (wages,) investors (profits), customers (prices)

Industry Productivity

- Service Productivity
 - is less than manufacturing productivity
 - some gains made from modern information technology
- Industry Productivity
 - differs widely (agriculture, computer, steel have gained from new technology)
 - affects: labour union negotiations plus investors' and suppliers' choices

Company Productivity

- High productivity gives a competitive edge
 - lower costs allow: lower prices, more profit or higher wages
- Affects:
 - Investors buying stock
 - Employee profit-sharing plans based on productivity improvement
 - Managers' plans for new products, facilities and funding

3.2 Total Quality Management

Total Quality Management (TQM) is a philosophy of management

- from Deming, Juran and Ishikawa
- includes all activities and parts of the business (customers, suppliers, employees)
- leadership and customer focus are key
- continuous improvement
- each and every employee is responsible for maintaining quality standards

Planning

- Planning for quality begins before goods are designed or redesigned
- Performance quality
 - How well the features of the product meet consumers' needs
 - How well the product performs
- Quality reliability
 - The consistency of quality from unit to unit of a product

Organizing

- Producing quality products requires commitment from every employee
 - Quality control cannot be effective as an isolated department
 - Specific aspects of total quality management can be assigned to specific jobs and departments
 - quality improvement developments
 - quality control monitoring

Leading

Managers must inspire and motivate employees to achieve quality goals

- training
- encouraging
- tying wages to product quality

Quality ownership

- quality belongs to each employee

Controlling

- Establish specific quality standards and measurements

- Monitor results using quality assurance tools
- Detect mistakes and make corrections

3.3 Tools for Total Quality Management

Value-Added Analysis

- Evaluation process to determine the value added by:
 - each work activity
 - material flows
 - paperwork
- Reveal and eliminate wasteful activities

Statistical Process Control

- SPC methods enable managers to:
 - analyze variations in production data
 - detect when adjustments are needed to create products with high quality-reliability
- Process variation
 - Change in employees, materials, work methods or equipment that affects output quality
 - some variation is acceptable
 - variation outside of the acceptable range must be detected and eliminated
 - Process variation is detected by analyzing a sample and measuring the conformity of output
 - Specification limits provide the acceptable range of variation around the required standard
 - Example: cereal boxes may be required to have about 400 grams
 - more would be wasteful
 - less does not deliver customer satisfaction
 - acceptable range = 390 to 410 grams
- Control Charts
 - Control limits are noted on a graph to depict the acceptable range of variation
 - Results of test samples are graphed and results outside the control limits are easily spotted
 - Cause is investigated
 - Problem corrected to restore process to normal

Quality/Cost Studies

- Assessing quality-related costs and identifying areas with cost-saving potential
- Quality costs are associated with making, finding, repairing or preventing product defects
- Requires determining the costs of:
 - internal failures
 - expense of bad products incurred during production: overfilling, sorting, rework, monitoring

- external failures
 - costs of correcting defective products that get to the consumer: refunds, transportation, lawsuits, recalls

Quality Improvement Teams

- Groups of employees from various areas meet to:
 - define
 - analyze
 - solve quality problems
- Goal is to improve work methods and products
- May involve brainstorming, discussion and the use of quality/cost study
- Quality circles greatly improve employee attitudes, imparting self-worth and a sense of ownership of quality.

Benchmarking

Compares the quality of a firm's output with the quality of the output of the industry's leaders

- internal – compare to past performance
- external – compare to competitors' best practices

Getting Close to the Customer

- Customers are “economic assets”
- Firms need to stay close to their customers
- Successful firms have an understanding of customer needs and wants

ISO 9000

- Program certifying that a company meets the rigorous quality standards of the International Organization for Standardization (ISO)
- To earn the rating, firms are measured by qualified consultants
 - product testing
 - employee training
 - record-keeping
 - correcting defects
 - The International Standards Organization is located in Geneva, Switzerland. The ISO 9000 system is becoming a prerequisite for selling to many firms internationally, particularly in the European Community. The system is pronounced “ICE-O 9000”.

ISO 14000

- Certification program attesting that a company has improved environmental performance
 - need an environmental management system
 - plan to improve resource use and manage pollution
 - covers practices in environmental labelling
 - assesses total impact of firm's products

Re-engineering

- Identify the business activity to change
- Evaluate information and human resources' capacity for change
- Identify strengths or weaknesses of current process
- Create the new process design
- Implement the new design

Adding Value Through Supply Chains

- Supply chain = group of companies and stream of activities involved in getting the product from raw materials to end consumer.
 - Members of the chain work with each other in a coordinated system rather than as adversaries
- Supply chain management looks at the chain as a whole to improve overall flow
 - Improved coordination
 - Enhanced communication
 - Reduced inefficiencies
 - Minimized costs

3.4 Productivity and Quality as Competitive Tools

- Get closer to understanding customer needs
- Invest in innovation and technology
- Adopt a long-run perspective through continuous improvement
- Emphasize quality-of-work-life
- Empower employees
- Train employees

Reliability	accurate and timely service
Responsiveness	prompt and helpful customer service
Assurance	employees who are knowledgeable, trustworthy and courteous
Empathy	caring and individualized attention
Tangibles	pleasing atmosphere, appearance, facilities, materials

Screen clipping taken: 02/12/2013 10:12 PM

Lesson 4

September-21-13 8:54 PM

4.1 Information management

Information managers are responsible for:

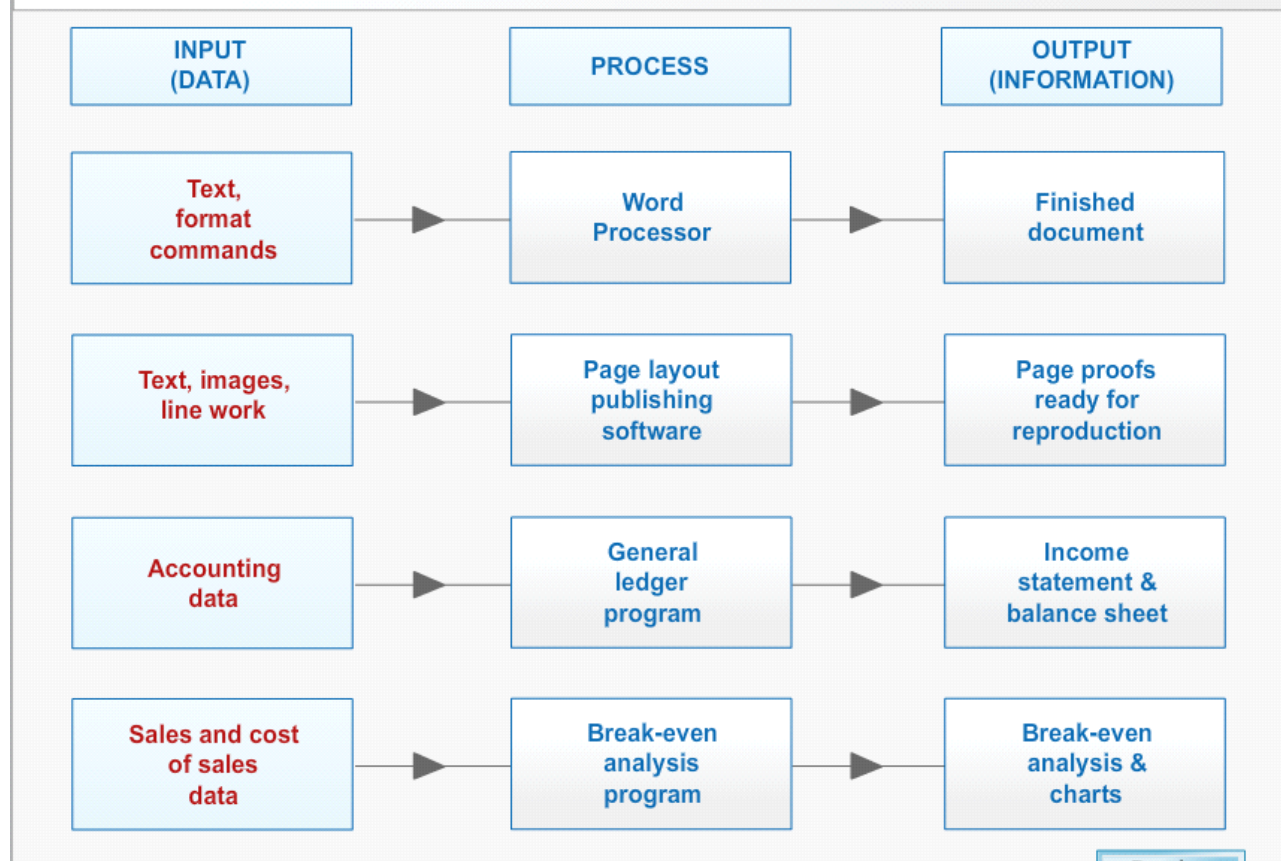
- Generating information
- Analyzing information
- Disseminating information to facilitate the decision-making process

Data vs. Information

Data	Information
<ul style="list-style-type: none">▪ raw facts and figures▪ data are processed to become information<ul style="list-style-type: none">• raw data about clients' purchases, account balances	<ul style="list-style-type: none">▪ a meaningful and useful interpretation of the data▪ a printout showing whose accounts are up-to-date and whose are overdue

From data to information and knowledge

Click on an input data to view the process and its output.



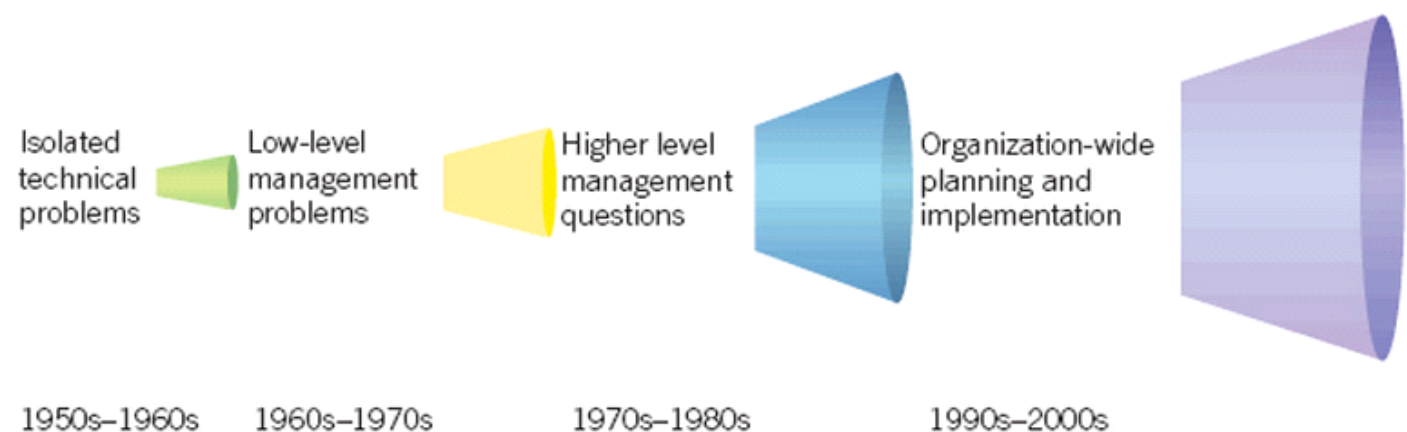
4.2 New information business technologies in the information age

Information Systems (IS)

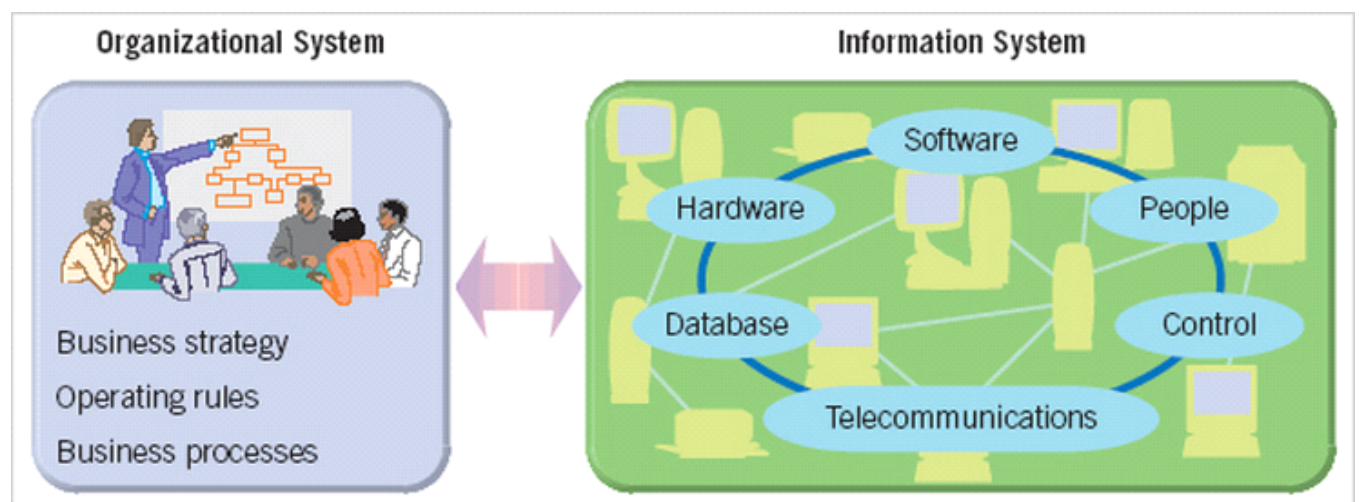
An organized method of transforming data into information

- First necessary to determine what information is needed and how it will be produced
- Must ensure that access is available but restricted to individuals who need it
- Used to facilitate decision making

Evolution of IS



Aligning Strategy with IS



Electronic Information Technologies (EIT)

- IS applications based on telecommunications technologies
- Use networks of devices to communicate information electronically
 - o Fax machine
 - o Voice mail
 - o E-mail
 - o Electronic conferencing
 - o Groupware
 - o Digital Information Services

Data Communication Networks

- The Internet
- Internet Service Provider
- The World Wide Web
- Web Servers
- Browser
- Directories
- Search Engines
- Intranets
- Extranets
- Firewalls

New options for Organization Design : Networked Enterprise.

The structure of business organizations is changing due to information technologies.

- **Leaner organizations** : Fewer employees and simpler organizational structures. Reductions in middle-management positions and shrinkage of layers in organization structure since info. Networks now provide direct communications between the top managers and workers at lower levels.

- **More flexible operations** : Allows businesses to offer customers greater variety and faster delivery cycles.

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

Integrated networks coordinate transaction, activities, process flows to make quick adjustments in process.

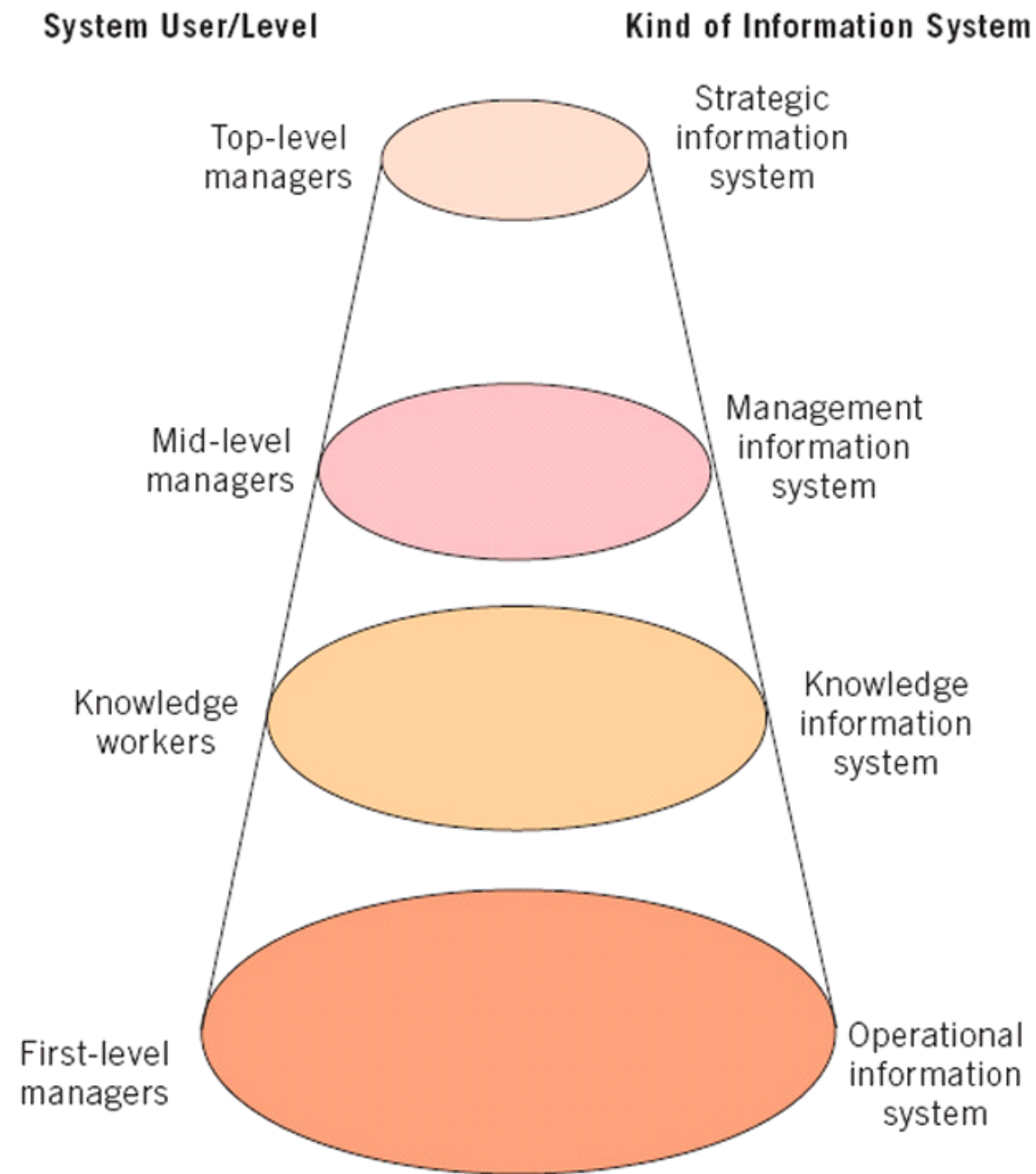
Must store massive volumes of data and of information.

Link customers, suppliers, producers, shippers

- **Increased Collaboration (Internal and external)**
 - o Networking and virtual company
- Greater independence of company and physical workplace
- **Improved management processes** :
Networked system's allow for:
 - o Quick access to great amounts of data
 - o Better, more informed decisions, quickly
 - o Better coordination company-wide

Enterprises resource planning (ERP) Is a large information systems for integrating all the activities of a company's business unites.

Matching Users to Systems



4.3 Types of information Systems

Transaction processing systems (TPS)

Applications of information processing for basic day-to-day business transactions

- Payroll
- Customers order-taking and processing
- Customer billing
- Status reports

Systems for knowledge workers and office applications

- Systems analysts and designers
 - o Work with users to learn their requirements
 - o Design entire systems to suit the user's needs
- Programmers
 - o Use various computers languages to write the software

- System operations personnel (Data workers)
 - o Run a company's computer system
 - o Make sure the right programs are run and that the system is operating properly

Knowledge-level and office systems

- Support systems increased productivity
 - o Word processing
 - o Desktop publishing
 - o Documents imaging

Manufacturing Information systems

- Reduce product design, product cycle and delivery times
 - o Computer-aided manufacturing (CAM)
 - o Computer-integrated manufacturing (CIM)
 - o Computer-aided design (CAD)

Other information systems

- Management Information Systems (MIS)
 - o Systems that support an organization's managers by providing daily reports, schedules, plans and budgets
- Decision Support System (DSS)
 - o Systems that help managers consider alternatives when making decisions on complicated problems
- Executive Support Systems (ESS)
 - o A quick-reference, easy-access application of IS specially designed for upper-level management

Artificial Intelligence (AI)

The programming and development of computers to imitate human thought:

- learning, reasoning and intelligence

Artificial senses include:

- vision, hearing, feeling and facial recognition

Ability to process natural languages and respond to human voice

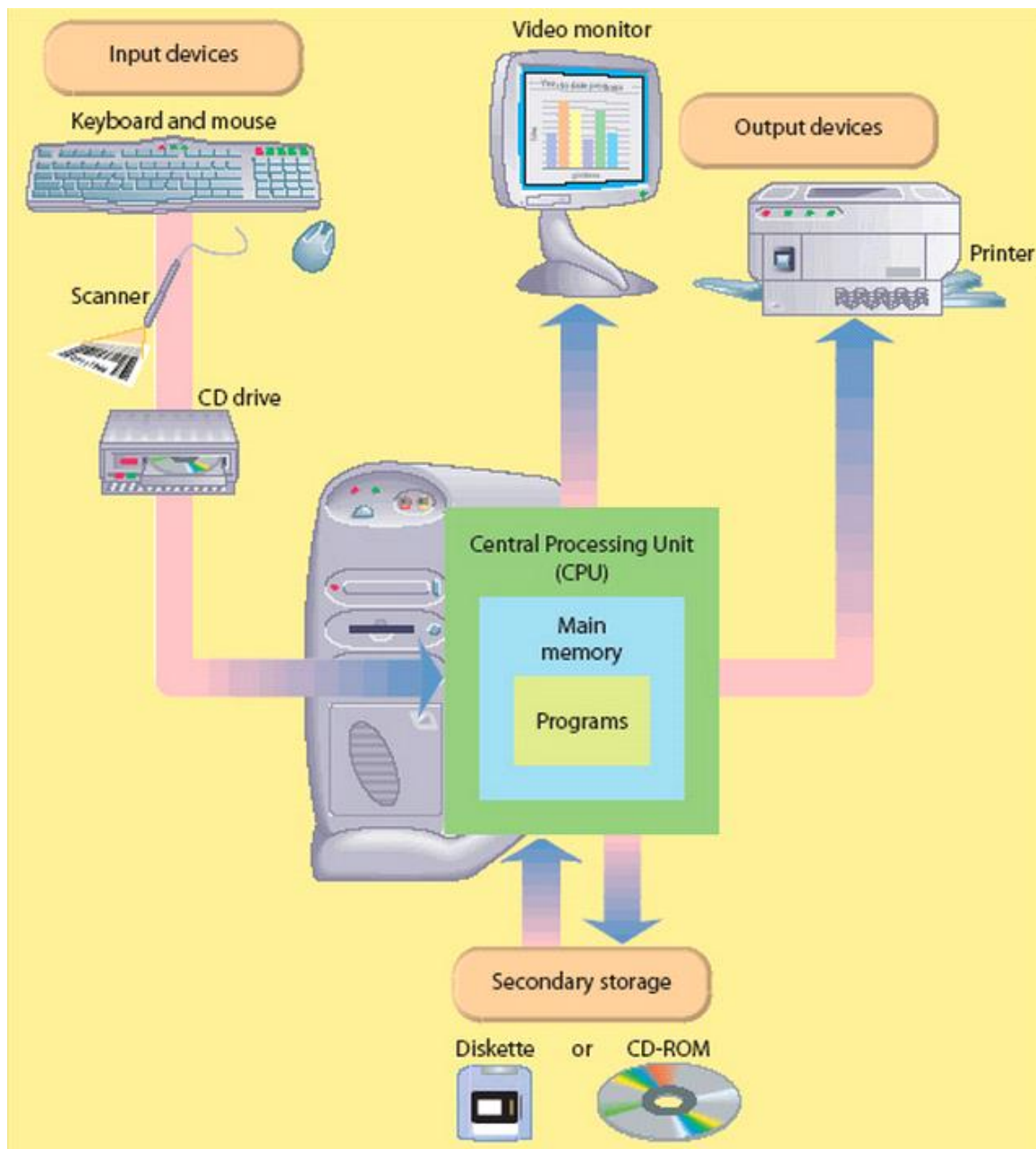
commands includes:

- Robotics
- Expert systems

4.3 Elements of the information System

- Hardware
- Software
- Control
- Database
- People
- Telecommunications

Hardware



Software

- Systems programmes
 - o tell the computer what resources to use and how to use them
- Application programmes
 - o process data to meet the needs of users
 - Excel, Quicken, WordPerfect, etc.
- Graphic user interface (GUI)
 - o user-friendly computer displays with icons for point-and-click use
- Language programmes
 - o allow users to write instructions for the computer
 - o C++

Control

Ensuring that computers are operating within established parameters

- Privacy Invasion
 - o when hackers gain unauthorized access

- Viruses
 - o harmful programs created and spread by vandals seeking to disrupt computer operations
- Security
 - o protection of programs or data from unauthorized users
 - electronic firewalls
 - encryption

Application Programs

- **Word processing**
 - o sophisticated text editing and layout programs to store, edit and type letters, numbers and reports (Word, WordPerfect)
- **Electronic Spreadsheet**
 - o user enters categories of data and formulas
 - o can see how making a change in one item affects another
 - o automatic recalculation (Excel, Lotus 1-2-3)
- **Database management**
 - o monitors and manipulates the data generated by a business (Access, InterBase)
- **Graphics**
 - convert numeric and character data into pictorial information, charts and graphs
 - Presentation graphics
 - o assemble graphics and sound for visual displays, slides and video (PowerPoint, CorelDraw)
 - Desktop publishing
 - o combines word processing and graphics to produce typeset-quality work (Publisher, PageMaker)

4.5 Telecommunications and networks

- Networks are a means of organizing telecommunications components into an effective system
- Multimedia Communication Systems are connected networks of communication appliances that may also be linked by satellite with other remote networks
 - faxes, televisions, sound equipment, cell phones, printers, and photocopiers
 - o Communications devices
 - cell phones, GPS, PDAs
 - o Communications channels
 - wireless systems, microwave systems, satellite transmission
 - Broadband channels (ADSL connections)

System Architecture

- Computers at different locations can function independently but are interconnected as well to allow for information exchange
- Wide area network (WAN)
 - o networks that cover a vast geographic area
 - o may rely on telephone, microwave or satellite transmission
- Local area network (LAN)
 - o a network that links a single office environment, a single building, or a small geographic area
 - rely on hard wiring (cable) or
 - wireless technology (airborne electronic signals)

Client-Server Systems

Client-server network: composed of both clients (users) and servers that allow clients to access various services without costly and unnecessary duplication

- Client
 - user, the point of entry into the network
 - laptops, computer workstation, desktops
- Server
 - a computer that provides the services shared by network users
 - File servers, print servers, fax servers

Lesson 5

December-02-13 7:50 PM

5.1 What is Accounting and who uses it ?

Definitions

- **Accounting** : a comprehensive system for collecting, analyzing, and communicating financial information
- **Bookkeeping**: recording accounting transactions
- **Accounting information system (AIS)**: an organized procedure for identifying, measuring, recording, and retaining financial information
- **Controller**: an individual who manages a firm's accounting activities

Users of Accounting Information

- **Business managers**: set goals and budgets, develop plans, evaluate opportunities
- **Employees and unions**: to get paid, to plan for and receive benefits
- **Investors and creditors**: estimate returns, future growth and credit risk
- **Taxing authorities**: plan for tax inflows, determine tax liabilities, aid in collection
- **Government regulatory agencies**: protect investors' interests

5.2 Who are accountants and what do they do ?

Financial Accounting

Keeps interested external parties informed about the firm's financial condition

- the firm as a whole

Requires preparation of statements and reports structured according to GAAP requirements

- summarizes financial transactions that took place in previous accounting periods
 - historical reports

Managerial Accounting

Keeps internal parties (managers) informed of how the firm is doing financially

- company's individual units: projects and activities

Provides information to facilitate planning, forecasting and decision making

- forward looking

Professional Accountants

Require degrees and a national exam

Designation	Chartered Accountants (CA)	Certified General Accountants (CGA)	Certified Management Accountants (CMA)
Where	1/2 CA firms as public accountants 1/2 government and industry	Industry, CGA or CA firms	Industry, consulting and CA firms
What	External financial reporting	External reporting and computerized accounting	Internal management accounting
# in Canada	70,000	41,000	37,000

Top Five Accounting Firms in Canada (2005)	Annual revenues in million Cdn \$
Deloitte & Touche LLP	\$1151
KPMG LLP	\$ 885
PricewaterhouseCoopers LLP	\$ 876
Ernst & Young LLP	\$ 788
Grant Thornton Canada	\$ 361

Public Accounting Services

- Auditing
 - o Examination of financial records to ensure fair representation and proper procedures (GAAP)
 - Generally accepted accounting principles (GAAP): standard rules and methods used to prepare financial reports
 - Forensic accounting: tracking down hidden funds in business firms (generally part of a criminal investigation)
- Tax Services
 - o Tax return preparation and tax planning
- Management Consulting Services
 - o From personal financial planning to business planning

Private Accountants

- Hired as employees
- Small business may have just one
- Large business may have area specialists (budgeting, financial planning, internal auditing, payroll, taxation, accounts payable and receivable)

5.3 Tools of Accounting Trade

Journal

- A chronological record of a firm's financial transactions with a brief description of each transaction

Ledger

- Summation of journal entries, by category, that show the effects of

transactions on the balance of each account

The Accounting Equation

- accounting equation
 - o $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$
- Asset: anything of economic value owned by a firm or individual
- Liability: any debt owed by a firm or an individual to others
- Owners' Equity: any positive difference between a firm's assets and liabilities
 - o original investment values plus profit earned minus losses

Double-Entry Bookkeeping System

- All transactions are entered in two ways: how they affect assets and how they affect liabilities
- The accounting equation is always kept in balance
- Every account is divided into two sides: one debit and one credit
- Each account is recorded in a T-Account

T-Account	
Any Asset or Liability Account	
Debit	Credit

Debit: increase in asset, decrease in liability/owners' equity

Credit: increase in liability/owners' equity, decrease in asset

5.4 Financial Statements

Balance Sheet (or Statement of Financial Position)

- firm's financial position at one point in time (assets, liabilities, owners' equity)

Income (or Profit-and-Loss) Statement

- presents revenues and expenses and profits or losses for a given period of time

Statement of Cash Flow

- presents generation and use of cash for a given period of time

Example of balance sheet

Perfect Posters, Inc.
Balance Sheet
As of December 31, 2006

Assets	
Current Assets:	
Cash	\$7,050
Marketable securities....	2,300
Accounts receivable....	\$26,210
Less: Allowance of.....	
doubtful accounts....	<u>(650)</u> 25,560
Merchandise inventory....	21,250
Prepaid expenses	<u>1,050</u>
Total current assets	\$57,210
Fixed Assets:	
Land	18,000
Building	65,000
Less: Accumulated	
depreciation	<u>(22,500)</u> 42,500
Equipment	72,195
Less: Accumulated	
depreciation	<u>(24,815)</u> 47,380
Total fixed assets...	107,880
Intangible Assets:	
Patents	7,100
Trademarks	<u>900</u>
Total intangible assets	<u>8,000</u>
Total assets	<u>\$173,090</u>

Liabilities and Owners' Equity

Current liabilities:	
Accounts payable.....	\$16,315
Wages payable.....	3,700
Taxes payable.....	<u>1,920</u>
Total current liabilities	\$21,935
Long-term liabilities:	
Notes payable, 8%	
due 2009	10,000
Bonds payable, 9%	
due 2011	<u>30,000</u>
Total long-term liabilities	40,000
Total liabilities	\$61,935
Owners' Equity	
Common stock, \$5 par	40,000
Additional paid-in capital	15,000
Retained earnings	<u>56,155</u>
Total owners' equity	<u>111,155</u>
Total liabilities and owners' equity ...	<u>\$173,090</u>

Balance Sheet (or Statement of Financial Position)

Current Assets

Cash and assets that can be converted into cash within the year listed in order of liquidity

- o Accounts receivable: amounts owed to the firm by customers
- o Inventory: cost of merchandise acquired for sale but not yet sold
- o Prepaid expenses: supplies on hand and rent (other bills) paid for coming period

Other Assets

- Fixed assets:
 - o have long-term use or value (land, buildings, machinery)
 - o Depreciation: distributing the cost of a major asset over its lifetime, deducted yearly
- Intangible assets:
 - o patents, trademarks, copyrights, franchise fees
 - o goodwill (the amount paid for a business beyond the value of its assets)

Liabilities and Owner's Equity

- Current liabilities: debts owed by the firm that must be repaid within one year
- Long-term liabilities: debts owed by the firm and due in more than one year
- Owners' equity: owners' holdings in the firm
 - o retained earnings: net profits less dividends paid to shareholders
 - o paid-in capital: money invested by owners

- o common stock: value of shares in the company

The Income Statement

Revenues

Monies received by a firm as a result of:

- o Selling its product or service
- o Return on investments

Cost of Goods Sold and Gross Profit

- Expenses directly incurred as a result of producing or selling a good or service in a given time period

Gross Profit (gross margin)

= Revenues - Cost of Goods Sold

Operating Expenses and Income

Operating Expenses

- o All other costs of doing business including supplies and salaries
 - selling expenses
 - general and administrative expenses

Operating Income

Operating Income

= gross profit - operating expenses

Net income (net profit or net earnings)

= Operating Income - Taxes

Perfect Posters, Inc.
Income Statement
Year ended December 31, 2006

Revenues (gross sales).....		\$256,425
Costs of goods sold:		
Merchandise inventory,		
January 1, 2006.....	\$22,380	
Merchandise purchases		
during year.....	<u>103,635</u>	
Goods available for sale.....		\$126,015
Less: Merchandise inventory,		
December 31, 2006.....	<u>21,250</u>	
Cost of goods sold		<u>104,765</u>
Gross profit		151,660
Operating expenses:		
Selling and repackaging expenses:		
Salaries and wages.....	49,750	
Advertising.....	6,380	
Depreciation—warehouse and ..		
repackaging equipment.....	3,350	
Total selling and repackaging		
expenses.....		59,480
Administrative expenses:		
Salaries and wages.....	55,100	
Supplies.....	4,150	
Utilities.....	3,800	
Depreciation—office equipment .	3,420	
Interest expense.....	2,900	
Miscellaneous expenses.....	<u>1,835</u>	
Total administration expenses.....		71,205
Total operating expenses.....		<u>130,685</u>
Operating income (income before taxes)...		20,975
Income taxes.....		<u>8,390</u>
Net income.....		\$12,585

Statement of Cash Flows

Operations

cash from buying and selling goods and services

Investing

cash from investment activities (bonds, stocks, property, equipment)

Financing

cash from financing activities (dividends, borrowing or issuing stocks, repayment of borrowings)

The Budget

Detailed financial plan for estimated receipts and expenditures for a future period of time

- an internal financial statement
- usually one year (may be more years, weekly, monthly)
- requires input from other departments
- compare actual vs. budget to signal problems

Example:

**Perfect Posters, Inc.
Sales Budget
First Quarter, 2007**

	January	February	March	Quarter
Budgeted sales (units)	7,500	6,000	6,500	20,000
Budgeted selling price per unit	\$3.50	\$3.50	\$3.50	\$3.50
Budgeted sales revenue	\$26,250	\$21,000	\$22,750	\$70,000
Expected cash receipts:				
From December sales	\$26,210 ^a			\$26,210
From January sales	\$17,500 ^b	\$8,750		26,250
From February sales		14,000	\$7,000	21,000
From March sales			15,200	15,200
Total cash receipts:	\$43,710	\$22,750	\$22,200	\$88,660

^a This cash from December sales represents a collection of the Account Receivable appearing on the December 31, 2006, Balance Sheet.

^b The company estimates that two-thirds of each month's sales revenues will result in cash receipts during the same month. The remaining one-third is collected during the following month.

Reporting Standards and Practices

Revenue Recognition

The formal recording and reporting of revenues in financial statements once the earnings cycle is completed

- o The sale is complete and the product has been delivered
- o The sale price to the customer has been collected, or is collectable (accounts receivable)

The Matching Principle

Expenses will be matched with revenues to show net income for an accounting period

- o Revenue recognition is matched with expense recognition to determine net income when the earnings cycle is completed
- o Allows users to identify the net income for the accounting period

Full Disclosure

- Financial statements must include numbers, but they should also include interpretations and explanations by management
- Allows users of the financial statements to understand the circumstances underlying the financial results
- Allows for more accurate use of financial information

5.5 Analyzing Financial Statements

Key ratios are used to interpret and compare results of financial statements for firms and/or industries

short-term solvency ratios

Measure the company's liquidity

- o its ability to meet current obligations out of current assets
- o higher ratio = lower risk of inability to pay

Current Ratio	Quick Ratio
$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$

Long-Term Solvency Ratios

Measure the company's ability to pay long-term debts

- higher ratio = greater the risk of inability to pay
- also known as debt ratios

Debt-to-Owners' Equity Ratio
$\frac{\text{Debt}}{\text{Owners' Equity}}$

Profitability Ratios

Measure overall company profitability for potential investors

- higher ratio = more profitable

Return on Equity	Earnings per Share
$\frac{\text{Net Income}}{\text{Total Owners' Equity}}$	$\frac{\text{Net Income}}{\# \text{ Outstanding Common Shares}}$

Activity Ratios

Measure how efficiently the company uses its resources

- higher ratio = more efficient
- compared to firms in same industry

Inventory Turnover Ratio
$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$

5.6 International Accounting

Must consider the value of currencies and their exchange rates

- When the Canadian dollar changes relative to a foreign currency, a firm may enjoy a gain or a loss
- Factors to consider include:
 - o representing values in Canadian dollars with appropriate exchange rates
 - o reflecting gains or losses due to exchange rate changes

International Accounting Standards Committee (IASC)

- Members in over 80 countries
- Goal is to eliminate differences in financial reporting from country to country
 - o Standardization is far from universal
 - o Uniform format is not required across all nations for financial statements and there is much variety

Lesson 6

December-02-13 8:44 PM

6.1 What is marketing

Planning and executing the development, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy both buyers' and sellers' objectives.

Providing Value and Satisfaction

value = comparison of benefits versus costs
utility = ability of a product to satisfy a need

- Time Utility: Satisfying because of when the product is available
- Place Utility: Satisfying because of where the product is available
- Ownership (Possession) Utility: Satisfying during its consumption or use
- Form Utility: Satisfying because of the product's form (the transformation of raw materials into a finished product)

Goods, Services and Ideas

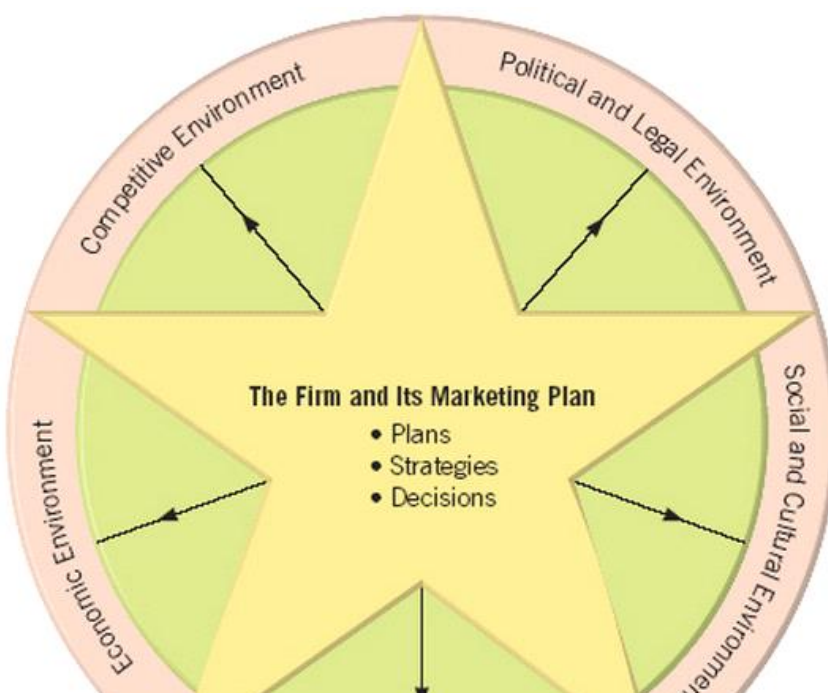
Marketing can be directed to:

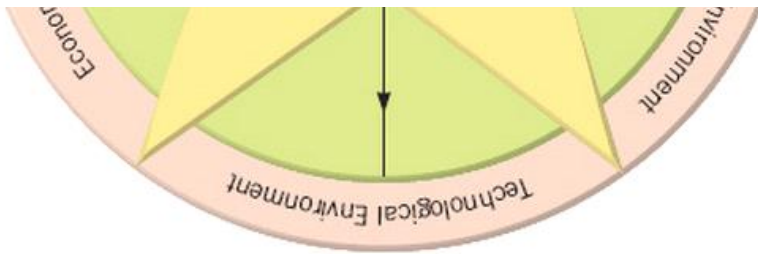
- Consumer goods: tangible products purchased by individuals for their use (food, clothing)
- Industrial goods: Products purchased by companies to use directly or indirectly to produce other products (components, raw materials, equipment)
- Services: intangible products to serve users' needs (insurance, health care)
- Ideas: thoughts or philosophies ("Participaction" as a symbol for healthy living)

Relationship Marketing

- A type of marketing that emphasizes lasting relationships with customers and suppliers
- Stronger relationships can result in greater long-term customer satisfaction and client retention

The Marketing Environment





Political and Legal Environment

- Legislation and government programs can be favourable or not
- Marketing managers try to maintain favour by:
 - gaining public support for products
 - advertising for public awareness of important issues
 - lobbying and contributing to political parties (within restrictions)

Social and Cultural Environment

- Growth in the number of single-parent families
- Move toward healthy lifestyles
- Women entering the workforce
- People working from home
- Focus on reduce, re-use, and recycle
- Aging of the baby boomers
- Growing cultural and ethnic diversity

Technological Environment

Science and technology lead to new ways of doing everyday things

- Consumers can use direct pay systems instead of carrying cash, or buy using the Internet
- New goods continue to emerge (like satellite dishes and cell phones)
- Trends create new goods and cause others to become obsolete

Economic Environment

Economic conditions affect the spending patterns of businesses and individuals.

- The Canadian dollar
- Inflation
- Interest rates
- Business cycle

Trends affect price strategy and the growth of markets (domestic and global)

Competitive Environment

- Brand competition: similar products (Coke vs. Pepsi)
- Substitute products: dissimilar products that can meet the same need (juice vs. Pepsi)
- International competition: Marketing domestic products against foreign products (Oldsmobile vs. Honda)

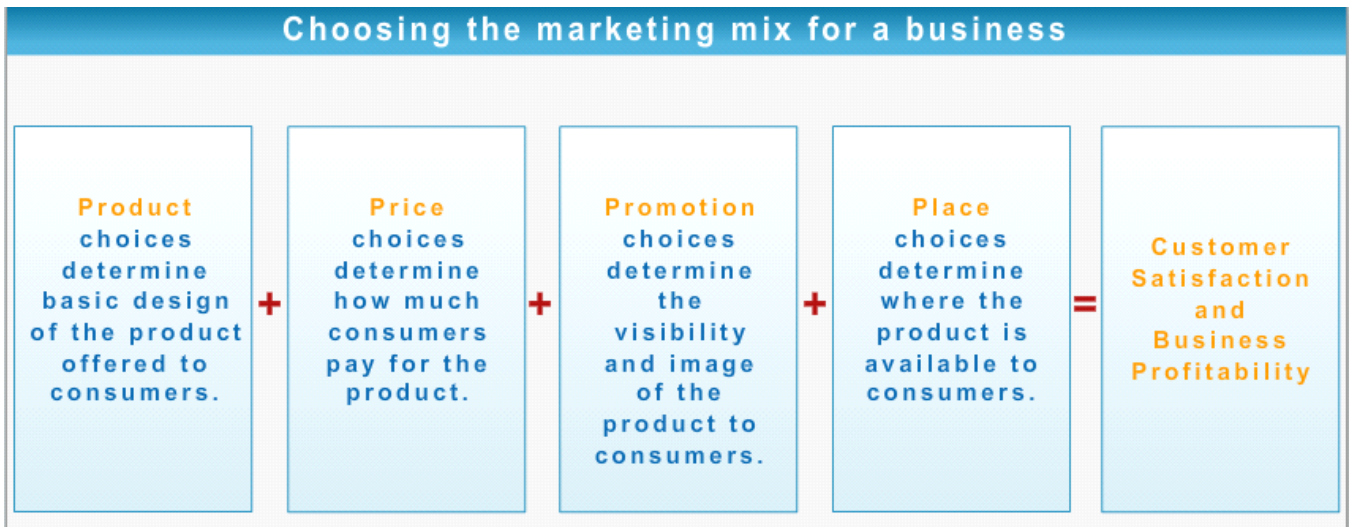
The Marketing Plan

A detailed, focused strategy for gearing the marketing mix to meet consumer needs and wants.

Choosing the Marketing Mix

The four elements of the marketing mix can be combined any number of ways. Different parts of the marketing mix are stressed depending on the nature of the product. For example, price is not as important in selling luxury products as the product and its image are. However, price may be a critical factor when selling commodities such as bread, milk or other grocery

products. For some products, such as milk, there is little product differentiation and the different brands of the product are easily substituted if prices differ. Managers must decide which marketing mix element(s) need to be emphasized to meet the needs of the firm



Product Strategy

- Offering a good, service, or idea that satisfies the buyers' needs is the goal of the firm
- Product differentiation
 - creating a product that has a different image than existing products on the market to attract consumers
- May involve:
 - changing existing products by responding to trends or improving current offerings
 - adding new products

Pricing Strategy

- Choosing the right price to attract consumers and meet the firm's profit goals
- May be low price strategy (salt) or high price strategy (mink coat)
- Price must consider all costs
 - operation and administration
 - marketing research
 - Advertising

Place (Distribution Strategy)

The part of the marketing mix concerned with:

- Getting the product from producer to buyer
- Physical transportation
- Choice of sales outlets

Promotion Strategy

Choosing the right method of communicating information about the product.

- advertising
- personal selling
- sales promotions
- public relations

6.2 Target Marketing and Market Segmentation

Target Market

A group of potential customers who have similar wants and needs.

Segmentation

- dividing a consumer market into categories
- selecting specific market segment(s) to pursue
- positioning: process of fixing, adapting and communicating the product to specific segments

Identifying Market Segments

- Geographic Variables

Area of residence affects product consumption

- rainfall and umbrellas
- snowfall and snowmobiles or snow blowers
- hot summers and backyard pools

- Demographic Variables

- age
- gender
- ethnicity
- income
- family size
- religion
- education
- occupations
- marital status
- language

- Psychographic Variables

- Psychological traits a group has in common
- Attitudes
- Interests and hobbies
- Opinions
- Motivations
- Activities

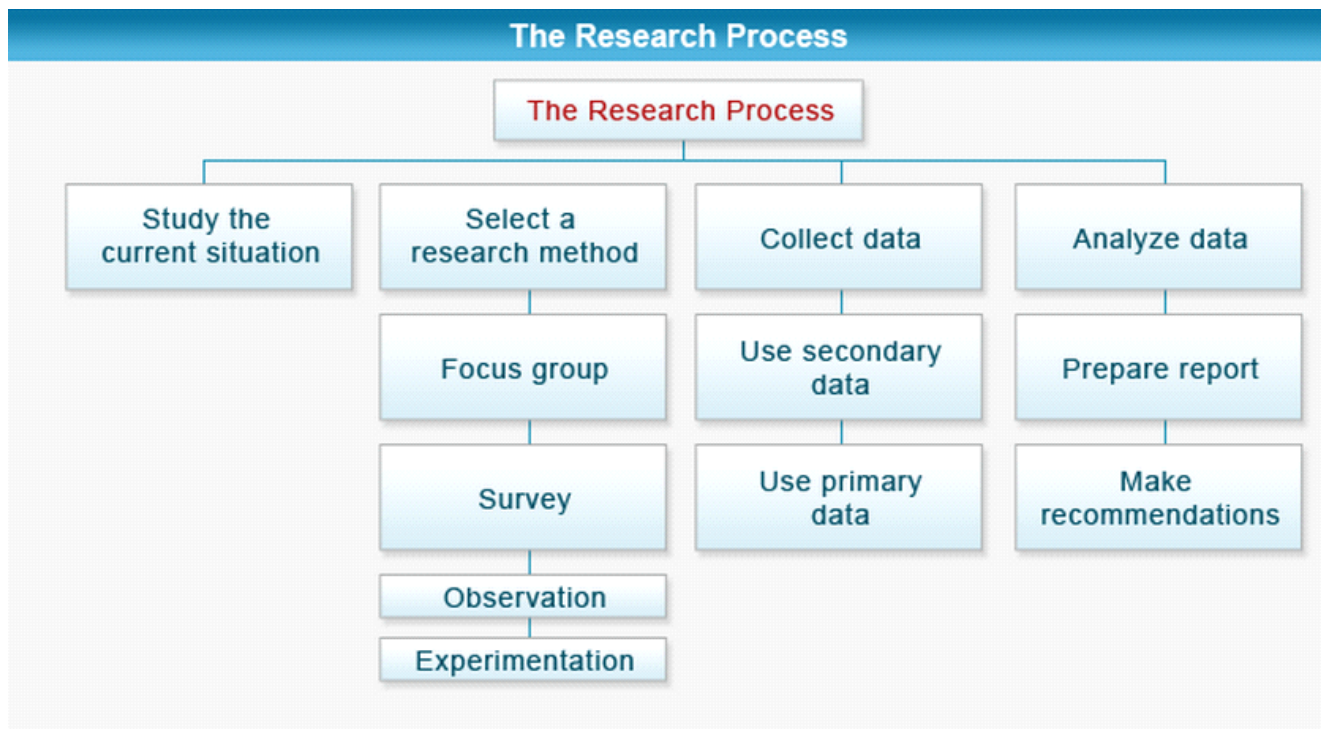
- Product-Use Variables

- Occasion for use
- Benefits sought
- Reasons for purchasing
- Loyalty level

6.3 Market Research

A systematic study of consumer needs.

- Focuses on the marketing mix elements
- Leads to more effective marketing
- Increases the accuracy and effectiveness of market
- segmentation



Research Methods

1 Observation

- Viewing or monitoring human behaviour
- Useful for cases where actions occur automatically without thinking (grocery shopping)
- May be human observation or technological
 - supermarket scanners
 - video mining

2 Survey

Questioning consumers about purchasing attitudes and practices

- Relies on a reliable random sample
- In person, via phone, mail, or the Internet
- Choosing appropriate questions and ensuring honest answers

3 Focus Group

A small discussion group of prospective customers or product users

- In-depth discussion of issues
- Usually group does not know who is the sponsor
- Search for common themes in participants' feedback

4 Experimentation

Reactions of similar people are compared under different circumstances

- The situations can be manipulated to compare responses to such things as:
 - shelf placement of products
 - package colours and design
 - advertising strategy
- Very costly

Data Warehousing and Data Mining

Each person has a huge cache of data stored somewhere about them (purchases, personal information, phone calls, health, etc.).

Data Warehousing

Collection, storage and retrieval of such data in electronic form.

Data Mining

Using electronic technologies to search, sift and reorganize data (find useful information to planning marketing strategy).

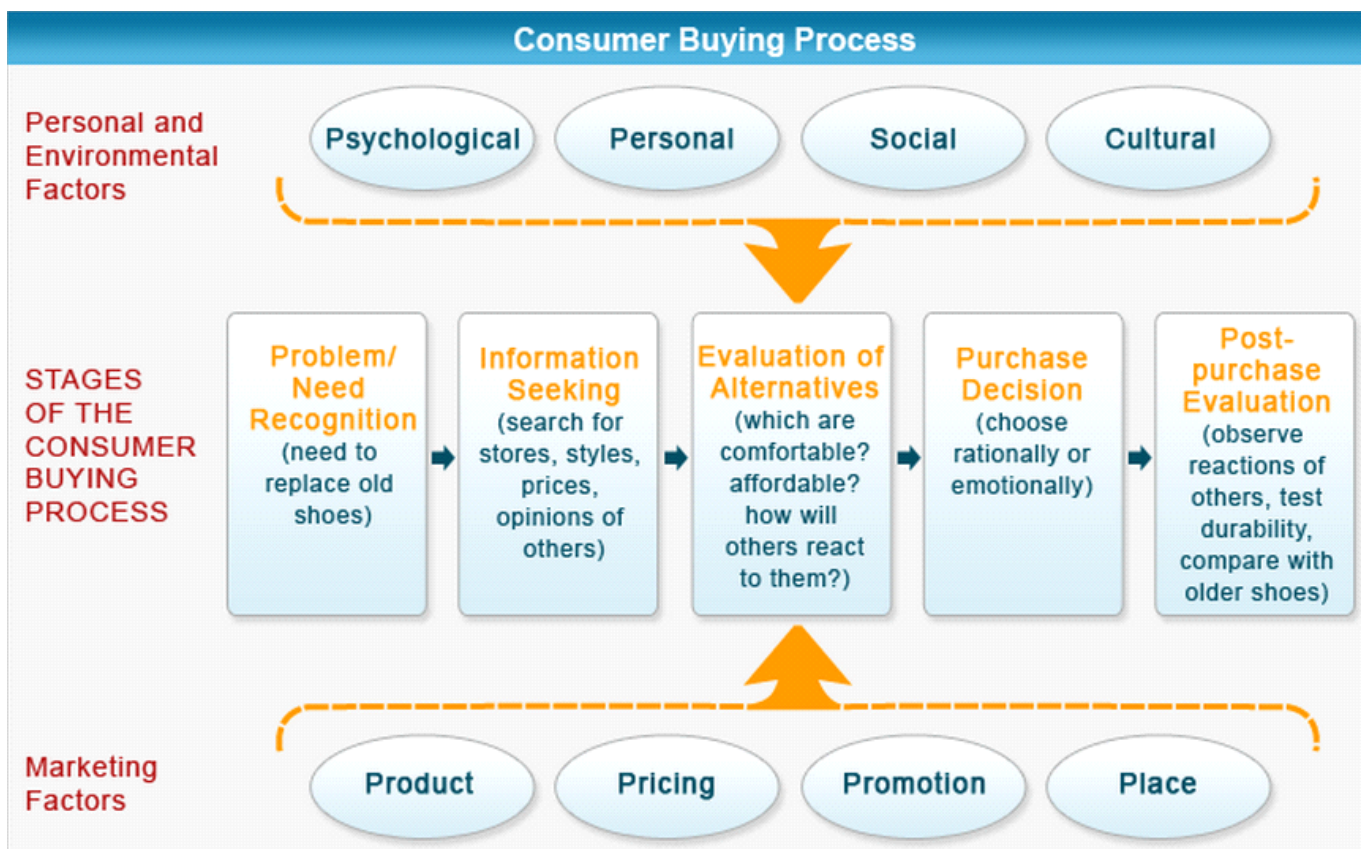
6.4 Understanding Consumer Behaviour

The study of the process by which customers come to purchase and consume a product or service.

Influenced by:

- psychological factors (motivations, perceptions, ability to learn, attitudes)
- personal factors (lifestyle, personality, economic status, life-cycle stage)
- social factors (family, opinion leaders, reference groups)
- cultural factors (the way of living that distinguishes one group from another: social class)

The Consumer Buying Process



Buying Process

- Problem Recognition

Consumer becomes aware of a problem or need

- o May be automatic (the need for food or sleep)
- o Due to a lifestyle change (new parents, retirement)

-Information Seeking

The information search may be long and detailed, or short and limited (buying a car versus buying a candy bar)

-Evaluation of Alternatives

Products are compared to identify the best choice

-Purchase Decision

- Choice may be made based on rational or emotional motivations
- Rational motives include cost, quality, usefulness
- Emotional motives include fear, sociability, aesthetics, imitation of others

-Post-Purchase Evaluation

Marketers must market after the sale:

- o to ensure satisfaction and repeat purchases (negative word-of-mouth can be harmful)

6.5 Organizational Marketing and Buying Behaviour

Organizational Markets

Organizations purchase goods and services to be used in the production of other goods and services

- Industrial Market
- Reseller Market
- Government and Institutional Market

Organizational Buying Behaviour

Differences in buyers:

- Professionals: trained in arranging/negotiating purchase terms, contracts
- Specialists: specialize in product lines
- Experts: knowledge about their purchases

Differences in the buyer-seller relationship:

- emphasize personal selling by trained representatives who understand the needs of each customer
- more frequent and longer-lasting
- may work as a team in product design

6.6 The International Marketing Mix

- Products may require substantial change before they can be marketed to different countries.
- Pricing requires consideration of product manufacturing costs, transportation and delivery.
- Promotion must accommodate cultural differences and social traditions.
- Distribution may involve cooperation with other international firms and adherence to foreign packaging and labelling legislation.

6.7 Small Business and the Marketing Mix

Care must be taken to:

- offer products to markets substantial enough to support the organization
- do a complete analysis of costs prior to setting prices
- develop a comprehensive promotional program using more than personal selling (lower cost options: publicity, associated events)
- choose a location that will attract and retain customers

Lesson 7

December-02-13 9:30 PM

7.1 What is a Product?

The Product as a Value Package

Consumers purchase a product for its function and benefit to them...for what it does as much as what it is

- Product features include both tangibles and intangibles like image and reputation
 - must provide desired benefits
- Value Package = a bundle of value-adding attributes, including reasonable cost

Consumer Products Classification

- Convenience
 - Bought frequently and with little thought.
 - milk, "no brainers"
- Shopping
 - Purchased infrequently; typically of moderate cost.
 - Consumers shop around for price, value and brand.
 - home furnishings, winter tires
- Specialty
 - Purchased rarely; typically expensive.
 - Consumers take time to locate the exact item desired.
 - wedding gowns, automobiles

While there are typical examples of products for each classification, a product can fall into any group depending on how the consumer goes about the purchase process.

Industrial Products Classification

- Expense items
 - Expense items are materials that are consumed through the production process, or in the process of operating the business (supplies, such as cleansers and paper clips).
 - Goods consumed through the production process include those which become "ingredients" and those which help the production process but do not become ingredients, such as additional equipment.
 - The text refers to the latter group as "support materials". These items are "expensed" as purchased by the firm.
 - Used quickly in the course of business/production.
 - Reduce earnings this year, no depreciation.
- Capital items
 - Expensive, long-lasting goods and equipment.
 - Capital items are permanent fixtures that are used in the production process and have a much longer life than support materials. For example, a baker's oven is a capital item, while the trays used to load the bread pans in and out of the oven would be support materials.
 - Capital items typically represent a major financial investment and are depreciated over time for accounting purposes rather than expensed resulting in future earnings reduction through depreciation.

Product Mix

- Product mix:
 - o the group of products a company has for sale
 - Procter & Gamble sells household cleansers, disposable diapers, etc.
- Product line:
 - o a group of similar products intended for a similar group of buyers
 - Procter & Gamble sells more than one brand of laundry detergent

7.2 Developing New Products

- Needed both to survive and to expand
- Expensive, risky and with long time horizons

Product mortality

- only 1 in 50 new product ideas reach the market
 - o only a few become successful

Speed to market

- introduce products quickly to respond to changes
 - o introduce ahead of competitors to establish market leadership
 - o more rapid = more likely to survive
 - o and more profitable

Step 1: Product Ideas

- Seek out ideas for new products
- Sources: employees, consumers, sales people, engineers, etc.
- People often think of this as the only step

Step 2: Screening

- Elimination of product ideas that do not fit with the firm's resources
- Includes staff from marketing, engineering and production

Step 3: Concept Testing

- Market research
- Identify benefits and a pricing strategy

Step 4: Business Analysis

- Comparison of costs and benefits
- Preliminary sales and cost projections
- Can it meet minimum profitability goals?

Step 5: Prototype Development

- Preliminary version of the product; costly
- Identifies potential production problems
- (In the real world, this step is often begun as early as step 3, with at least some cheaper type of example being produced.)

step 6: Product and Market Testing

- Limited production of the product for sale in a test market area with complete promotion and distribution
- Provides feedback on potential performance: costly

Step 7: Commercialization

- Full-scale production and marketing
- May be rolled out on a gradual basis to alleviate strain on the

company's production and financial resources

Variations in the Process for Services

Step 1: Service Ideas

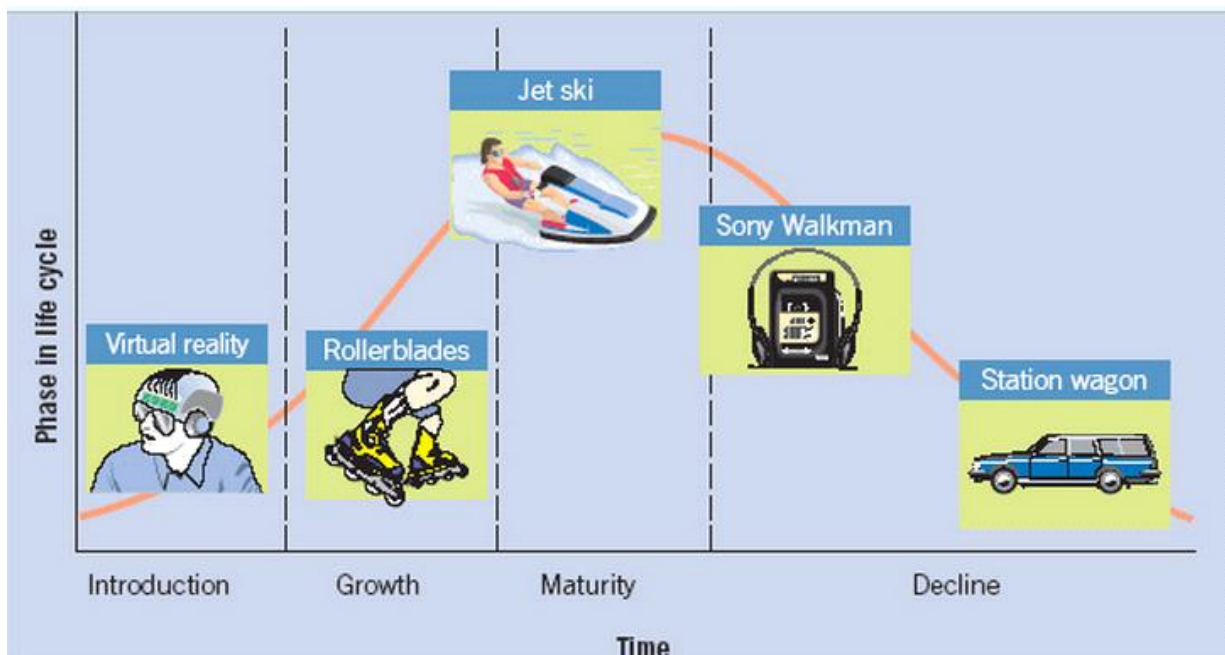
- Defining the "service package"
- identification of the tangible and intangible features that define the service

Step 5: Prototype Development

- Requires "service process design":
- selecting the process, identifying worker and facilitating requirements

7.3 The Product Life Cycle

- Products have a limited profit-producing life cycle
- Consists of four stages
- introduction, growth, maturity and decline
- May be months, years or decades



Introduction

- Competition is limited to the firm that has introduced the application
- Costs are high due to R & D and promotion
- Profits are non-existent due to high costs
- Prices are high to offset costs of market entry
- Firm may experience severe cash drain
- Promotion focuses on informing consumers and generating initial product demand

Growth

- Sales grow rapidly
- New competition enters
- Aggressive promotion emphasizes brand preference
- Prices lowered to meet competition
- Product begins to show a profit

Maturity

- Industry sales level off
- Market becomes more aggressive due to increased competition in the face of slow/no sales growth
- Profits peak and then decline
- Costs increase due to the need to promote aggressively while prices are simultaneously declining
- In late maturity, some firms will leave the market
- "Cash Cow"

Decline

- Sales and profits decline
- Product is becoming obsolete
- Competition leaves market
- Sales drop: the industry has run its course
- Promotion is limited and tied to brand loyalty
- Firms with larger market shares may let product linger until industry ceases to exist

Extending Product Life and Foreign Markets

- Product Extension
 - It is very cost effective to extend the product life cycle
 - Marketing an existing product globally (Coca Cola, Levi's)
- Product Adaptation
 - Marketing a product internationally with some modification (McDonald's in Germany serves beer)
- Reintroduction
 - Aiming declining or obsolete products at less developed markets (Manual cash **registers in Latin America**)

7.4 Identifying Products

Branding

Use of symbols to communicate the qualities of a product made by a particular producer

Packaging

The physical container in which the product is sold

Labelling

Identifies the product's name, contents, and possibly benefits

Branding

- use of symbols to communicate the qualities of a product made by a particular producer

Brand Equity

- degree of loyalty to and awareness of a brand and its relevant market share
 - manage brands to increase value and "brand loyalty"
- International Branding
 - takes a long time to establish national or global brand recognition
 - must consider how brand names translate

Types of brands

- National

distributed by and carrying the name of the manufacturer (Kellogg's)

- Licensed

selling the right to use the firm's name on another company's product

(Mickey Mouse)

- Private

brands carrying the name of the retailer or wholesaler (President's Choice)

- Generic

products carrying no brand name, which are usually priced lower

Brand Loyalty

Measured in three stages (from least to most loyal):

- Brand Recognition:
 - o consumers recognize the brand name
- Brand Preference:
 - o consumers prefer one brand over another
- Brand Insistence:
 - o consumers insist on buying only one brand over all others without substitution

Trademarks, Patents and Copyrights

- Trademark TM
 - o the exclusive legal right to use a brand name
 - o lasts for 15 years and is then renewable
- Patent
 - o protects an invention or idea for a period of 20 years
 - o costly to obtain
- Copyright ©
 - o exclusive ownership rights to creators of books, articles, designs, illustrations, photos, films and music
 - o lasts for the life of the artist plus 50 years

Packaging and Labelling

Packaging

- o The physical container in which the product is sold
 - makes the product attractive
 - breakage, spoilage or theft

Labelling

- o identifies the product's name, contents, and possibly its benefits
 - identifies, promotes and describes
- o Must conform to the Consumer Packaging and Labelling Act (federal legislation)

7.5 Promoting Products and Services

Promotion

Seeks to:

- Communicate information
 - o increase product awareness
 - o increase knowledge of products and their added-values
 - o increase product preference
 - o increase product purchase
- Create satisfying exchanges
 - o the company achieves profit and the client will buy the product again

Promotional Objectives

Communicate Information

awareness and education
written, verbal or visual

Position Products

establish an easily identifiable image of a product in the minds of consumers
try to appeal to a specific market segment

Add Value

added benefits, e.g. consumer discounts

Control Sales Volume

achieve more stable sales despite seasonal sales patterns

Promotion Strategies

Push Strategy

Firm promotes aggressively to intermediaries
Commonly used by industrial product manufacturers
Traditionally used excessively by Canadian manufacturers

Pull Strategy

Firm promotes directly to final consumers, who demand the product from intermediaries
Commonly used for consumer product producers
Many firms use a combination of both strategies

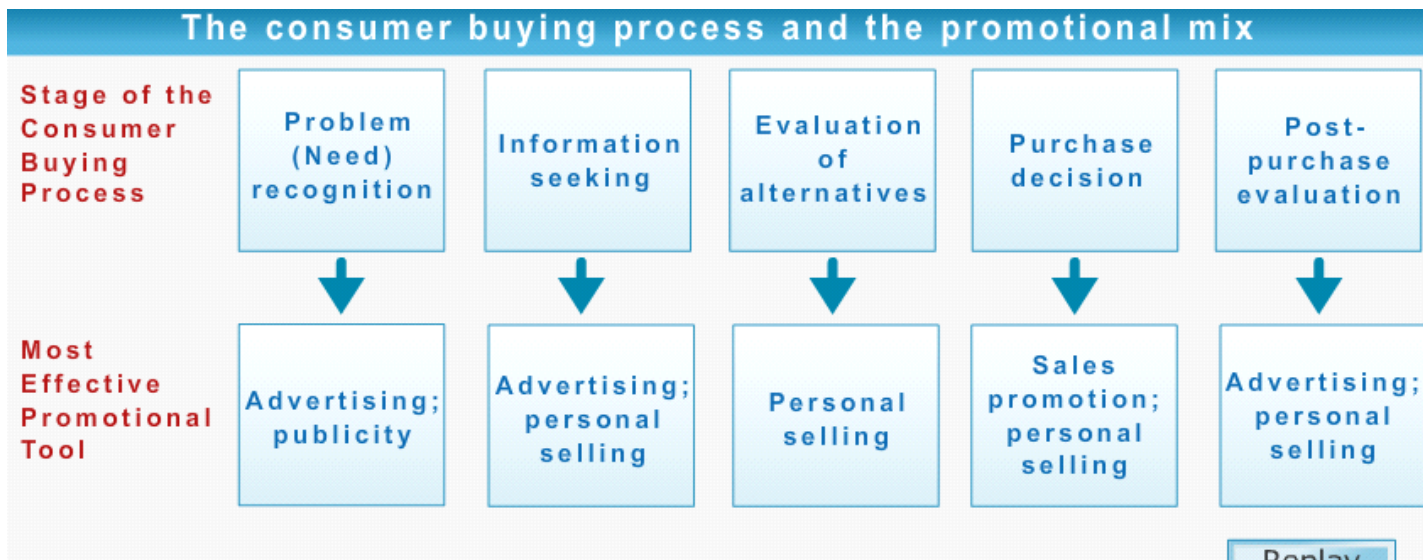
Promotional Mix

The combination of the following chosen to sell a product:

- Advertising: Any paid form of non-personal communication by a sponsor
 - o Persuading or informing customers about the product via various media
- Personal selling: Selling using sales representatives
 - o Commonly used for industrial marketing
- Sales promotions: Using specialty items and methods to promote the product
 - o Gifts, coupons, package inserts, samples
- Publicity: Any non-paid communication about a firm and/or its products
 - o Outside the control of the firm, press articles
- Public relations: Used to build good relations with buyers, suppliers and other stakeholders
 - o Charitable donations and sponsorship

Affected by:

- the nature of the product
- the nature of the audience
- promotional budget
- the cost of different promotional methods



7.6 Advertising Promotions

Advertising Strategies

Informative Advertising

- Increase awareness among potential buyers
- Generate primary (initial) demand
 - o typical life cycle stage: introduction

Persuasive Advertising

- Influence the customer to buy the firm's product over that of the competition
 - o typical life cycle stage: growth to maturity

Comparative Advertising

- Influence customers to switch brands
- Involves direct or indirect comparison
 - o typical life cycle stage: maturity
 - o effectiveness often questioned in the real world

Reminder Advertising

- Keep the product's name in front of consumers
 - o typical life cycle stage: late maturity

Advertising Media

Newspaper

Advantages	Disadvantages
<ul style="list-style-type: none">▪ Widely used medium▪ Excellent market coverage▪ Flexible with short lead times	<ul style="list-style-type: none">▪ Not kept▪ Not targeted▪ Not colour▪ Poor reproduction of images▪ Fewer and fewer people actually still read a daily newspaper

Television

Advantages	Disadvantages
<ul style="list-style-type: none">▪ Sensory experience (sight, sound and motion)▪ Can target specific markets▪ Broad market coverage	<ul style="list-style-type: none">▪ Expensive▪ People often ignore ads▪ Too many ads are confusing▪ Short ad time (hard to use as an informative tool)

Direct Mail

- Printed ads (flyers or mail-outs, faxes) directed to final consumers' homes or businesses
- Highly selective and personalized
- "Junk mail" image
- Expensive but cost-effective
- "Fax Attacks" have been effective, but are seen as more and more annoying

Radio

Advantages	Disadvantages
<ul style="list-style-type: none">▪ Large audience▪ Inexpensive▪ Can be selective	<ul style="list-style-type: none">▪ Short ad time▪ Audio only▪ People may pay little attention

Magazines

Advantages	Disadvantages
<ul style="list-style-type: none">▪ High degree of consumer selectivity (less waste)▪ Excellent reproduction of images (full-colour possible)▪ Magazines have a long life▪ Space is available for detailed product information	<ul style="list-style-type: none">▪ Long lead times▪ Expensive fees for special positioning in the issue▪ Relatively expensive

Outdoor

- Billboards, signs, bus, taxi, and bus stop ads
 - Inexpensive, with little distraction for readers
 - Reaches broad audience, but is not selective
 - Limited information
- Some areas ban roadside billboards

Word-of-Mouth

- Opinions about products passed from consumer to consumer through informal conversation
 - Very powerful promotional tool
 - Also called buzz marketing

The Internet

Advantages	Disadvantages
<p>Advantages for Buyers</p> <ul style="list-style-type: none">▪ convenience▪ privacy▪ selection▪ useful information▪ control <p>Advantages for Sellers</p> <ul style="list-style-type: none">▪ reach▪ direct distribution▪ reduced expenses▪ flexibility▪ feedback	<ul style="list-style-type: none">▪ high failure rate▪ information overload▪ limited markets (this is changing rapidly)▪ security issues: credit cards and spyware

Virtual Advertising

- Uses “digital implants” of brands or products in live or taped programming
- Appears that product was part of the show
- Viewers are paying attention

Other Advertising Channels

- Yellow Pages
- Catalogues
- Sidewalk flyers
- Telephone calls
- Door-to-door advertising
- Skywriting
- Special events

Types of Advertising

- Co-operative advertising
- Brand advertising
- Product advertising
- Advocacy advertising

- Trade advertising
- Industrial advertising
- Institutional advertising
- Retail advertising

Advertising Agency

An independent firm that creates and places ads for clients.

- Advertising Campaigns
 1. Identify the target audience
 2. Establish an advertising budget
 3. Define the objectives of the messages
 4. Create advertising messages
 5. Select appropriate media
 6. Evaluate advertising effectiveness

7.7 Personal Selling

Personal Selling Situations

- Most expensive and oldest form of promotion
 - o Telemarketing more popular due to lower cost
 - o Retail: selling to consumers (buyer usually comes to seller)
 - o Industrial: selling to business users (seller usually goes to buyer)
- Sales force management
 - o Setting goals for sales people, organizing a sales force, implementing and evaluating the sales program

Personal Selling Tasks

- Order processing
 - o Route sales people call on regular customers
- Creative selling
 - o Using techniques to persuade people to buy products with benefits that are hard to describe or relate to (essential for high-priced items)
- Missionary selling
 - o Offering of technical assistance to aid the selling process, or to promote the long-term image of the firm

Personal Selling Process

Prospecting and Qualifying Leads

- identifying potential customers
- process of determining whether potential customers have the authority to buy the product and the ability to pay for it

Approaching

- the initial part of a sales presentation which opens the dialogue between sales rep and customer and establishes credibility and rapport

Presenting and Demonstrating

- presenting and showing the product

Handling Objections

- overcoming prospect's questions or concerns about the product

Closing

- closing the sale by asking the customer to purchase directly or indirectly

Following Up

- order processing, delivery, follow-up to insure satisfaction

7.8 Sales Promotions

- Short-term promotional activities designed to stimulate consumer buying

- or cooperation from distributors
 - o Coupons
 - o Point-of-purchase (POP) displays
 - o Purchase incentives/premiums (free item or bargain price)
 - o Trade shows
 - o Contests and sweepstakes

7.9 Publicity and Public Relations

Publicity

- information made available to consumers via the news media
- company has no control over it
- free to the company

Public relations

- public service announcements initiated by the firm
- designed to enhance the firm's image (sponsorship, charity work or donations)
- paid for by the firm

7.10 International Promotion Strategies

Companies involved in exporting are adopting a worldwide advertising strategy

- Decentralized approach
 - o separate marketing management for each company
- Global perspective
 - o a coordinated marketing focus on a global scale

Issues affecting international promotion:

- product variations (differences in taste and format (e.g. some countries have laundry detergent in tablet form rather than powder) confound global appeals)
- language differences (complicate global marketing due to need to translate carefully across languages)
- cultural receptivity (some products are more culturally sensitive than others (e.g. underwear, condoms, feminine-hygiene products). Some countries are more tolerant than others (such as Europe vs. the Middle East). Some products are banned from promotion in some countries (alcohol and cigarettes))
- image differences (firms may have different images abroad. Many firms use global institutional advertising to establish a good corporate name.)

7.11 Promotional Practices in Small Business

Firms use the same sales promotion methods as larger firms and rely heavily on publicity.

- non prime-time local or cable TV
- newspapers, radio and the Yellow Pages
- personal selling locally
- telemarketing and direct mail nationally
- direct mail, targeted magazines and sales agencies internationally

Lesson 8

December-02-13 9:04 PM

8.1 Pricing Objectives and Tools

Pricing Objectives

Profit-maximizing

- pricing to maximize profit (bottom line)
- must consider all costs
- e-business has lower costs, but easier price comparisons

Market-share

- pricing to gain the greatest possible market percentage

Loss containment and survival

- The price level is dependent on how much consumers are willing to pay for the product

Cost-Oriented Pricing

Considers the cost of the product and adds a "markup" to arrive at a final cost

- A light bulb costs \$0.45 to the retailer
- The retailer wishes to sell the light bulb for \$0.75 (a markup of \$0.30)

The markup as a percent of selling price

- Markup % = Markup/Sales Price = $.30/.75 = 40\%$

The markup as a percent of cost

- Markup % = Markup/Cost = $.30/.45 = 67\%$

Break-Even Analysis: Cost-Volume-Profit Relationships

Break-even analysis

how many units a firm must sell before it makes a profit

Fixed costs

costs unaffected by the number of goods produced or services sold
rent, administrative salaries, insurance, equipment

Variable costs

costs that change with the number of goods or services produced and sold

materials, labour

Break-even point

how many units a firm must sell in order to cover fixed and variable costs

$$\text{Break-even point (in units)} = \frac{\text{total fixed costs}}{\text{price} - \text{variable cost}}$$

- Higher price = lower break-even point
 - o But must consider demand of consumer and competitor's prices

8.2 Pricing Strategies and Tactics

Pricing Strategy

The pricing plan based on the marketing mix

Potential Strategies

- Pricing relative to the market (at market, above market, below market)
 - o Price leadership = the dominant firm in the industry sets the price and others follow
- Pricing new products
 - o Price skimming

- pricing the product as high as possible to earn maximum profit on each unit sold
 - Penetration pricing
 - pricing the product as low as possible to sell the most units and generate consumer loyalty
- eBusiness Pricing
 - Fixed
 - Conventional, stable pricing
 - Dynamic
 - Prices are altered by sellers for each customer (eBay, Priceline.com)

Pricing Tactics

- Price Lining
 - Having a product line priced with a low, medium, and high price point
 - Sears may sell mattresses at \$199.99 (good), \$299.99 (better), \$399.99 (best)
- Psychological Pricing
 - Customer reactions to pricing are not completely logical
 - Odd-even pricing
 - consumers react more favourably to odd dollar amounts (\$0.99, \$1.99, \$19.99)
- Discounting
 - Cash discount
 - customers get a lower price for paying cash
 - Seasonal discount
 - lower prices in the off-season to move stock
 - Trade discount
 - lower price granted to intermediaries who need to mark up the product for resale (retailers, wholesalers)
 - Quantity discount
 - lower prices for buying more units
- International Pricing
 - Additional factors to consider
 - Income and spending trends
 - Differences in intermediaries
 - Exchange rates
 - Shipping costs, tariffs, etc.

Dumping (pricing products below cost to set lower foreign prices) is illegal

8.3 The Distribution Mix

Combination of distribution channels a firm uses

Distribution Channel

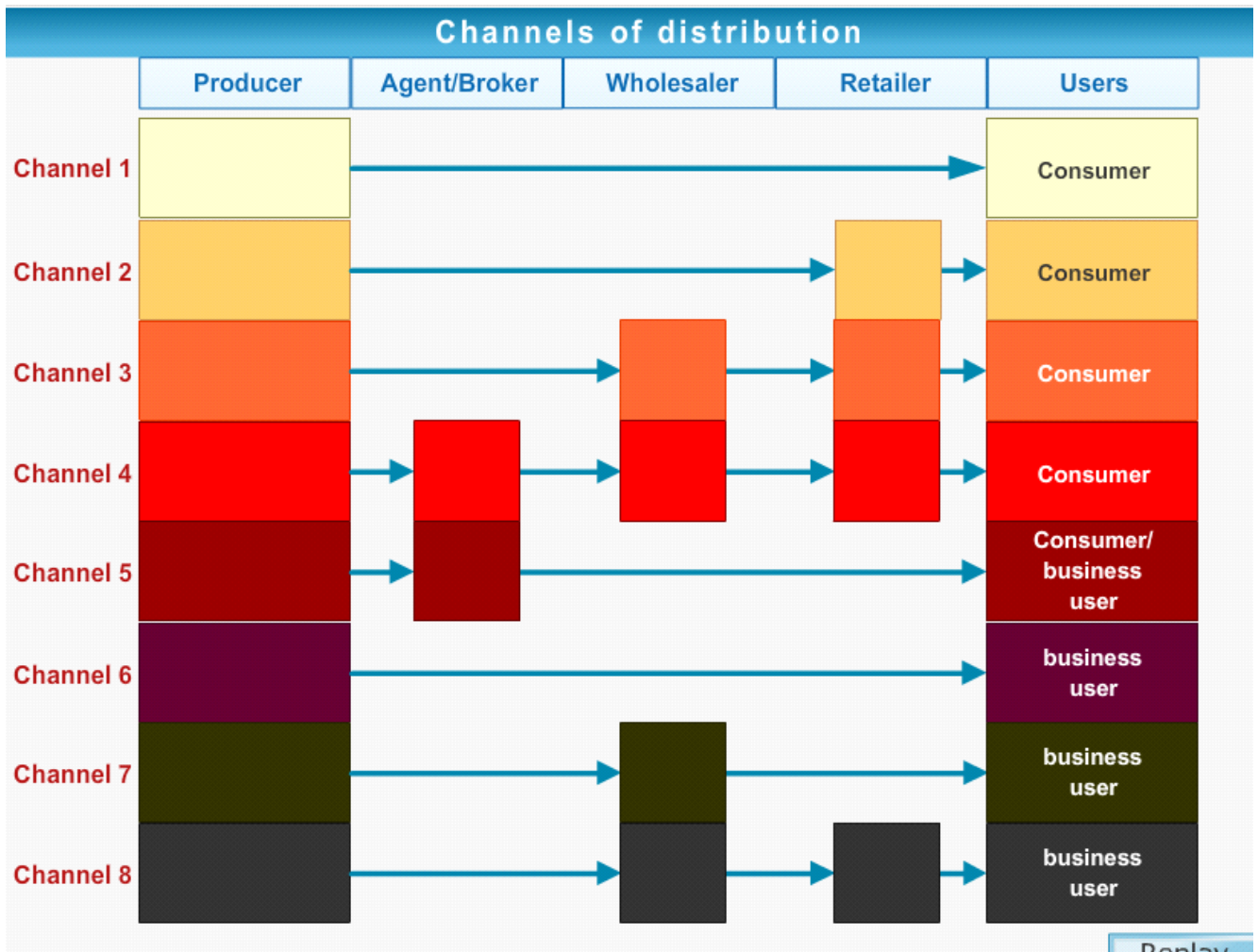
The path a product follows from producer to end-user

Intermediary

An entity other than the producer who participates in the distribution of the product

- Wholesaler
 - an intermediary who sells products to other businesses for resale (other wholesalers, retailers)
- Retailer
 - an intermediary who sells product to final consumers

Channel Of Distribution



Distribution of Consumer Products

Direct channel

No intermediaries

Non-direct distribution

Each intermediary adds cost and adds value (save consumers time and money)

If no intermediaries, still have cost of their functions

Sales agent (or broker)

independent

represents a business and receives commission

does not take legal possession of the product

Industrial (business) distribution

Network of channel members involved in flow of manufactured goods to industrial customers

Sales offices

Maintained by seller to provide direct channel points of contact with customers

Distribution Strategies

Intensive

As many channels and members as possible

Low-cost consumer goods (candy bars)

Selective

Use of a limited number of outlets

Consumer products with special displays (hand tools)

Exclusive

Use of only one intermediary in a market area

High cost prestige items (Jaguar cars)

Channel Conflict

- Channel members disagree about roles or rewards
- Methods to control conflict
 - o channel leadership through the channel captain
 - o vertical marketing systems: separate businesses join to form a unified distribution channel, coordinated by one member

Vertical Marketing Systems (VMS)

Corporate

producer and intermediaries are owned by a single organization

Contractual

members sign contracts spelling out responsibilities (i.e. franchises)

Administered

one member coordinates the system based on its power and influence

8.4 Wholesaling

Merchant Wholesalers	Agents/Brokers	E-Intermediary
Buy and take legal title to goods, resell items to retailers or industrial users, usually provide storage and delivery	Serve as sales and merchandising arms of manufacturers	Internet-based channel members who perform one or both of these functions
<p>Full-service</p> <p>perform all services including granting credit, marketing, and merchandising</p>	<ul style="list-style-type: none"> ▪ Do not take legal title ▪ Provide merchandising expertise ▪ perform wide range of services 	<ul style="list-style-type: none"> ▪ They collect information about sellers and present it to consumers. ▪ They help deliver Internet products to buyers.
<p>Limited-function</p> <p>perform fewer services, specializing in certain areas</p>		<p>Syndicated sellers</p> <p>when a website offers other websites a commission for referring customers</p>
<p>Drop-shipper</p> <p>take title, have goods shipped directly to final user from producer, do not physically handle the goods</p>		<p>Shopping agents</p> <p>an intermediary that helps Internet consumers by gathering and sorting information they need to make purchases</p>
<p>Rack-jobber</p> <p>specializes in non-food lines, sets up and maintains displays in retail stores</p>		<p>Business-to-business brokers</p> <p>e-based intermediaries that assist with exchange of goods and services</p>

8.5 Retailing

Product Line Retailers

Department Stores

- Organized into specialized departments with a range of products and brands

Supermarkets

- Divided into departments of similar products (produce, bakery, meats, personal care, pharmacy)
- Emphasis on self-service, low prices, and wide selection

Specialty Stores

Small retailers that carry one line of related products

Category Killers

Larger specialized retailers with a deep selection of goods, greater expertise, and usually lower prices (Toys 'R' Us, Home Depot)

Bargain Retailers

Discount Houses

- Bargain retailers offering large consumer durables at a discount price

Catalogue Showrooms

- Sell primarily out of a catalogue with a showroom to display goods

Factory Outlet

- Bargain retail stores located conveniently or adjacent to the factories, owned by producers

Warehouse Clubs (wholesale club)

- Membership-only retail outlets (Costco)
- Huge facilities with many separate departments of food and non-food items

Convenience Stores

- Retail stores that are very accessible with extended hours of operation and fast service
- Prices tend to be higher (Mac's, 7-Eleven)

Mail Order/Catalogue Marketing

Customers place orders through catalogues

- Orders are sent out via mail
- May be used in conjunction with a typical retail store (Sears catalogue)
- Greatly enhanced through the use of computers to store up-to-date mailing lists

Telemarketing

Use of the telephone to sell directly to consumers (may also take calls in response to direct mail or video marketing)

Types Of Retailing

- Electronic Storefront (virtual storefront)

A website in which consumers:

- o collect information about products and buying opportunities,
- o place sales orders, and
- o pay for their purchase

- Cybermalls

Collections of virtual storefronts representing diverse products (e.g. Yahoo!)

- Multi-level Marketing

- o Salespeople earn commissions on their own sales, and the sales of anyone else that they recruit
- o Many door-to-door firms now using websites e.g. Amway spin-off Quixstar

- Interactive Marketing

- o Selling products and services by allowing customers to interact with multimedia websites
 - Voice, graphics, animation, live access

- Video Marketing

- o Products showcased via television, videos on home shopping channels that sell directly through telephone orders

8.6 Physical Distribution

Warehousing

The storing of goods through the distribution process in various types of warehouses

- Private: owned and used by one company
- Public: independently owned by a separate company that rents out space to other firms
- Storage: facility used to store goods for long time periods
- Distribution centre: facility used to store goods for short periods of time pending distribution to retailers

Warehousing Costs

- Basic expenses: Rent or mortgage, insurance and wages
- Inventory control: Operations process that monitors amount of inventory on hand and ensures adequate stock levels at all times
- Materials handling: Transporting goods, arrangement and orderly retrieval of goods
- Unitization: A materials handling method that standardizes inventory by unit size and type to streamline the storage process

Transportation

Trucks	Planes	Railroads	Water Carriers	Pipelines
fast	fastest		slowest	slow
flexible	reduced packing		least expensive	not affected by weather
dependable				constant flow
short-distance or expensive items	perishables	heavy, bulky items (cars, coal)	heavy, bulky materials (steel, oil,)	liquids, gases
limited volumes, weather delays	most expensive			inflexible

Transportation Developments

Intermodal

- Combined use of different means of transportation

Containerization

- Packing many items at once into a sealed, heavy-duty container that is opened at final destination

Order Fulfillment and Ecommerce

- Order fulfillment = all activities from making the sale to on-time delivery to the customer
- Some retailers maintain their own warehouses and distribution centres, others use distribution specialists (e.g. UPS, FedEx)

Transporting Companies

There are firms that specialize in transportation that can be used to streamline the physical distribution process:

Common Carriers

- companies that transport goods for any firm or individual who need to ship product (trucking firms, railroads)

Freight Forwarders

- common carriers that lease bulk space from other carriers and resell it to firms making small shipments (also handle billing and international customs/insurance needs)

Contract Carriers

- transport products for a contracted amount and time

Private Carriers

- some firms own their own fleet of trucks or ships

Hubs

A central distribution outlet that controls all or most of a firm's distribution activities

Supply side/pre-staging

Large shipments destined for industrial users are gathered in a single hub from various sources

- sends out pre-sorted, pre-inspected materials
- eliminates inventory and streamlines traffic

Distribution-side

Hubs located adjacent to customer locations

Lesson 9

December-03-13 8:40 PM

9.1 What is Money?

Any object generally accepted as payment for goods and services.

Characteristics	Functions
<ul style="list-style-type: none"> ▪ Portable: lightweight and easy to handle ▪ Divisible: easily broken down to match the value of goods ▪ Durable: must not spoil or easily wear out ▪ Stable: must be stable enough to hold its value over time, apart from minor fluctuations 	<ul style="list-style-type: none"> ▪ Medium of exchange: a single medium of exchange for goods and services instead of barter ▪ Store of value: can be used for future purchases ▪ Unit of account: allows measurement of the relative value of goods and services

The Money Supply

Buyers and sellers must agree on the value of money. The value of money depends on its supply: as supply increases, value decreases; as supply decreases, value increases.

M-1 Money Supply	M-2 Money Supply	Credit Cards
<p>Narrow definition is called M-1. The most liquid forms of money:</p> <ul style="list-style-type: none"> ▪ Currency: paper money and coins issued by the Canadian government ▪ Demand deposits: money in chequing accounts, which can be transferred to others by cheque 	<p>Wider definition is called M-2. Everything in M-1 plus:</p> <ul style="list-style-type: none"> ▪ Savings deposits: savings account holdings ▪ Time deposits: deposits requiring prior notice before withdrawal of funds ▪ Money market mutual funds: pooled assets from many investors invested in short-term, low-risk financial securities <p>Measures the store of monetary value that is available for making financial transactions</p>	<ul style="list-style-type: none"> ▪ Not included in M-1 or M-2 ▪ Not money: no store of value ▪ Money substitute: temporary medium of exchange ▪ Popular: convenient, profitable (annual fees, merchants fees and interest)

9.2 The Canadian Financial System

Financial Institutions

Traditionally consisted of four financial pillars:

- Chartered banks
- Alternate banks (trust companies, credit unions, caisses populaires)
- Life insurance companies and specialized lending and saving intermediaries
- Investment dealers

Differences are now blurred due to changes in financial industry regulations.

9.3 Financial Pillar #1 - Chartered Banks

Privately owned, profit-oriented, financial intermediary

- Largest and most important of financial institutions
- Each bank has many branches

Schedule A Banks

Must be Canadian-owned with no more than 10% of voting shares controlled by a single interest (represents 90% of all bank assets)

Schedule B Banks

May be foreign-owned and need not meet the 10% limit (foreign-owned bank deposits cannot exceed 8% of the total domestic assets of all banks)

Services Offered by Banks	Bank Deposits	Bank Loans
<ul style="list-style-type: none">▪ Pension services▪ Trust services▪ International services▪ Financial advice▪ Electronic technologies▪ Bank deposits▪ Bank loans▪ Bank accounts	<ul style="list-style-type: none">▪ Accept deposits from some customers to obtain money to lend to others:<ul style="list-style-type: none">▪ chequing accounts▪ term deposits (money that remains with the bank for a period of time with interest paid to the depositor)	<ul style="list-style-type: none">▪ Major source of short-term financing▪ Prefer to finance inventories or accounts receivable rather than long-term loans to many businesses▪ Secured loan: backed by collateral (e.g. inventory)▪ Unsecured loan: backed only by promise▪ Prime rate of interest: lowest rate charged to best customers

Banks as Creators of Money

Banks as Creators of Money

Bank	New Deposit	Reserve Requirement	New Loan
1	\$100.00	\$10.00	\$90.00
2	\$90.00	\$9.00	\$81.00
3	\$81.00	\$8.10	\$72.90
4	\$72.90	\$7.29	\$65.61
5	\$65.61	\$6.56	\$59.05
6	\$59.05	\$5.91	\$53.14
7	\$53.14	\$5.31	\$47.83
8	\$47.83	\$4.31	\$38.74
9	\$43.05	\$4.31	\$38.74
Totals for the first nine banks	\$612.58	\$61.26	\$551.32
Expansion limit for entire banking system	\$1,000.00	\$100.00	\$900.00

Other Changes in Banking

- Deregulation is causing banks to shift from their historical role as intermediaries between borrowers and depositors
- Diversification into other financial products
 - Investment banking
 - Commercial paper

Electronic Funds Transfer

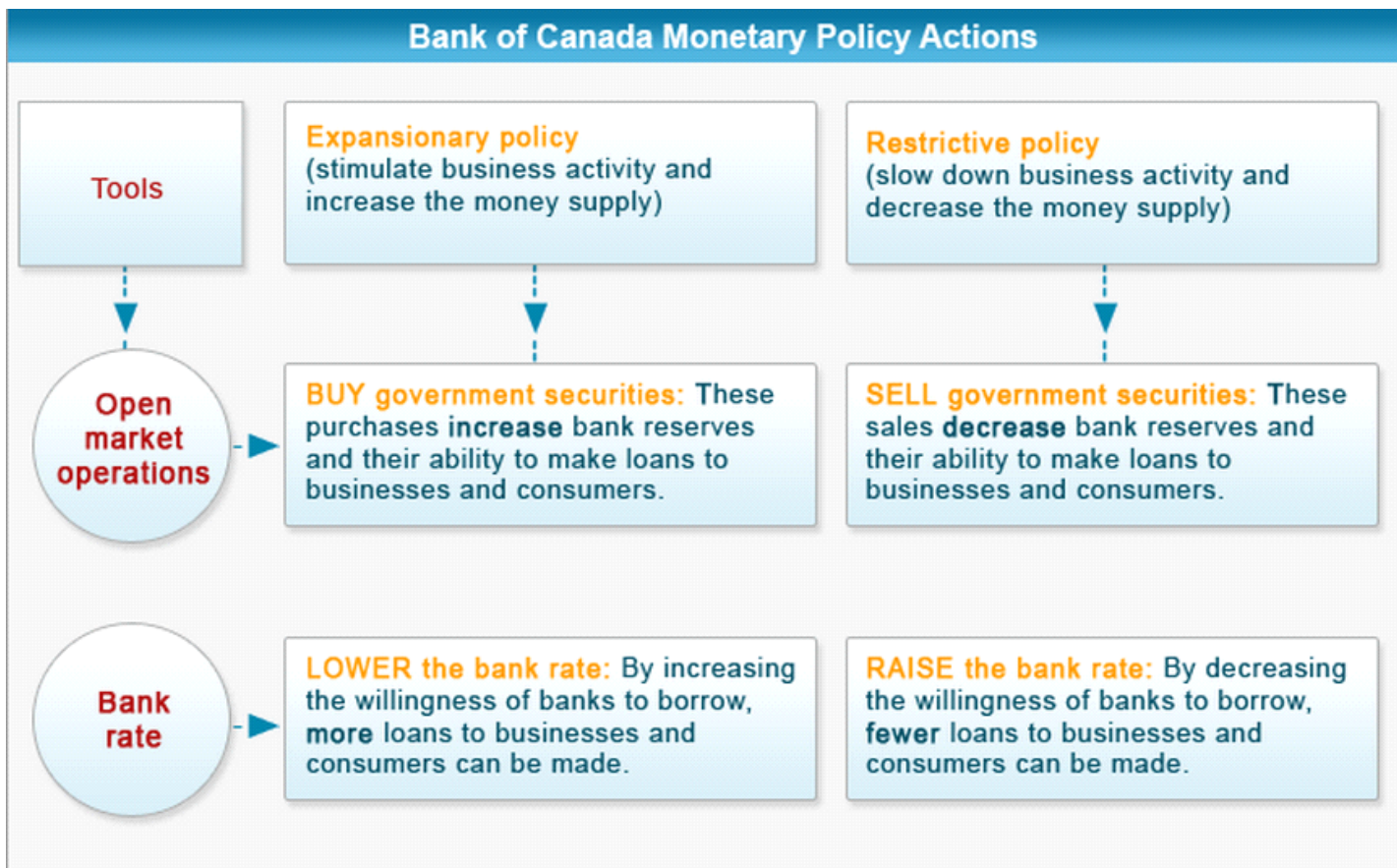
- Debit cards: plastic money that immediately adjusts the consumers account balance and pays the merchant
- Point of sale terminals: electronic device used to facilitate debit card use
- Smart cards: a plastic card with a chip which can be programmed with "electronic money"
- Ecash: money that moves among consumers and businesses via digital electronic transmission

The Bank of Canada

- The central bank of Canada is managed by a Board of Governors
- Regulates operations of chartered banks
- Manages the money supply by: buying/selling securities, changing the bank rate
- Bank rate = rate at which chartered banks can borrow from Bank of Canada

The Bank of Canada





Screen clipping taken: 03/12/2013 8:45 PM

9.4 Financial Pillar #2 - Alternate Banks

Trust Companies

- safeguard funds and estates entrusted to them
- serve as a trustee, transfer agent, and registrar for corporations

Credit Unions (caisses populaires in Quebec)

- cooperative savings and lending institutions formed by a group of individuals with common interests
- offer savings accounts, loans, mortgages to members
- invest their own funds in corporate and government securities

9.5 Financial Pillar #3 - Specialized Lending and Savings Intermediaries

Intermediaries	Description
Life Insurance Firms	<p style="color: #0070c0; font-weight: bold; margin: 0;">Life Insurance Firms</p> <ul style="list-style-type: none"> ▪ mutual or stock companies that share risks with policy holders for payment of premiums ▪ some money from premiums is lent back out ▪ substantial investments in real estate, mortgages and government bonds ▪ second largest financial intermediaries in Canada, after the chartered banks
Factoring Companies	
Financial Corporations	
Venture Capital or Development Firms	
Pension Funds	

Intermediaries	Description
Life Insurance Firms	<h3>Factoring Companies</h3> <ul style="list-style-type: none"> Buy uncollected accounts receivable from a firm for less than their face value <ul style="list-style-type: none"> Attempt to collect the face value of the receivables from customers The difference between the amount collected and the cost of the receivables is the firm's profit Allows firms with old, or uncollectible, accounts receivable to redeem at least part of their value rather than writing them off completely
Factoring Companies	
Financial Corporations	
Venture Capital or Development Firms	
Pension Funds	

Intermediaries	Description
Life Insurance Firms	<h3>Financial Corporations</h3> <ul style="list-style-type: none"> Sales finance company <ul style="list-style-type: none"> finances instalment purchases made by individuals or businesses loans are secured by the item being financed (e.g. a computer) Consumer finance company <ul style="list-style-type: none"> makes personal loans to consumers collateral may or may not be required
Factoring Companies	
Financial Corporations	
Venture Capital or Development Firms	
Pension Funds	

Intermediaries	Description
Life Insurance Firms	<h3>Venture Capital or Development Firms</h3> <ul style="list-style-type: none"> Provide funds for new or expanding firms that have great potential Obtain funds from individual investors, financial intermediaries, retained earnings While accepting increased risk with new ventures, VC firms seek to earn higher than normal returns
Factoring Companies	
Financial Corporations	
Venture Capital or Development Firms	
Pension Funds	

Intermediaries	Description
Life Insurance Firms	<h3>Pension Funds</h3> <ul style="list-style-type: none"> Accumulate cash that will be paid out to subscribers in the future in the form of pension income <ul style="list-style-type: none"> Money is invested until it is needed Investments include stocks and bonds, mortgages Often very long term
Factoring Companies	
Financial Corporations	
Venture Capital or Development Firms	
Pension Funds	

9.6 Financial Pillar #4 - Investment Dealers

Underwriters	Stockbrokers
Distribute new stocks and bonds issues (underwriting)	Facilitate trading of stocks and bonds on exchanges (brokerage)

9.7 Other Sources of Funds

- Government financial institutions and granting agencies:
 - Business Development Bank of Canada (BDC)
 - Canada Mortgage and Housing Corporation (CMHC)
 - Export Development Corporation
- Canada and its provinces borrow from international sources of funds, including other nations
- The Canadian Capital Market (international funds)

9.8 International Banking and Finance

Exchange Rates and Trade

- Exchange rates influence the willingness to invest abroad and buy imported items
- A trade surplus occurs when Canada is exporting more products than it is importing (likely to occur when the dollar is undervalued)
- A trade deficit occurs when Canada is importing more products than it is exporting (likely to occur when the dollar is overvalued)

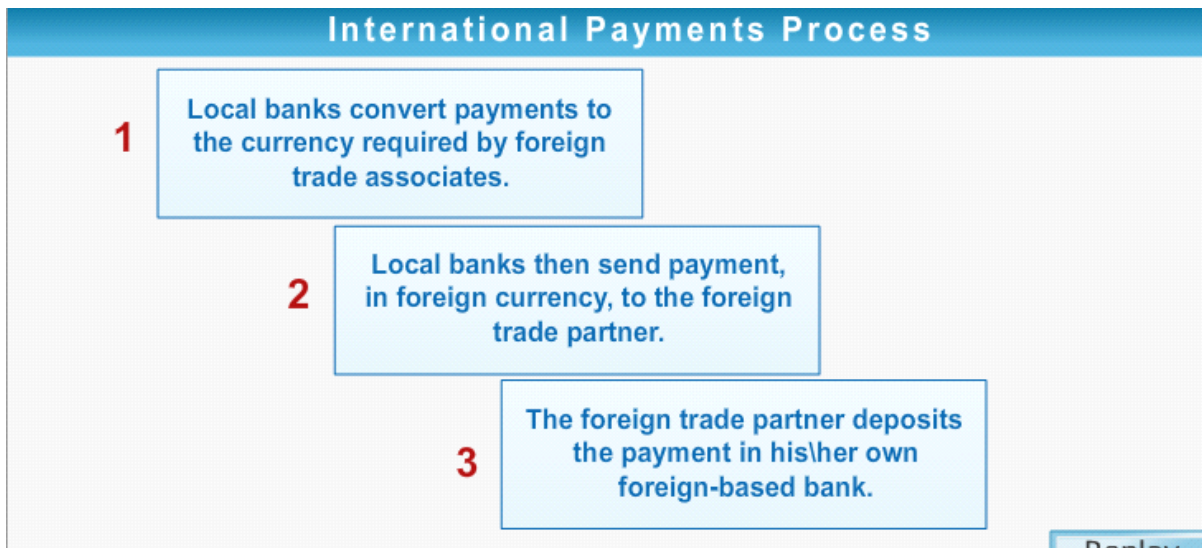
The Law of One Price

A basic commodity should be priced equally across all countries (if prices differ, it is assumed to be due to overvaluation or undervaluation of the local currency)

The Law of One Price

The Law of One Price			
	Country	Big Mac Price Equiv. (US Dollars)	Over/Under Valuation
The Big Mac Index	United States	\$2.71	-
	Canada	\$2.63	-14%
	Switzerland (francs)	\$5.05	+65%
	Britain (pounds)	3.44	+12%
	China (yuan)	1.27	-59%

International Payments Process



International banking is governed by a network of loose agreements between individual countries or groups of countries.

World Bank

UN agency that funds infrastructure projects in developing countries.

IMF

150 nations that combined resources to:

- promote stable exchange rates
- provide temporary short-term loans
- encourage cooperation on international monetary issues
- develop a system for international payments

Lesson 10

December-03-13 8:51 PM

10.1 Securities Market

Stocks and bonds (which represent a secured or asset-based claim) that can be bought and sold.

Primary securities market	Secondary securities market
<ul style="list-style-type: none">▪ Sale and purchase of newly issued stocks or bonds offered by firms and governments.▪ May be <i>private placements</i>.▪ Sale proceeds go to the company's treasury.	<ul style="list-style-type: none">▪ Sale and purchase of previously issued stocks and bonds.▪ Sale proceeds go to the security's previous owner.

Investment Bankers

Financial specialists who assist in issuing new securities.

10.2 Stocks

Common Stocks	
Characteristics	Investment Traits
<p>Market Value</p> <p>Current price of a share in the secondary securities market: depends on objective and subjective factors (i.e., company's profits, rumours, investor relations, recommendations)</p>	<p>Investment Traits</p> <ul style="list-style-type: none">▪ risky securities▪ dividends may not be paid in unprofitable years▪ have high growth potential
<p>Book Value</p> <ul style="list-style-type: none">▪ shareholders' equity divided by the number of shares of common stock outstanding▪ used as a comparison indicator	<p>Blue Chip Stocks</p> <ul style="list-style-type: none">▪ stocks of well-established, financially sound firms▪ have historically provided consistent dividends
<p>Par Value</p> <p>An arbitrary value set by the issuing company's board of directors and stated on stock certificates (archaic)</p>	<p>Market Capitalization</p> <ul style="list-style-type: none">▪ market value of all of a firm's stock listed on all stock exchanges▪ fluctuates daily

Screen clipping taken: 03/12/2013 8:53 PM

Preferred Stock

Issued with a stated par value

- Dividends paid based on a percentage of par value

Investment Traits

- Less risky than common stock
- Limited growth potential due to the fixed dividend
- Purchase price can fluctuate on market

Cumulative Preferred Stock

- Deferred dividend payments must be paid before any dividends are paid to common stock holders

Screen clipping taken: 03/12/2013 8:53 PM

Stock Exchanges

Voluntary organization of individuals formed to provide an institutional setting where members can buy and sell stock for themselves and their clients in accordance with the rules of the exchange.

- to become a member a firm must purchase a seat
- only members (or their representatives) are allowed to trade on the exchange and all trading goes through them

Buy and sell orders are processed on the *trading floor* (historically), or through computers (modern TSX).

Brokers

Individuals representing exchange members who are licensed to buy and sell securities for customers in the secondary market.

- **Full-service brokerage:** for a fee, offers a variety of services including buying and selling securities, and investment advice
- **Discount brokerage:** for a reduced fee, buys and sells securities, but has limited service offerings
- **On-line trading:** self-service, with no advice offered

Canadian Stock Exchanges

- **Toronto Stock Exchange (TSX)**
 - largest exchange in Canada (100 members)
 - firms must pay a fee to list their stocks on the exchange
- **Canadian Venture Exchange (CDNX)**
 - focuses on junior companies
- **Montreal Stock Exchange**
 - handles all derivative trading

Foreign Stock Exchanges

- **New York Stock Exchange**
 - the largest in the US (59% of all US trades)
 - average of 1.4 billion shares trading daily
 - firms must meet criteria in earning power, total value of outstanding stock and number of shareholders in order to be listed on the exchange
- **NASDAQ** (National Association of Securities Dealers Automated Quotation)
 - a stock market implemented by NASD that operates by broadcasting trading information on an Intranet to over 350,000 terminals worldwide
 - first electronic stock market
 - highest volume in shares, not dollar volume
- **American Stock Exchange (AMEX)**
- **Regional Stock Exchanges** in many US cities
- **London, Tokyo, Shanghai (China), Warsaw (Poland).**

The Over-the-Counter Market (OTC)

- many securities are not listed on a stock exchange
- OTC markets consist of numerous dealers who trade smaller firms and firms not listed on exchanges, with other dealers and with investors
- also trade all fixed-income securities, which include bonds and debentures

10.3 Bonds

- A bond is a written promise that the borrower (a firm) will pay the lender (an investor) at a stated future date, the principal plus a stated rate of interest.
- Bondholders' claims come before shareholders'.
- Bonds differ from one another in terms of:
 - maturity (payment date)
 - tax status
 - potential yield (interest rate)
- Several services rate the quality of various bonds.
- Bonds are generally sold through the over-the-counter market, and not traded on an organized exchange.

Government Bonds

- safe investments ("sovereign risk")
- longer maturities are riskier as there is more chance of changes leading to default
- federal bonds are backed by the Canadian government
- typically sold in large blocks to institutional investors
 - Banks will invest in bonds near their maturity date as a safe and liquid investment.
 - Pension funds, banks, insurance companies and private investors also invest in bonds.
- Municipal bonds (provincial and local governments):
 - Sold to raise capital for government projects

Bond Ratings

	High Grade	Medium (Investment) Grade	Speculative ("Junk")	Poor Grade ("Junk")
Moody's	Aaa Aa	A Baa	Ba B	Caa C
Standard & Poor's	AAA AA	A BBB	BB B	CCC D

Corporate Bonds

Issued by a company as a source of long-term funding.

- **Secured**
 - assets are pledged as security for the bond
- **Unsecured (debentures)**
 - these bonds are not backed by any security
 - only sold by financially strong corporations that carry lower risk for investors
- **Bearer Bonds**
 - whoever "bears" the bonds is deemed to own them
 - holders clip coupons from the bond to receive interest payments: anyone with the coupon can redeem it
- **Registered Bonds**
 - certificates are only of value to registered holders
 - the names of holders are registered with the corporation and only the registered holders receive cheques

Retiring Bonds

- **Callable bonds**
 - may be called at any time, or after a certain minimum period of time, and paid off for a specified *call price*
 - may have a sinking fund provision: the company must put money into a special bank account each year, such that at the time of maturity, there is sufficient money to retire the bonds
- **Serial bonds**
 - redemption rates are staggered so that the bond is paid off gradually over time
- **Convertible bonds**
 - option of receiving common stock in lieu of interest and/or principal payments

10.4 Other Investments

Mutual Funds

A company pools the money of many investors and uses it to purchase various types of financial securities (a portfolio)

- Different funds have different goals (stability, growth, etc.) and different levels of risk
- Investments are professionally managed
 - No-load fund: investors are not charged a sales commission when they buy into or sell out of a fund
 - Load funds charge a fee averaging about 5%

Hedge Funds

Private pools of money that try to give positive returns, regardless of stock market performance

- often use short-selling (betting that a stock will go down) or
- leveraging (borrowing money against principal)
- sold to wealthy, knowledgeable investors
- also sold as "principal-protected notes" (original principal, but not extra return, is guaranteed)

Screen clipping taken: 03/12/2013 8:55 PM

Commodities

Commodities are undifferentiated products: food items (coffee beans, pork bellies), oil, minerals

Futures Contract

- agreement to purchase specific amounts of a commodity at a certain price on a set date in the future
- risky investment with many variables

Commodities Market

- a market in which futures contracts are traded

Margins

- investors can buy on "margin," with a minimal amount as a down payment

Stock Options

Call Option

- the purchased right to buy a particular stock at a certain price until a specified date

Put Option

- the purchased right to sell a particular stock at a certain price until a specified date

Daily prices of put and call options appear in the financial press.

Risk Reduction

Most investors select a diversified mixture, or portfolio, of investments with various risk levels.

Diversification

- purchase several different kinds of investments

Asset Allocation

Risk Reduction

Most investors select a diversified mixture, or portfolio, of investments with various risk levels.

Diversification

- purchase several different kinds of investments

Asset Allocation

- the relative amount of money invested in (or allocated to) each of several different investment alternatives

Reading Stock Quotations

Reading Stock Quotations					
Your Daily Paper					
Company	Sales	High	Low	Close	Change
Inco	376 030	29.150	28.500	28.600	-.400
stock	total number of shares traded	highest price paid per share	lowest price paid per share	last price paid at close of trading	difference between today's close and previous day's close. A .40 decrease

Reading Bond Quotations

Reading Bond Quotations					
Your Daily Paper					
Issuer	Coupon	Maturity	Price	Yield	Change
BC Tel	9.65	Apr 8-22	138.5	6.488	+1.118
company name	interest rate (%)	maturity date	last transaction price = \$138.50 per \$100 face value	annual interest/market price	closing price up \$1.118 from previous day's close

Market Indexes

Market indexes summarize trends in the stock market and specific industries

- **Dow Jones Industrial Average (DJIA):** an overall market index based on the stock prices of 30 large firms in the following sectors: industrial, transportation, utilities listed on the New York Stock Exchange (archaic)
- **Standard & Poor's Composite Index (S&P 500):** tracks 500 stocks (400 industrial, 40 utilities, 40 financial institutions, 20 transportation)
- **S&P/TSX Index:** an average of 225 large Canadian stocks from various industries
- **NASDAQ Composite Index:** US and non-US stocks (unlike the S&P500) for over 4,000 firms, many of which are new or small companies. Also including some large technology companies such as Microsoft

Bear market: a period of falling stock prices

Bull market: a period of rising stock prices

Buying and Selling Stocks

Market order:

- order to buy/sell a security at the current market price
- should generally be avoided in favour of a limit order

Limit order:

- an order to buy a security but only if its price exceeds a certain level
 - limit buy order - if less than or equal to limit
 - limit sell order - if greater than or equal to limit

Stop order:

- order to sell a security if its price falls below a level

Round lot:

- the purchase or sale of shares in multiples of 100

Odd lot:

- the purchase or sale of shares in units other than multiples of 100

Financing Securities Purchases

Margin Trading

The investor makes a down payment on a portion of the price with the rest financed by the broker

- The broker borrows the amount from the bank, secured by stock
- The brokerage firm charges the investor a higher rate of interest than it pays the bank
- Investors can pay off the financing when they sell the stock, hopefully at a profit
- Margin trading is high risk

Short Sale

- An investor "borrows" shares from another investor's account with the same broker and then sells them
- To replace the borrowed shares, the investor must eventually purchase an equal number of shares, and then return them to the broker
- Profit or loss is based on the spread between the selling price and the purchase price
- EXTREMELY HIGH RISK!
- Done when an investor believes the stock price will decrease

10.6 Securities Regulation (Cont'd)

- Brokers are licensed and securities are registered
 - exchanges exercise self-regulation
- Prospectus
 - a detailed registration statement about a new stock
 - filed with provincial security exchanges (in Canada) or the Securities and Exchange Commission (SEC in the US)
 - provided to potential investors
- Insider trading
 - illegal activity of using special or private (inside) knowledge about a firm to make a profit
- Blue-sky laws
 - laws regulating how firms provide information about securities

Lesson 11

December-03-13 8:57 PM

11.1 The Role of the Financial Manager

Financial Managers

Responsible for planning and overseeing the financial resources of a firm. This includes: cash flow management, financial control and financial planning.

Cash Flow Management

- Managing the pattern of cash inflows (revenues) and outflows (debt payments)
- Investing funds that are not needed to service debt
- Funds must either be committed to maintaining the firm, or otherwise earning return, but not sitting idle

Financial Control

- Check actual performance against plans to ensure that desired goals are achieved
 - Make adjustments as required when plans change, or do not work as intended
- Prepare budgets to ensure that sufficient cash is on hand to meet operational and debt service needs
 - Explain actual results that vary from the budget and then make adjustments as required

Financial Planning

- A plan for achieving a desired financial status in the future
 - Projections of revenue flows
 - Sources and planned uses of funds
 - Timing of when funds will be required

11.2 Why do Businesses Need Funds?

Short-Term (Operating) Expenses	Long-Term (Capital) Expenditures
<p>Accounts Payable Unpaid bills, wages, taxes, etc., due within the year</p> <ul style="list-style-type: none"> ▪ short-term debt <p>Accounts Receivable Funds due from customers who bought on credit</p> <ul style="list-style-type: none"> ▪ develop a policy to ensure timely payment ▪ estimate the timing of cash flows <p>Inventory Goods awaiting sale for future revenue</p> <ul style="list-style-type: none"> ▪ raw materials (basic supplies, unassembled product) ▪ work-in-progress (goods being manufactured) ▪ finished goods (goods completed and awaiting sale) <p>Inventory management is critical. Stockouts can result in lost sales. Surplus inventory costs the firm money from excess production and storage costs, and risk of theft, damage or obsolescence.</p>	<p>Funding fixed assets that have a long life and a lasting value (land, buildings, machinery)</p> <ul style="list-style-type: none"> ▪ not normally sold or converted to cash ▪ acquisition requires a large investment ▪ ties up the firm's resources for a long period of time

11.3 Sources of Short-Term Funds

Allow firms to cover operational expenses and implement short-term plans

Trade Credit

The granting of credit by a selling firm to a buying firm.

Open Book Credit

Sellers ship goods on credit, expecting that payment will follow.

Promissory Note

Buyers sign a promise-to-pay agreement before merchandise is shipped.

Trade Draft

Buyers sign a statement of payment terms attached to the merchandise by the seller.

Screen clipping taken: 03/12/2013 9:01 PM

Secured Short-Term Loans

A short-term loan for which the borrower is required to put up collateral.

- If the borrower defaults, the collateral is seized
- Inventories and accounts receivable are often used as collateral
- There is often an excessive administrative burden with such loans
- Interest rates are usually lower than for unsecured loans
- Appeals to firms whose credit rating is not sufficient (or who are too new) to qualify for unsecured loans

Inventory

Loans will generally only be made if there is saleable inventory which could reasonably be seized and then liquidated. Any loan will only be for part of the value of the inventory. The inventory is seized if the borrower defaults on the loan.

Accounts Receivable

Pledging accounts receivables is the process of putting-up receivables (money owed to the firm by customers) as security for a loan. The lender must have a means of checking on the quality of the receivables before taking them as collateral. If it is probable that a customer will default on their payments, then their receivables will not be accepted as collateral.

Unsecured Short-Term Loans

Line of Credit

- A specified amount made available to the borrower for a short-term unsecured loan
- The borrower draws on funds as they are needed
- Banks do not guarantee that the funds will always be available as needed

Revolving Credit Agreements

- The firm pays interest on borrowed funds, as well as a fee for extending the line of credit
- Banks guarantee availability of the funds
- The firm does not have to borrow funds if it does not need them
- The bank charges a "commitment fee" for keeping the credit available to the firm

Commercial Paper

- A firm sells unsecured notes for less than their face value, then repurchases them in 30 to 270 days for the face value
- Investors make money on the spread between the face value and purchase price
- As an unsecured note, only creditworthy firms are able to sell them successfully
- The cost of commercial paper to the borrowing firm should be less than prevailing bank interest rates

11.4 Sources of Long-Term Funds

Debt Financing

Seeking long-term funds through borrowing from external sources.

Long-term Loans

- borrowing money for 3 to 10 years at a fixed or floating rate
- loans may be quick to process and may not require publicly divulging business plans or the purpose for the loan

Did you know?

Disadvantages of long-term loans: the firm may have difficulty finding a lender for extremely large loans; the firm may have restrictions placed upon it during the term of the loan (such as no other debt); and it may also have to pledge assets against the loan. Interest payments are tax deductible.

Corporate Bonds

- a promise by the borrower to pay the lender an amount of money on the maturity date (usually large amounts over long periods (10 to 30 years))
- interest payments are received in the interim
- assets may be pledged against the bond
- the details of a bond purchase are spelled out in a contract called an "indenture"
- public disclosure of business details and the funds' purpose is required

Did you know?

The company must pay interest, either annually or semi-annually for the life of the bond. Most bonds are for long time periods, up to 30 years. Bonds are a major source of long-term financing for firms seeking large amounts of money. Interest rates may be high if the issuing firm has less than a good credit rating. There are also costs associated with administration and sales. Firms also have to make their business plans known to investors. Interest rates are tax deductible.

The tax deductibility of loan and bond interest makes debt financing cheaper than equity financing, but debt financing requires interest payments even in lean times. Only stable firms can afford to carry significant debt.

Equity Financing

Seeking long-term funds through ownership financing.

Common Stock

- a firm sells ownership rights by issuing shares
- investors buy the stock hoping that it will appreciate

Retained Earnings

- financing by retaining profits in the firm and not paying dividends to shareholders

Did you know?

Dividends paid out to shareholders are not tax-deductible and therefore equity financing is more expensive than debt financing to the firm.

Hybrid Financing: Preferred Stock

Preferred shares:

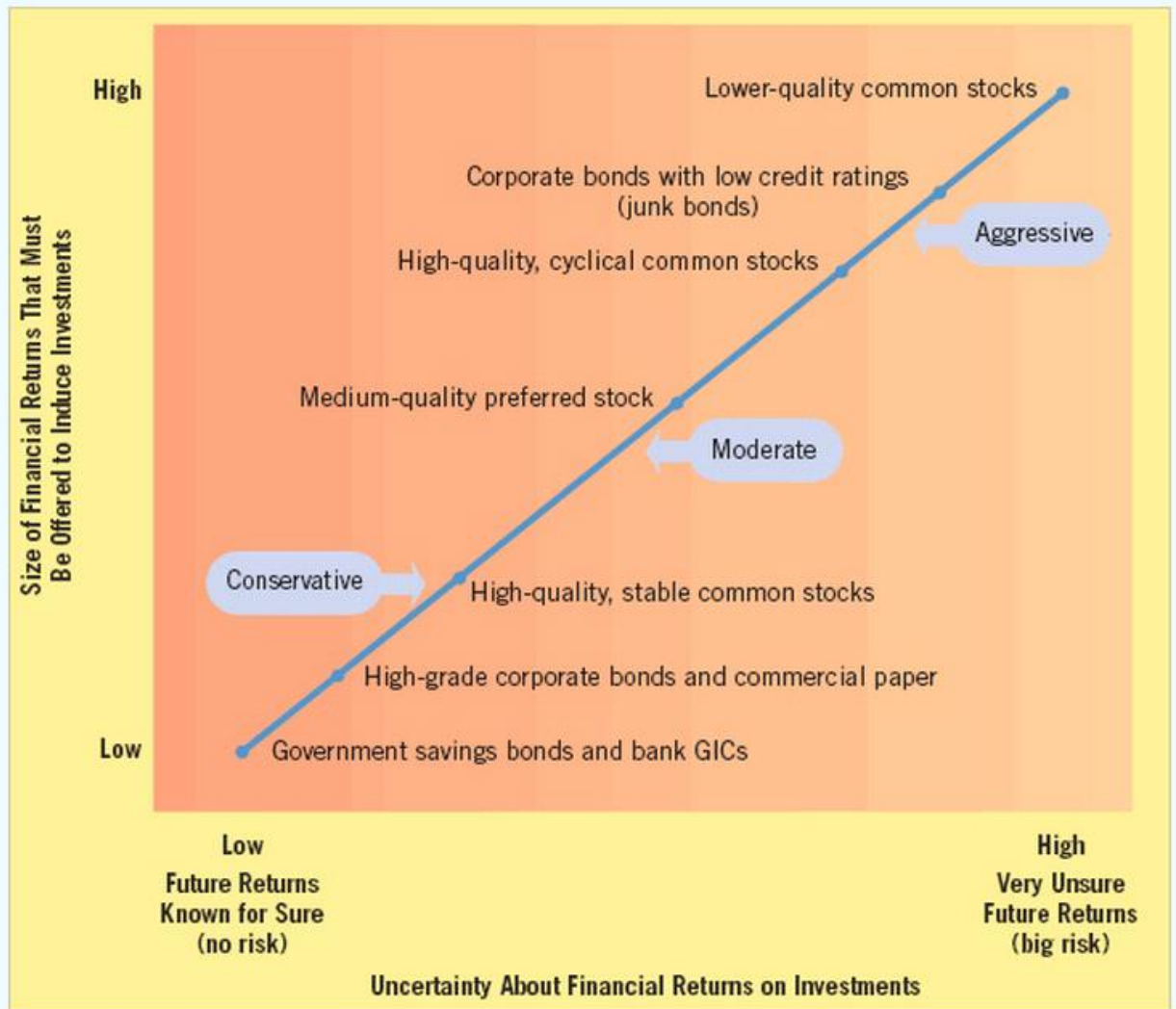
- require fixed payments, similar to bonds
- unlike bonds, they do not have a maturity date
- shareholders receive a dividend if the firm can afford it
- preferred shareholders often get paid first when dividends become available

Preferred shareholders generally have no voting rights, so the control of the firm is not affected

Comparing Debt and Equity Financing		
Debt	When must it be repaid?	Equity
Fixed deadline		Not repayable
Will it make claims on income?		
Yes, regular and absolute		Only residual claim
Will it have claims on assets?		
In liquidation, creditors come first		In liquidation, shareholders must wait until creditors are paid and preferred equity precedes common equity
Will it affect management control?		
No		Common equity may cause challenges for corporate control
How are taxes affected?		
Interest payments are deductible		Dividends are not deductible
Will it affect management flexibility?		
Yes, many constraints		No, few constraints

Screen clipping taken: 03/12/2013 9:02 PM

The Risk-Return Relationship



1.5 Financial Management for Small Businesses

- Small business owners must strive to get credit, manage it well, build their credit rating, and manage cash flow in order to:
- obtain financing at start-up and beyond
- arrange lines of credit
- organize trade credit

Venture Capital

External funding provided in return for part ownership (equity) in the borrowing firm.

- Venture capital firms actively seek investment opportunities.
 - Favour firms with rapid growth potential
- Failure rates in new ventures are high, particularly those with rapid growth; therefore, investors demand high returns for their money.

11.6 Risk Management

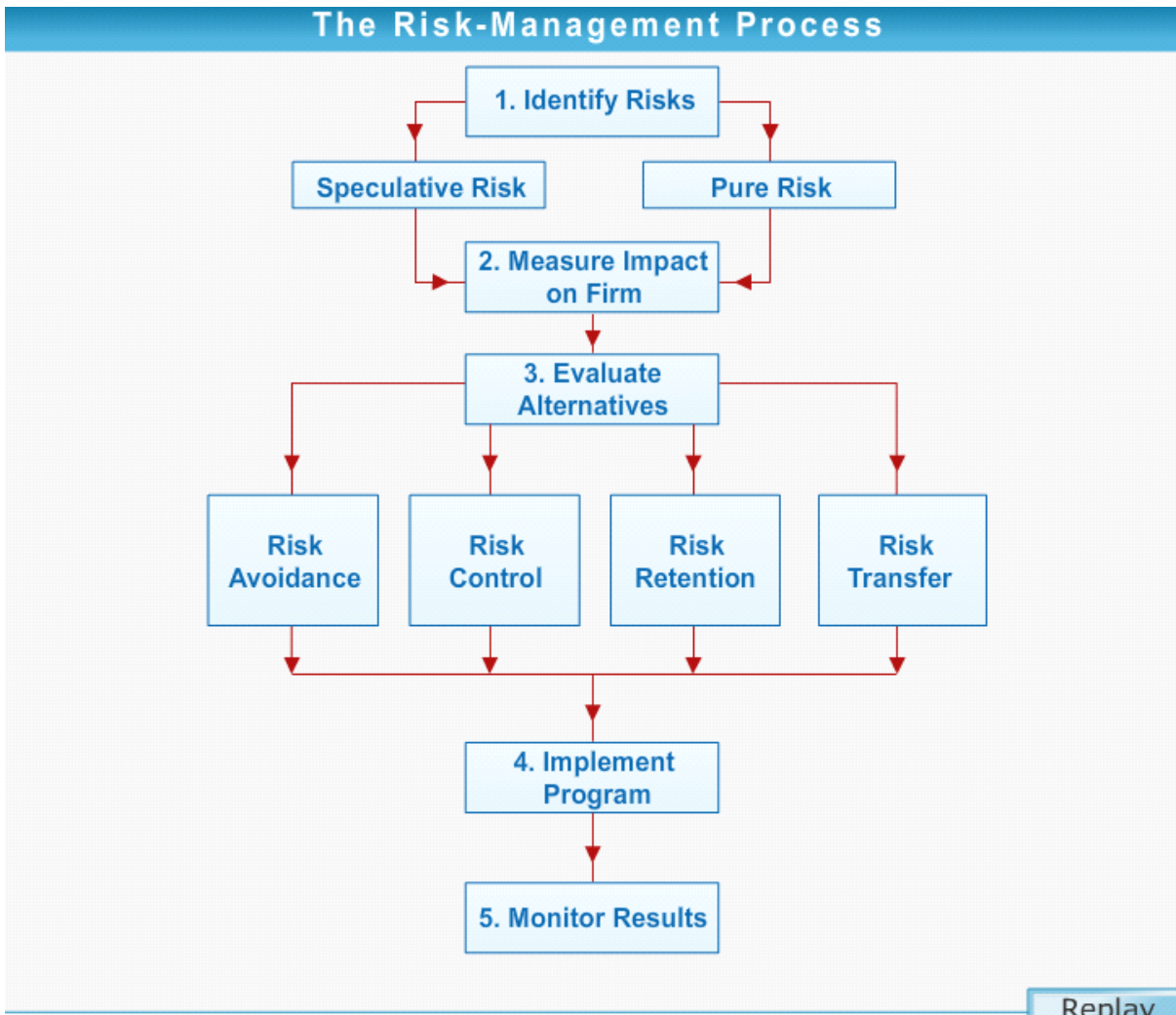
Conserving a firm's financial power or assets by minimizing the financial effect of accidental losses.

- Risk: uncertainty about future events
- Speculative risk: the chance for gain or loss
- Pure risk: only the chance of loss (i.e. chance of a warehouse fire)

Risk Management Alternatives

- Risk avoidance: refusing to participate in risky ventures
- Risk control: techniques to prevent losses, or minimize their impact
- Risk retention: covering a firm's unavoidable losses with its own funds
- Risk transfer: transferring risk to another firm, or individual, by contract

The Risk-Management Process



11.6 Risk Management

Insurance

Insurance companies return policyholders to their financial position before the loss.

Insurable risk criteria include:

- Predictability
- Casualty
- Unconnectedness
- Verifiability

Liability Insurance

Insurance that covers losses resulting from damage to people or property when the insured party is judged liable.

- Employers are required to provide workers' compensation coverage for workers who are permanently, or temporarily, disabled by job-related

- accidents or disease.
- Approximately \$10 to \$15 of every \$100 paid in premiums goes to cover fraudulent losses

Property Insurance

Covers losses resulting from physical damage to real estate or business property.

Fire and allied lines:

Damage to property by fire, lightning, theft. Fire may be extended to include other perils such as weather, riot, smoke, aircraft and other vehicles, explosion, vandalism, etc.

Marine:

Transportation insurance covering the act of transportation (water, land or air) and the good being transported.

Others:

- title: guarantees a seller has clear title to a property or the seller will receive compensation for an amount specified in the policy
- business interruption insurance: covers potential losses incurred during times when a company cannot carry on its business
- credit: protects against customers' failure to pay their bills
- co-insurance: traditionally, clients insure for less than the value of their property. They are required to insure for a minimal percentage of their property's value. A coinsurance provision requires the minimal insurance value. If the policyholder fails to do so, the insurer will not cover the total loss. The amount of loss covered will be equal to:

Life Insurance

- Pays benefits to the survivors of the policyholder
- Beneficiary: person to whom the benefits of a life insurance policy are paid. In Canada, benefit payments to individuals are not taxed, payments to the estate are
- Most companies buy group life insurance

Term:

Insurance for a fixed period of time (1 to 20 years) with no build-up of cash value. Generally by far the cheapest form of insurance.

Whole life (more traditional):

Insurance coverage for the entire life of the insured, which may build-up a cash value composed of payments in excess of insurance costs. The insured may borrow any cash build-up from the policy. Alternately, the cash value will be received as a lump sum if the policy is discontinued.

Universal (more recently available):

Insurance companies suffered when other rates of return rose because the interest paid on the cash value of whole life products was not competitive enough to keep policyholders and many cashed in their policies to access the cash value. Universal life insurance policies were designed to provide an answer to the advice that you should "buy term insurance and invest the difference". Universal life allows term insurance with a cash value, and competitive investment opportunities. They do require a higher premium to be paid, however.

11.6 Risk Management

Special Forms of Business Insurance

Key Person Insurance

- insurance taken out by a firm on important staff members
- covers losses due to their death, or other departure

Business Continuation Agreements

- agreement whereby owners make plans to buy the ownership interest of a deceased associate from the heirs

Parting Short

December-02-13 7:49 PM

1. What is an information system?
2. Why is teleconferencing a desirable alternative for business?
3. What is the World Wide Web?
4. What are two types of artificial intelligence systems?
5. What are the two types of software?

Lesson 5

6. What is working capital?
7. Manhattan Corporation has total assets of \$700,000, total liabilities of \$200,000, and owners' equity of \$500,000. What is Manhattan Corporation's debt ratio?
8. What are the three major classifications of ratios that are used to analyze financial statements? What is measured by each of these types of ratios?
9. Identify the solvency ratios and what they measure.
10. Identify the one activity ratio and what it measures.

Lesson 6

1. List the four forms of utility.
2. List the five environmental factors in a company's external environment.
3. What is a product?
4. Identify the four common methods of segmenting consumer markets.
5. List four basic methods for collecting marketing research data.

Lesson 8

- What is price lining?
- What is the distribution mix?
- What is a channel captain?
- What is a rack jobber?
- Name four types of transporting companies.

Lesson 7

- What is a benefit?
- What is the product mix?
- What is a product line?
- What are the seven steps in the product development process?
- What is brand equity?

Lesson 3

- What is productivity?
- What is quality?
- What is the formula for labour productivity for a country?
- According to a study by the Organisation for Economic Co-operation and Development, productivity levels in 23 participating countries varied significantly. What factors affect the productivity differences between nations?

Lesson 9

- What are the four characteristics of money?
- Identify the components of the M-2 money supply.
- How do banks create money?
- What is a reserve requirement?
- What is the World Bank?

Lesson 10

- What is a short sale?
- What is a call option?
- Identify some of the major stock exchanges in Canada and in the United States.
- What are stock options? Describe the two types of options available to investors.
- What is a market index? Identify and describe the major market indices in Canada and the United States.

Lesson 11

- What do credit terms of 2/10; net 30 refer to?
- What is the risk-return relationship?
- List the four choices that a company has when handling risk.
- What are the four responsibilities of finance (corporate finance)?
- Compare debt financing to equity financing on the issues of repayment, claims on income, claims on assets, management control, tax effect and management flexibility.