Lecture Notes:

- **Introduction:**
- A business turns factors of production into products that people demand.
- To succeed, every business must perform a number of functions:
    1. Determine customer needs. (Marketing)
    2. Create things people demand. (Operations)
    3. Collect information. (Accounting)
    4. Find and allocate capital. (Finance)
    5. Hire and keep good people. (HRM)
- For the business to succeed, each of these functions must be:
    - Planned
    - Organised
    - Led
    - Controlled
- **Profit** occurs when revenue exceeds expense/cost.
- **Loss** occurs when expense/cost exceeds revenue.
- **Leaders vs Managers:**
- Every business is formed for a purpose, but sometimes it is hard to see what the purpose is or how to accomplish that purpose. Hence, businesses need leadership.
- **Leaders** will determine the organisation's purpose and direction. Furthermore, they will guide and inspire others to go along.
- **Managers** are people who plan, organise, lead, and control resources in order to realise a goal. I.e. Leaders come up with a vision and the managers do their best to reach that vision.
- However, sometimes, managers and leaders will fight for more control and power.
- **Managing:**
- Managing is not the arbitrary exercise of power.
- Managing involves getting things done.
- In 1916 Henri Fayol listed 5 activities that managers need to be engaged in:
    1. Planning
    2. Organising
    3. Commanding
    4. Coordinating
    5. Controlling
- In 1967 Newman, Summer and Warren combined commanding and coordinating into leading. Now, there are 4 activities that managers need to be engaged in:
    1. Planning
    2. Organising
    3. Leading
    4. Controlling
- **Planning** is determining what needs to be done, and the best way to achieve it. Planning is also answering these questions:
    1. **What** are we going to do?
    2. **When** are we going to do it?
    3. **Who** is/are going to do it?
    4. **How** are we going to do it?
    5. **Where** are we going to do it?
- **Organising** is assembling and preparing the resources needed to complete the task.
- **Leading** is guiding and motivating others to meet the organisation's objectives. We can lead by giving instructions or lead by example (teaching and demonstrating).
- **Leadership** is influencing people so that they will strive willingly towards the achievement of group goals.

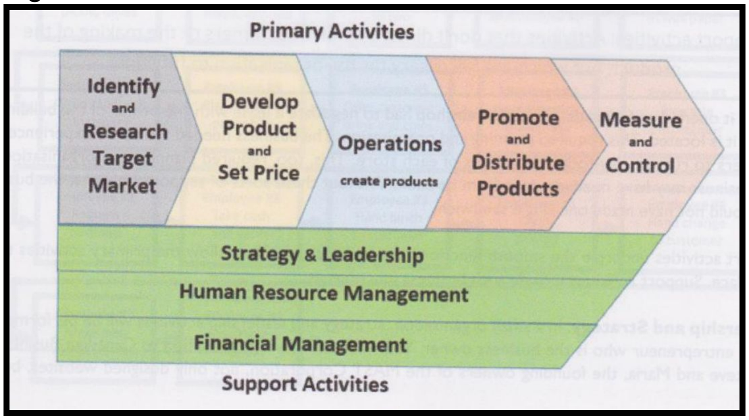
- There are 3 types of leadership styles:
    1. **Autocratic:**
        - More like managers.
        - Tells other people what to do.
        - Doesn't take suggestions/ideas from other people.
        - The upside is that it will get things done.
        - The downside is that the employees won't feel at home and will eventually start feeling resentful.
    2. **Laissez-faire:**
        - The leader tells the employees what to do, but let's the employees decide how to do it.
    3. **Democratic:**
        - Talks with his/her employees and followers for ideas.
        - The upside is that everyone feels at home and can contribute.
        - The downside is that it can take too long to reach a consensus.
- **Controlling** is a 2 step process:
    1. The first step is to set standards.
    2. The second step is to measure performance and if necessary, to improve or correct performance.
- We manage people to get people to perform to achieve an organisation's goals.
- Managing is a universal process. It occurs everywhere, not just in businesses.
  Parents manage families.
  Generals manage armies.
  Coaches manage athletes.
  We manage ourselves.
- Business managers manage the process of transforming factors of production (raw materials, labour, capital) into products that people demand.

Textbook Notes:

- **Working to Accomplish a Task:**
- A business is an organized effort, formed for a purpose. Responsibility for defining the purpose and setting the direction lies with the business' leaders.
- **Mission** is the term commonly used to describe the reason why a business exists and the goals that it is trying to accomplish.
- The purpose of creating a mission statement is to clearly communicate the business' purpose and direction to all stakeholders, especially shareholders, customers and employees.
- **The Process of Managing:**
- **Managing** is the process of planning, organizing, leading and controlling resources in order to accomplish a task.
- **Managers** are the individuals responsible for planning, organizing, leading and controlling resources in order to accomplish a task.
- **Planning:**
- **Planning** is determining what needs to be done to accomplish a task and the best way to accomplish it.
- **Organizing:**
- **Organizing** is assembling and preparing the resources necessary to complete a task.
- **Leading:**
- A manager's responsibility is to show others the way and to inspire them to want to contribute to the cause.
- **Leading** is the art of guiding or inspiring others to follow.
- Managers can lead in 2 ways:
    1. Giving you the instructions on how to do something.
    2. The manager shows you how to do something. This is **leading by example**.

- **Controlling:**
- **Controlling** begins with setting a goal or an intended result of an activity, called the **standard**.
- In business, a standard might be expressed as a quantity or value of inputs.
  E.g. “We want to sell 24, 000 boxes of our product this month.”
  Standards can also be expressed as an output or a desired result.
  E.g. “By selling 24, 000 boxes, we want to generate $960, 000 in revenue.”
- The second stage of the control process is to measure the actual performance of the activity. The performance is then compared to the standard. Then, if necessary, managers can take action to improve or correct performance, to bring it in line with the standard. If the standard is already being met, people can be rewarded and further encouraged.
- People perform control activities frequently and in all walks of life.
- The purpose of the control function is to get people and other resources to perform in a manner that will achieve the organization’s goals.
- **Management as a Control Process:**
- Management occurs in all fields of endeavour and in all walks of life.
- Management occurs in the family as parents have to manage their kids’ lives.
- Management occurs in the military as generals have to plan, organize, lead and control campaigns.
- While leadership and management are synonymous, leadership is more often applied to managers who have a longer term orientation. When we speak of leaders, we normally mean people whose concern is to plan, organize and control resources for several years into the future. When we speak of managers, we normally associate the term with people who are planning, organizing, leading and controlling resources over a shorter period of time, like the next week or next month.
- **What do Business Managers Manage:**
- One way to understand the internal workings of a business is to recognize that a business is a system. A **system** is a series of connected parts or connected activities. These parts are organized for a common purpose and work together.
- In the case of a business, the system involves planning, organizing, leading and controlling labour, capital and natural resources to transform them into finished goods and services that people need and want.
- The idea of a business as a system was articulated by Michael Porter. Porter described the system of activities within a business as a **value chain**.
- Furthermore, in his conception of the value chain, Porter distinguishes 2 types of activities: **primary activities** and **support activities**.
- **Primary activities** are the activities that are directly involved with making the good or service that the business provides to its customers. They involve engaging with the business’ customers, determining their needs, making the product, packaging and delivering it into the customer’s hands and taking payment.
- **Support activities** are the activities that don’t directly involve customers or the making of the product, but are necessary for the organization to function.
- Support activities underpin the smooth functioning of the business. They allow primary activities to take place. Support activities include business functions such as:
    - Leadership and strategy
    - Human resources management
    - Financial management

- E.g.



- A **business function** is a process or activity that is routinely carried out by a business.
- Some business functions are:
    - **Marketing:** The activities involved with interacting with customers and potential customers.
    - **Operations:** The activities involved with transforming factors of production into the goods or services that customers want.
    - **Information Management:** The development of systems for collecting data that can be organized in such a way that it produces information of use to the managers of a business.
    - **Accounting:** The system for collecting, analyzing and communicating financial information.
    - **Strategic Management:** The activities undertaken by an organization's senior leadership to determine the organization's long term goals and objectives.
    - **Financial Management:** Planning, organizing, leading and controlling the use of capital.
    - **Human Resources Management:** All of the activities involved with planning, organizing, leading and controlling an organization's people.

Textbook Definitions (Chapter 1):

- **Business function:** A process or activity that is routinely carried out by a business.
- **Controlling:** Setting a standard, measuring performance against the standard, and if necessary, taking action to bring the performance into line.
- **Leading:** The art of guiding or inspiring others to follow.
- **Managers:** Individuals responsible for planning, organizing, leading and controlling resources in order to accomplish a task.
- **Managing:** The process of planning, organizing, leading and controlling resources in order to accomplish a task.
- **Mission:** The reason why a business exists and the goals that it is trying to accomplish.
- **Organizing:** Assembling and preparing the resources necessary to complete a task.
- **Planning:** Determining what needs to be done to accomplish a task and the best way to accomplish it.
- **Primary activities:** Activities that are directly involved with making the good or service that the business provides to its customers.
- **Standard:** The goal or the intended result for the performance of an activity.
- **System:** A series of connected parts or connected activities. These parts are organized for a common purpose and work together.
- **Value System:** The system of activities which a business must manage in order to transform factors of production into finished goods and services.

Lecture Notes:

- An organisation should have a purpose and direction called a **mission** that can be converted into goals & objectives.
- People should know what they are trying to achieve and it's your role to tell them.
- **Marketing** is the business function concerned with planning and organizing the creation of a product, determining a price people will pay, making the product known and making it available to customers.
- **Marketing concept** is a business philosophy that stresses that the business' resources should primarily be directed toward serving customer needs. It is also called customer focus.
- A business must satisfy customers to make a profit, but at the same time, a business must make a profit to satisfy customers.
- Every business has a **target market**, a group of similar people who have similar needs and wants, and are most likely to buy a product.
- Marketers divide populations into groups or categories of similar people. These groups have people with similar characteristics, habits, attitudes, needs and/or wants. This is called **market segmentation**.
- Some ways markets can be segmented are:
    1. **Geographic:**
        - Where people live.
        - E.g. Rural vs Urban, Climate, Country
    2. **Demographic:**
        - A person's external traits. Demography also includes a person's socioeconomic status.
        - E.g. Age, Gender, Race, Income, Education
    3. **Psychography:**
        - A person's internal traits.
        - E.g. Religious or Atheist or Agnostic, Liberal or Conservative
    4. **Behavioural:**
        - Research has found that human beings behave differently based on certain special occasions.
        - E.g. Wedding, Funeral, Graduation

Textbook Notes:

- **Turning a Concept Into Satisfied Customers:**
- A business must satisfy customers to make a profit, but at the same time, a business must make a profit to satisfy customers.

- The business function concerned with planning and organizing the creation of a product, determining a price people will pay, making the product known and making it available to customers is called **marketing**.
- The purpose of marketing is to create exchanges so that customers get what they need and want and the business owner makes a sale.
- **The Marketing Concept:**
- When an organization focuses its energy on selling what it has, this is an orientation known as **product focus**.
- If a business is produce focused, it pours the greater part of its resources into making existing goods and services look better, perform better and achieve better results.
- A product focused business assumes that it understands the market's needs and strives to meet them as effectively as possible by building on its proven expertise.
- Alternatively, a business can focus its resources on selling customers what they want, an orientation known as **customer focus**.
- The idea that a business should focus its energies on customer needs is often attributed to American professor Philip Kotler.
- Kotler argued that the business' resources should primarily be directed toward serving customer needs. He called this the **marketing concept**.
- The marketing concept suggests that if a business provides customers with what they want, those customers will respond by making a purchase from which will spring the business' revenues and profits.
- **Target Market:**
- Business. will need to recognize a lot of people will have a reason to not buy their product.
- For example, bald people don't need to buy shampoo and vegans don't need to buy meat.
- A **target market** is a group of similar people who have similar needs and wants, and are most likely to buy a product.
- **Market segmentation** is dividing a total population into groups or categories of people who share common characteristics, habits or behaviours which give them common needs.
- There are 3 different types of market segmentation:
    1. Demographic segmentation
    2. Geographic segmentation
    3. Psychological segmentation
- **Demographic segmentation:**
- **Demographic segmentation** is identifying people based on some external characteristics that they share such as age, gender, race or ethnicity.
- Additionally people can be identified based on social and economic characteristics such as marital status, income, education, religion and other determinants of social class.
- **Geographic segmentation:**
- **Geographic segmentation** is distinguishing people according to where they live.
- For example, people in British Columbia will be more likely to buy skis while people in Newfoundland or Nova Scotia will buy sailboats.
- **Psychological segmentation:**
- **Psychological segmentation** is identifying people according to their internal traits, such as their attitudes, beliefs, values, and motivations.
- A specific list of psychological traits includes:
    - Religion or non-religious
    - Extroverted or introverted
    - Sentimental or unemotional

  - Adventurous or cautious
  - Proud or humble
  - Disciplined or uninhibited
  - Generous or uncharitable
- While political parties and charities are not businesses, these types of not-for-profit organizations will make use of psychological segmentation. They will address themselves to people who are for gay marriage or against.
- **Market Research:**
- **Market research** is the systematic study of what buyers need and how best to meet those needs.
- It can be performed at any point of the product's existence and is used to improve business competitiveness.
- **Secondary market research** is collecting information from already published sources, such as a book or website.
- It is the quickest and easiest way to collect information on a subject.
- It helps to learn from what others have learned.
- Answers questions such as:
  - Is there a market for these goods and services elsewhere?
  - What did consumers buy last year?
  - What were the rival's sales?
- This will not answer these questions:
  - Is there a market for your product?
  - Will consumers buy this specific product?
  - Will consumers pay this price?
  - Will consumers buy it this year?
- **Primary market research** is original research conducted or commissioned by the business itself.
  I.e. You do the research yourself.
- Answers the following questions:
  - What features do customers want?
  - What price are they willing to pay?
  - What promotional media will reach them?
  - Where do they want to get it?
- **Research Methods - Observation and Communication:**
- The 2 basic types of methods used by market researchers are observation and communication.
- Probably the oldest form of research is to simply observe what is happening.
- **Observation** is a market research technique that involves viewing or otherwise monitoring consumers' behaviour.
  I.e. Watching peoples' habits and behaviour.
- The advantages of observation as a research methodology are that it can be done easily and at very little cost.
- Furthermore, observation as a research method avoids the problem of **interviewer bias**.
- **Interviewer bias** is the risk that an interviewer will plead with, flatter or intimidate a respondent thus influencing the response to a question.
- However, with observation, you only see what they do but not why they did it. The deficiency of observation as a research method is that you can't probe the subject's motivation. You can't ask "why". Observation also has limited use if the proposed good or service is new.
- The other way to obtain information from customers is to **communicate** with them. This can be done in writing or by talking.

- **Communication** is asking consumers directly about their needs and preferences.
- Because no firm can interview/communicate with everyone, marketers must be careful to get a representative group of respondents when they do surveys. They must also carefully construct the survey questions so that they get honest answers that address the specific issue being researched.
- One drawback of communication is interviewer bias.
- **Research Methodology - Sampling:**
- It would be extremely time consuming, expensive and difficult for a business to talk to every member of the target market. Research that involves collecting data from every member of a population is called a **census**.
- While researchers who try to collect data from everyone in a population will obtain an accurate picture of that population, trying to do so is extremely hard, time consuming and costly. Most research therefore involves collecting data from selected members of a population. This is known as a **sample**.
- When market researchers are selecting a sample to survey, they must be careful to ensure that it is a **random sample**. That is, each person in the population must have an equal chance of being selected.
- Random samples help reduce bias.
- **Quantitative and Qualitative Research Data:**
- Ideally, market research should collect 2 kinds of data: quantitative and qualitative.
- **Quantitative data** is data that consists of facts and numbers which can be analysed statistically.
- Quantitative research is designed to collect facts and numbers and data which can be analyzed statistically.
- **Qualitative data** is data that consists of opinions, ideas and impressions.
- Qualitative research is intended to collect opinions, ideas and impressions. While these are subjective, they allow researchers insight into the consumer's thought processes and their emotional responses to a product's features or benefits.
- Qualitative research answers the question "why".
- Qualitative data is important for the business that is segmenting its target market on psychological grounds. In this case, it's particularly important for marketing managers to understand the consumers' thoughts, beliefs, motivations and emotions.
- **Market Research Techniques:**
- To collect quantitative data, researchers can choose between various types of surveys.
- A **survey** is an investigation about the characteristics of a given population by means of collecting data from a sample of that population.
- With most surveys, the questionnaires are structured. This means that the questions are asked in the same order, the same way, and only the pre-defined answer choices can be given.

- Types of surveys:

Type	**Explanation**	**Advantages**	**Disadvantages**
Postal Survey	Sending surveys through mail.	Low cost. Can be sent anywhere. Avoids interviewer bias.	Low response rate. Inability to follow up. Slow turnaround time.
Telephone Survey	A researcher will call people and ask questions from the survey.	Low cost. Possibility of asking deeper questions. Wide geographic coverage. Ensures the correct respondent.	Labour intensive. Low response rate. Answers may be superficial due to the lack of time given to answer questions.
Man in the street Survey	A person in a mall, airport station, train station or bus station asks people to do a survey.	Can observe the respondent. Possibility of asking deeper questions.	Labour intensive. Geographically limited. Interviewer bias.
Internet Survey	Is the most common form of surveys.	Low cost. Ease of completion. Increased response.	No follow up questions. Only nerds respond.

- **In-depth Interviews and Focus Groups:**
- An **In-depth interview** is a method of collecting qualitative data, in which the researcher sits down for an extended, open-ended discussion with the respondent.
- The interviewer needs to take notes or record the conversation.
- In-depth interviews are usually done face to face, but can also be done over the telephone.
- In-depth interviews are different from surveys in the sense that they are less structured. The interviewer will normally have a general plan of inquiry, however, they have no specific set of questions that must be asked with particular words and in a particular order. Ideally, the respondent does most of the talking and the interviewer listens, takes notes, and guides the conversation in the direction it needs to go.
- This research method is most appropriate when the business is offering sophisticated or complex products with many features.
- The respondent must be chosen carefully.
- In-depth interviews are labour intensive because one interviewer will devote several hours to planning, scheduling and conducting a single interview.
- The means of data collection also runs the risk of interviewer bias.
- A **focus group** is a small group of people brought together to discuss the selected issues in depth.
- It typically consists of a small group, 6 to 10, of participants that do not know each other.
- The participants are selected because they are members of the target market or they are considered by the researchers to be well informed about the product, business or industry.
- Focus groups are led by a moderator who encourages everyone to speak and offer their thoughts or point of view.

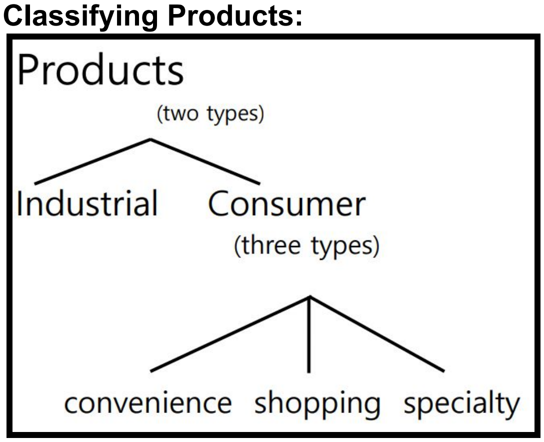
- The focus group is intended to get people talking and to generate information about how groups of people think and feel about a topic or product and to provide insight on why people feel as they do.
- The purpose of a focus group is to learn by listening. Often, focus group discussions are taped, recorded or filmed. Sometimes, focus groups are observed from behind a one way glass.
- Focus groups are particularly useful for generating qualitative data about how participants might react to a product or offering or what they hope to obtain from a product.
- Focus groups may help the researchers discover new/different points of view. This is particularly useful in helping the business improve the planning or design of the good or service.
- However, focus groups require a great amount of time. First, we need to find 6-10 willing participants. Then, we need to transport them to the interview site and provide compensation, like money or a small gift, for their time. After, the interview process might take hours. Lastly, if the interview was recorded, researchers may need to go back and watch the recording.
- **The Marketing Mix:**
- The purpose of all of the market research is to give the business' managers the information they need to create a plan to meet the target market's needs and wants.
- Therefore, marketing begins when a company identifies a consumer need and develops a product to meet it.
- In the 1960s, marketing theorist Jerome McCarthy encapsulated the marketing function into 4 essential elements that the business needs to perfect. The 4 P's of marketing, collectively known as the **marketing mix**, are:
    1. Product
    2. Price
    3. Promotion
    4. Place

<u>Textbook Definitions:</u>

- **Census:** Research that involves collecting data from every member of a population.
- **Communication:** Asking consumers directly about their needs and preferences.
- **Customer focus:** An orientation toward determining the needs and wants of the customers in the market and developing the goods and services that meet those needs.
- **Demographic segmentation:** Identifying people based on some external characteristics that they share such as age, gender, race or ethnicity.
- **Focus group:** A small group of people brought together to discuss the selected issues in depth
- **Geographic segmentation:** Distinguishing people according to where they live.
- **In-depth interview:** A method of collecting qualitative data, in which the researcher sits down for an extended, open-ended discussion with the respondent.
- **Interviewer bias:** The risk that an interviewer will plead with, flatter or intimidate a respondent thus influencing the response to a question.
- **Market research:** The systematic study of what buyers need and how best to meet those needs.
- **Market segmentation:** Dividing a total population into groups or categories of people who share common characteristics, habits or behaviours which give them common needs.
- **Marketing:** The business function concerned with planning and organizing the creation of a product, determining a price people will pay, making the product known and making it available to customers.
- **Marketing concept:** A business philosophy that stresses that the business' resources should primarily be directed toward serving customer needs.
- **Marketing mix:** The specific combination of product features and benefits, price, promotional and distribution methods used to sell a product to a target market.
- **Observation:** A market research technique that involves viewing or otherwise monitoring consumers' behaviour.
- **Primary market research:** Original research conducted or commissioned by the business itself.
- **Product focus:** An orientation toward producing improved goods and services for which an organization has proven expertise.
- **Psychological segmentation:** Identifying people according to their internal traits, such as their attitudes, beliefs, values, and motivations.
- **Qualitative data:** Data that consists of opinions, ideas and impressions.
- **Quantitative data:** Data that consists of facts and numbers which can be analysed statistically.
- **Random sample:** A sample taken from a larger population where each person has an equal chance of being selected.
- **Sample:** Research that involves collecting data from a selected number of the members of a larger population.
- **Secondary market research:** Collecting information from already published sources.
- **Survey:** An investigation about the characteristics of a given population by means of collecting data from a sample of that population.
- **Target market:** A group of similar people who have similar needs and wants, and are most likely to buy a product.

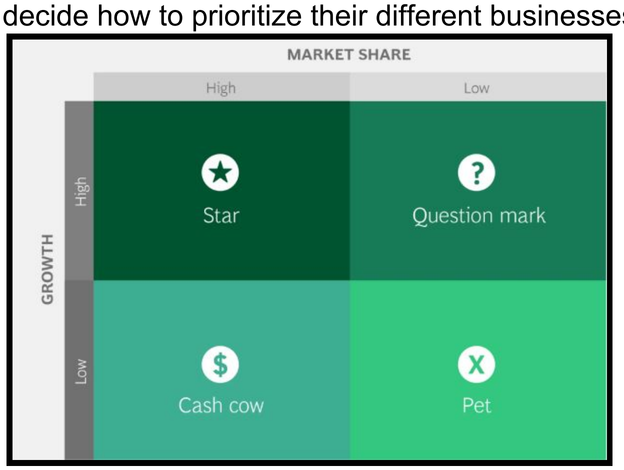
Lecture Notes:

- **Products:**
- A **product** is what a purchaser hopes to get, or believes to be getting, when they enter a financial transaction. It is anything (good/service/other) that fills a buyer's need or satisfies a want.
- There are 3 attributes of products:
  1. **Function:**
     - What the product is intended to do.
     - E.g.
       A car provides transportation.
       A restaurant provides a meal.
  2. **Features:**
     - Additional attributes or offerings which contribute improved usefulness or better experience of the product.
     - E.g.
       A car has AC.
       A car has a convertible roof.
       A restaurant has music.
  3. **Benefit:**
     - Advantages that are derived from purchasing a product.
     - Usually, these are intangible.
       I.e. Benefits can give status, image, reputation, etc.
     - E.g.
       A car gives you independence from parents.
       A car gives you status with friends.
- The **value package** is the bundle of tangible and intangible functions, features and benefits that a business offers its customers.
  Value package = Benefits + Features + Function
- **Classifying Products:**



- Industrial Products:
- Purchased by other businesses.
- Used (directly or indirectly) to produce other products.
- There are usually only a small number of buyers who are knowledgeable.
- Function is the key criterion while pricing is an important criterion.
- Consumer Products:
- Purchased by individuals generally for their own use.
- There are usually a large number of consumers.
- Name recognition, branding and packaging are very important.

- <u>Convenience Products:</u>
- Are inexpensive and purchased frequently.
- They are purchased with little time and effort and consumed quickly and regularly.
- Examples: Newspaper, razor, soap, snack foods
- <u>Shopping Products:</u>
- Are more expensive and bought less frequently than convenience products.
- They also have more features than convenience products.
- Consumers will usually spend more time evaluating alternatives.
- Examples: Insurance, laptops, cars
- <u>Specialty Products:</u>
- Consumers will spend time and effort to find exactly what they want.
- These products justify time and effort because consumers attach a great deal of importance to the products.
- Consumers expect to buy these products just once, and will remember the purchase.
- Examples:
  Wedding gown (Specialty good)
  wedding reception (Specialty service)
- **Product Life Cycle (PLC):**
- Products, technologies, and industries have finite lives.
  They begin small and weak.
  They grow quickly.
  They mature.
  They decline.
- The PLC model has 2 dimensions: Growth (vertical axis) and Time (horizontal axis)
- **Extending A Product's Life:**
- If everyone already knows about your product, and it's starting to decline, you can introduce a new version/variation or an update.
- E.g. Coca-cola has many variations and flavours.
- **Growth Share Matrix (BCG Matrix):**
- The **growth share matrix** is a portfolio management framework that helps companies decide how to prioritize their different businesses. It is a table, split into four quadrants.

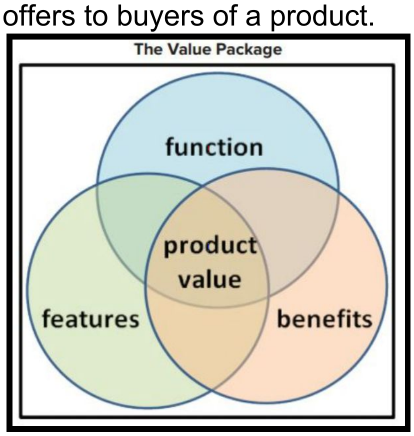


- The matrix reveals two factors that companies should consider when deciding where to invest, company competitiveness, and market attractiveness, with relative market share and growth rate as the underlying drivers of these factors.

- Each of the four quadrants represents a specific combination of relative market share, and growth:
    1. **Low Growth, High Share.** Companies should milk these “cash cows” for cash to reinvest.
    2. **High Growth, High Share.** Companies should significantly invest in these “stars” as they have high future potential.
    3. **High Growth, Low Share.** Companies should invest in or discard these “question marks,” depending on their chances of becoming stars.
    4. **Low Share, Low Growth.** Companies should liquidate, divest, or reposition these “pets.”

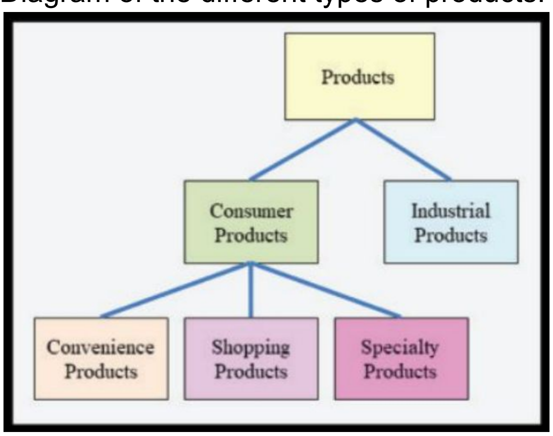
Textbook Notes (Chapter 3):

- **Products - Filling Needs and Satisfying Wants:**
- A **product** is whatever a purchaser hopes to get or believes they are getting whenever they make a purchase from another individual or organization. It is a good or service that fills a buyer’s needs or satisfies a want.
- **Goods** are products which are tangible. Examples include laptops, jeans, pencils.
- **Services** are products which are intangible but can be experienced. Examples include healthcare and education.
- Whether it’s a good or service, people are looking for these 3 elements in a product:
    1. Functions
    2. Features
    3. Benefits
- A product’s **function** is what it’s intended to do. It describes a good or service at its most minimal.
- A product’s **feature** is an additional attribute or offering which contributes improved usefulness or better experience of the product.
- A product’s **benefit** is an advantage that is derived from purchasing that product.
- The combination of a product’s functions, features and benefits gives the product its **value**. **Value** is the regard with which a product is held by potential buyers, expressed as its financial worth.
- The **value package** is the bundle of functions, features and benefits that a business offers to buyers of a product.



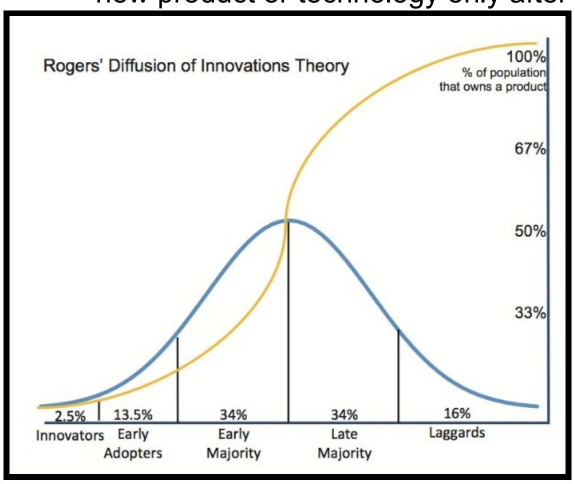
- **Understanding Different Products and Their Consumers:**
- **Consumer products** are products purchased by the end user, for personal use. They are the end result of production and manufacturing and are what the average consumers see in stores. Examples include magazines, cereal and clothing.
- In contrast, **industrial products** are the parts, ingredients, materials and supplies that are bought by one business from another in the process of making consumer goods. E.g. Cereal companies need to buy cardboard for their boxes.

- Industrial products aren't purchased by the end consumer; they contribute as inputs to the making of the consumer product. Because industrial products are purchased for different reasons than consumer products, the way they are marketed also differs.
- Industrial goods are sold to a much smaller number of buyers.
- When designing the functions, features and benefits of a product, the business must bear in mind whether the purchaser is likely to be another business.
- **Convenience products** are inexpensive products purchased relatively frequently and with little expenditure of time and effort. They are also consumed quickly. Examples include newspapers, disposable razors, deodorants.
- The key to marketing convenience products is that they must be inexpensive, easy to find and perform their function well.
- **Shopping products** are more expensive and purchased less frequently than convenience products. They also tend to have more features than convenience goods. As a result, users are willing to spend more time and effort evaluating and comparing alternatives in terms of style, performance, colour, price, etc.
  Examples include insurance, laptops, cars.
- The key to marketing shopping products is that they offer good value in terms of the features they offer.
- **Speciality products** are goods and services for which a customer will spend a good deal of both time and effort to find exactly what they want.
- Speciality products will justify the time and effort because they are goods and services to which customers will attach a great deal of importance.
- Examples include wedding gowns or catering for a wedding reception.
- The key to marketing speciality products is to maximize consumers' perceptions of the benefits that will come from using a particular supplier.
- Diagram of the different types of products:

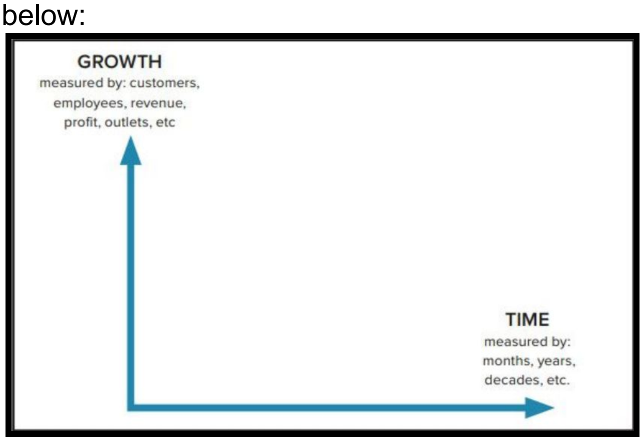


- **Product Obsolescence:**
- The **diffusion of innovations theory** explains how, over time, an idea or product gains momentum and spreads through a population.
- This theory was developed by Everett Rogers in 1962.
- Rogers argued, and subsequent research has shown, that people who are the first to try a new product are different from people who try it later on.
- Rogers identified 5 categories of people, based on their willingness to try something new. He argued that a business needs to use different strategies to appeal to each category of consumer.

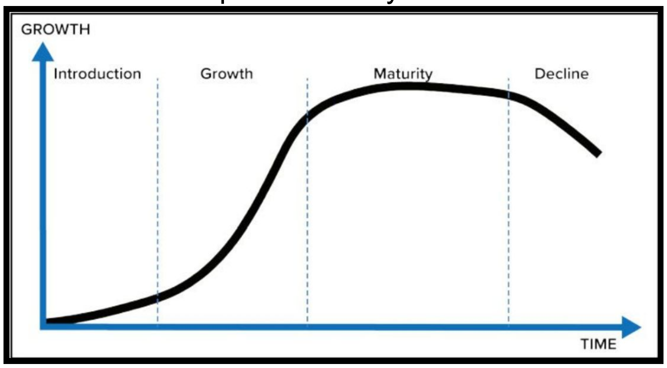
- The 5 categories are:
    1. **Innovators:** A small percentage of the population who actively want to be the first to try something new. These people are willing to take risks and little, if anything is needed to appeal to these people
    2. **Early Adopters:** The people who are aware of the need to change and are comfortable adopting new ideas. Strategies to appeal to early adopters include how-to manuals and information sheets on implementation. They do not need much info to change.
    3. **Early Majority:** These people aren't taste leaders but are willing to adopt new ideas or try new products before the average person. Typically, they need to see evidence the innovation works before changing. Strategies to appeal to early majority include success stories and evidence of innovation's effectiveness.
    4. **Late Majority:** These people are skeptical to change and will try something new only after it has been tried by majority. Strategies to appeal to late majority include information on how many other people have tried the product and used it successfully.
    5. **Laggards:** These people are bound to tradition and conservative in their tastes. They are very skeptical and the hardest to change. Often, they will purchase the new product or technology only after the previous versions have been obsolete.



- **The Product Life Cycle:**
- The **product life cycle** is the introduction, growth, maturity, decline and ultimate demise of products and industries as technologies and tastes change.
- The product life cycle can be visualized on a 2 dimensional diagram/model, shown below:



- Here is what the product life cycle looks like on the 2-d model:



- **Introduction Stage:**
  - The first stage of the product life cycle.
  - During the introduction stage, the product or technology is new and not well known.
  - There are few customers, and as a result, there are few suppliers. Furthermore, the price is high and profits are low.
  - The few businesses that do sell the product/technology will spend much of their time and effort educating potential customers, building channels of distribution and perfecting the product's design.
  - According to a Harvard Business School professor, each year, more than 30, 000 new consumer products are launched and about 80% of them fail.
  - Examples of recent high profile products that failed are New Coke (1985) and Samsung's Galaxy Note 7 (2016).
- **Growth Stage:**
  - The second stage of the product life cycle.
  - During this stage, demand for a product, particularly from first-time users, expands rapidly.
  - During this stage, production costs should begin to fall as producers begin to enjoy **economies of scale**. **Economies of scale** is the term used to describe a decrease in the cost to produce something as the volume of production increases.
  - Lowering their production costs means producers can lower their selling price. This increases demand and sales even more.
  - In most cases, it is during this stage that the product begins to make a profit.
- **Maturity Stage:**
  - The third stage of the product life cycle. This is when sales peak.
  - It is at this stage when products are most profitable. The product is now well understood and well accepted.
  - Expenditures on sales, marketing and further product development, I.e. new features, can begin to drop.
  - When a market has reached this stage, it is said to have experienced **saturation**. **Saturation** is when a market can absorb no more products.
- **Decline Stage:**
  - The fourth and final stage of the product life cycle.
  - The number of purchases fall after a market has reached saturation or the product/technology becomes old fashioned.
  - Businesses selling products in this stage may be forced to cut the product's price, merely to maintain demand.

  - With prices falling and demand either falling or staying flat, profits will fall. Falling profits will drive the smaller, less efficient, less committed competitors from the market.
  - The cause of industry decline is often the introduction of newer and better technologies that can perform the same tasks faster, better and cheaper. Other reasons may be changing social attitudes or changing demographics.
  - When products or technologies go into decline, **barriers to exit** become important.
  - **Barriers to exit** are characteristics which make an industry difficult, time-consuming or expensive for a business to leave.
  - For example, airlines have a lot of barriers to exist because an airline may have entered into contracts stretching months, or even years into the future. The airline will have to give lay-off notices to hundreds or thousands of employees, and negotiate severance and retirement packages. The airline will need to honour existing passenger tickets, some booked up co a year in advance. It will then need to sell its fleet of aircraft.
- **Life Cycle Extension:**
- A tactic for delaying product decline by launching a new variation or an update of the product.
- **Research & Development (R&D):**
- It is looking for innovations and ideas which will lead to the next generation of products.
- In the US, a typical business spends about 3.5% of their revenues on R&D. However, rapidly changing or technology intensive businesses often spend 4 or 5 times that much.
- **Branding:**
- Developing products and product features is only part of a marketer's job. Marketers must also design and package products so that customers can recognize them. 3 important tools for this task are branding, packaging and labelling.
- **Branding** is the use of logos, colours or symbols to identify a product and differentiate it in the minds of target customers.
- Businesses want customers to develop brand loyalty.
- **Brand loyalty** is customers' recognition of, preference for, and insistence on buying a product with a certain brand name.
- Creating brand loyalty is a 3 stage process. First, marketing managers must work to get customers to recognize the product's logo, name, colors and design, so that when they need a particular good or service, they will look for any of these. This is known as **brand awareness**.
- Next, marketers must attempt to get consumers to develop a favourable attitude towards the product and choose it over competitive offerings. This is known as **brand preference**.
- Finally, **brand insistence** involves persuading consumers to demand a product and make them willing to go out of their way to get it.
- Branding is important for sustaining the products revenue and profitability.
- **Protecting the Product:**
- Businesses undertake a lot of research and development in order to create new products that satisfy customer needs. The effort can be time consuming and expensive. Hence, businesses want to ensure that their creations and inventions are protected.
- **Intellectual property** is the name given to the ideas, inventions, and other creations that belong to a business.

- The 3 most common forms of intellectual property are:
    1. **Trademarks:**
    - A business does not want another business to use its name and confuse consumers into buying a substitute product.
    - Businesses can apply to the Canadian government and receive a **trademark**, which is the exclusive legal right to use a brand name.
    - Trademarks are granted for 15 years and may be renewed for further periods of 15 years.
    2. **Patents:**
    - A **patent** gives its owner exclusive right to the use of an invention or technological innovation for a period of 20 years.
    - To obtain a patent the inventor must go through a fairly lengthy and sometimes expensive process of providing blueprints, drawings, working models to the Canadian Patent Office.
    - Furthermore, the individual or business applying to obtain the patent must prove that they were the first to design and develop a working invention. For this reason, the process can take up to 3 years.
    - A Canadian patent confers exclusive right to use the invention in Canada only. If the business or individual wants to prevent competitors in the US from using its invention, it must go through a similar process to obtain a patent in the US.
    - If an individual or business believes that it has come up with a truly ground-breaking innovation, it has 4 options as to how best exploit it:
        1. Don't get the patent. Instead, keep the innovation or process a secret for as long as possible. This gives the inventor a monopoly until a rival can duplicate the discovery.
           For example, coke never patented their formula.
        2. Obtain the patent and keep the right to be the only organization legally entitled to make the product or use the process. This gives the owner a 20 year monopoly.
        3. Obtain the patent and then sell the right to use the innovation to others. This gives the owner of the patent an immediate stream of revenue from the discovery.
        4. Announce the product worldwide. However, before doing so, the business should ensure it has the productive capacity and the sales and delivery capacity to produce and distribute widely. If the innovation is truly valuable and catches on, the inventing organization will become the market leader when the product becomes the industry standard.
    3. **Copyrights:**
    - A **copyright** gives ownership rights to the creators of books, articles, designs, illustrations, photos, music, etc. Copyrights apply to the tangible expressions of an idea.
    - Copyrights are given to the creators for the duration of their life and then to their heirs for another 50 years.
    - In Canada, the copyright process is relatively simple. The individual who creates the "copy" needs only to assert their ownership of the intellectual property and assert their exclusive rights to grant anyone else the right to copy it.
- **<u>Packaging and Labelling:</u>**
- For consumer products, **packaging** helps to make the product attractive, displays the brand and identifies the product's features.
- Packaging is the marketer's last chance to say "buy me" to the consumer.
- **Packaging** is the physical container in which a product is sold.

Textbook Definitions (Chapter 3):

- **Barriers to exit:** Characteristics which make an industry difficult, time-consuming or expensive for a business to leave.
- **Benefit:** An advantage that is derived from purchasing that product.
- **Brand awareness:** A consumer being able to recognize a product's name, logo, colours or design so that when they need a particular good or service, they can look for them.
- **Brand insistence:** Consumers demand a product and make them willing to go out of their way to get it.
- **Brand loyalty:** Customers' recognition of, preference for, and insistence on buying a product with a certain brand name.
- **Brand preference:** Consumers develop a favourable attitude towards the product and choose it over competitive offerings.
- **Branding:** The use of logos, colours or symbols to identify a product and differentiate it in the minds of target customers.
- **Consumer products:** Products purchased by the end user, for personal use.
- **Convenience products:** Inexpensive products relatively frequently and with little expenditure of time and effort.
- **Copyright:** Exclusive right to the use of books, articles, designs, illustrations, photos, and music that are the tangible expression of an idea.
- **Decline stage:** The final stage of the product life cycle. Here, demand falls, prices fall, profits fall and the number of competitors decline.
- **Diffusion of innovations theory:** Explains how, over time, an idea or product gains momentum and spreads through a population.
- **Economies of scale:** A decrease in the cost to produce something as the volume of production increases.
- **Feature:** An additional attribute or offering which contributes improved usefulness or better experience of the product.
- **Function:** What a product is intended to do.
- **Goods:** Products which are tangible.
- **Growth stage:** The second stage of the product life cycle. During this stage, demand for a product, particularly from first-time users, expands rapidly.
- **Industrial products:** The parts, ingredients, materials and supplies that are bought by one business from another in the process of making consumer goods.
- **Intellectual property:** The name given to the ideas, inventions, and other creations that belong to a business.
- **Introduction stage:** The stage of the product life cycle when the product/technology is new and little known.
- **Life cycle extension:** Any effort by a business to re-package, re-launch or update a mature but well-known product.
- **Maturity stage:** The third stage of the product life cycle. This is when sales peak.
- **Packaging:** The physical container in which a product is sold.
- **Patent:** Exclusive right to the use of an invention or technological innovation.
- **Product:** Whatever a purchaser hopes to get or believes they are getting whenever they make a purchase from another individual or organization. It is a good or service that fills a buyer's needs or satisfies a want.
- **Product life cycle:** The introduction, growth, maturity, decline and ultimate demise of products and industries as technologies and tastes change.
- **Research & Development (R&D):** Looking for innovations and ideas which will lead to the next generation of products.
- **Saturation:** When a market can absorb no more products.
- **Services:** Products which are intangible but can be experienced.

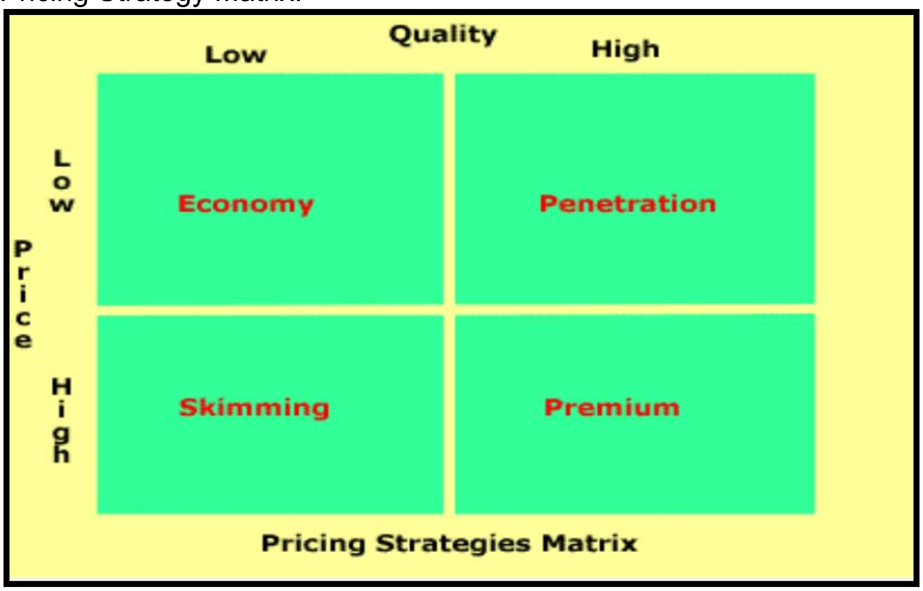
- **Shopping products:** Products that are moderately expensive and purchased infrequently causing consumers to spend time comparing features, benefits and price.
- **Speciality products:** Products to which consumers will attach a great deal of importance and for which they will spend a good deal of both time and effort to find exactly what they want.
- **Trademark:** The exclusive right to the use of a name.
- **Value:** The regard with which a product is held by potential buyers, expressed as its financial worth.
- **Value package:** The bundle of functions, features and benefits that a business offers to buyers of a product.

Lecture Notes:

- **Introduction to Pricing:**
- **Price** is:
    - What the business will charge in exchange for its product. (Revenue for the business.)
    - What a customer pays to acquire a product or service. (Cost for the customer.)
- **Note:** There is no such thing as “expensive”. It’s about price tag vs perceived value.
- Recall that a business has 2 purposes:
    1. Satisfy customers
    2. Make profits

  Because of this, there’s no formula for setting price. Pricing depends on judgement and choice.
- **Costs:**
- There are 2 types of costs:
    1. **Variable Costs (VC):**
    - Increases with the volume of activity.
    - Cost of goods sold is variable cost.
    - E.g. Suppose making a pizza costs \$5. The more pizzas you sell (and make), the higher the costs will be.
      If you make 1 pizza, it costs \$5.
      If you make 2 pizzas, it costs \$10.
    2. **Fixed/Operating Costs (FC):**
    - These costs do not increase with the volume of activity.
    - Examples include rent, salaries, insurance.
    - E.g. Suppose the rent on your pizza store is \$2000 per month. The rent stays the same if you sell no pizzas or 1000 pizzas.
- **Value Based Pricing:**
- **Value-based pricing** is a strategy of setting prices primarily based on a consumer's perceived value of a product or service.
- Value pricing is customer-focused pricing, meaning companies base their pricing on how much the customer believes a product is worth.
- Value-based pricing is different than cost-based pricing, which factors the costs of production into the pricing calculation.
- Companies that offer unique or highly valuable features or services are better positioned to take advantage of the value pricing model than companies which chiefly sell commoditized items.
- **Cost Based Pricing:**
- **Cost-based pricing** is a strategy of setting prices primarily based on the company’s costs and profit margins.
- The advantages of this method are that a business can be assured of always generating a profit, as long as the markup figure is sufficient and unit sales meet expectations, and that it is a simple way to develop prices. However, this approach routinely results in prices that diverge from the market rate, so that either the firm is selling at too high a price and is attracting too few customers, or it is selling at too low a price and so is losing profits that customers would otherwise have been happy to pay. An additional problem with cost-based pricing is that it does not force a business to keep its costs under control. Instead, costs are simply passed through to the customer.
- **Pricing Begins With the Costs:**
- Whatever the choice, a business must cover its costs.
- This means that in order to set a price, the business must first understand its costs.

- **Markup** is what the business adds to the cost of making a product (the variable cost) to arrive at its price.
  I.e. Variable Cost + Markup = Price.
  E.g. Suppose it costs a company $5 to make a pizza. If they sell that pizza for $8, then the markup of that pizza is $8 - $5 or $3.
- Markup ensures that each pizza not sold at a loss and pays for the fixed costs.
- The **contribution margin** is markup expressed as a percentage of the selling price.
  I.e. Contribution margin % = $\frac{Markup}{Selling\ Price}$
  E.g. Suppose it costs a company $5 to make a pizza. If they sell that pizza for $8, then the markup of that pizza is $8 - $5 or $3. The contribution margin would be $3/$8 or 37.5%.
- **Pricing Strategies:**
- Pricing Strategy Matrix:



- No formula determines the price.
- The size of the markup is a choice left to the manager.
- There are 2 possible pricing strategies for new products:
  1. **Skimming:**
     - In the skimming strategy, there is a large markup, and subsequently, high prices.
     - Because of the high prices, there is a small market and low sales.
     - There doesn't need to be a lot of sales because each sale has a large contribution margin.
     - Some well-known successful businesses use skimming strategy are:
       1. Rolls-Royce cars
       2. Rolex watches
       3. Mont Blanc pens
  2. **Penetration:**
     - In the penetration strategy, there is a small markup, and subsequently, low prices.
     - Because of the low prices, there is a large market and high sales.
     - There needs to be a lot of sales because each sale has a small contribution margin.

- Some well-known successful businesses use skimming strategy are:
    1. Honda Civic cars
    2. Casio watches
    3. Bic pens
- **Break-even Analysis:**
- Helps managers understand relationship between costs, chosen selling price, and necessary volume of sales.
- Answers the question: "If I choose this price, how many units must I sell – to make a profit?"
- If you know your costs you can choose a price.
- **Break-even analysis** tells you the quantity you must sell in order to make a profit.
- **Break-even quantity** is the minimum number of units a business must sell in order to recover all costs and begin to make a profit.
- Formula:

$$\frac{fixed\ costs}{selling\ price - \ variable} = \frac{fixed\ costs}{profit\ from\ each\ sale} = Number\ of\ units\ to\ break\ even$$

- Examples:
    1. Suppose you own a pizzeria and you sell 3 types of pizza:
        a. Deluxe Gourmet Pizza - $15
        b. Mid-price Pizza - $10
        c. Low-price Pizza - $6

    Suppose each pizza costs $5 to make and the fixed costs are $100, 000/year.

    The break-even for deluxe gourmet pizza follows:
    Fixed Costs = $100, 000
    Variable Costs = $5
    Selling Price = $10

$$\frac{fixed\ costs}{selling\ price - \ variable} = \frac{100,000}{10-5} = \frac{100,000}{5} = 20,\ 000$$

    Therefore, you need to sell 20, 000 deluxe gourmet pizzas to break even.

    The break-even for mid-price pizza follows:
    Fixed Costs = $100, 000
    Variable Costs = $5
    Selling Price = $15

$$\frac{fixed\ costs}{selling\ price - \ variable} = \frac{100,000}{15-5} = \frac{100,000}{10} = 10,\ 000$$

    Therefore, you need to sell 10, 000 mid-price pizzas to break even.

    The break-even for low-price pizza follows:
    Fixed Costs = $100, 000
    Variable Costs = $5
    Selling Price = $6

$$\frac{fixed\ costs}{selling\ price - \ variable} = \frac{100,000}{6-5} = \frac{100,000}{1} = 100,\ 000$$

    Therefore, you need to sell 100, 000 low-price pizzas to break even.

- Using break-even analysis, managers must ask:
    1. Can we sell this many pizzas?
    2. Should we raise price, sell fewer, but make more profit on each?
    3. Should we cut price, sell more, but make less profit on each?
- **Psychological Pricing Tactics:**
- There are 2 types of psychological pricing tactics:
    1. **Odd-Even Pricing:**
    - Setting a price just below the next whole number.
    - E.g. $9.99 or $9.95 instead of $10.00.
    2. **Bundle Pricing:**
    - Adding another item to the purchase.
    - E.g. Buy 2 sandwiches and 2 cans of pop for $15.

Textbook Notes (Chapter 4):

- **What Determines a Product's Price:**
- Businesses exist to satisfy customer needs and to make a profit. Because of this, there is no precise formula to tell managers exactly what the price of each product should be. Setting a price involves tradeoffs between the business' two purposes.
- Two things that determine the business' ability to set its prices are:
    1. The degree of competition
    2. The business' costs
- **How Competition Affects Price:**
- Pricing in a perfectly competitive market:
    - A perfectly competitive market is characterized by a large number of small sellers, offering more or less the same product.
    - In a perfectly competitive market, buyers enjoy a great deal of choice. Buyers can walk away from any seller and look for a better deal because there are so many sellers.
    - This means that sellers have little control over the product's price and must charge what everyone else is charging. This is called the **market price**.
    - With little or no control to influence a product's price, businesses that choose to sell perfectly competitive products can increase their profits by minimizing their costs.
- Pricing in oligopoly market:
    - In an oligoply, a small number of competitors watch each other closely.
    - If one supplier raises or lowers prices, then others will soon follow.
    - Oliogopoly businesses tend to compete on the basis of differentiation. That is, they try to convince potential customers that their product is different or better in some way. One method of doing this is branding. Oligopoly businesses want consumers to associate their products with colours, designs and logos that become symbols for the product's reliability. This requires companies to spend a lot of time and money on branding, advertising and other forms of promotion.
- Pricing in a monopolistically competitive market:
    - In a monopolistically competitive market, there are many small sellers with a small number of big sellers.
    - E.g. Coffee stores. Most coffee stores are small, but there a few large one like Tim Hortons or Starbucks.
    - The large sellers will differentiate their products so that they can charge more than others.
- Pricing in monopoly market:
    - In a monopoly, there is only 1 seller.
    - Consumers have to purchase the item on the seller's terms.

- **To Set a Price a Business Must Understand its Costs:**
- Before determining the price of a product, managers must first understand the cost of that product.
- A business has 2 types of cost:
    1. Cost into making the product.
    2. Cost of running the organisation to make the product.
- The cost that goes directly into making the product is called **cost of sales**.
- When a business is making a tangible good, the ingredients, parts and materials that go into it are often visible and obvious. So, these costs are even more frequently known as the **cost of goods sold**.
- Another term for the ingredients, parts and materials that go directly into making a product is **variable cost**. Variable cost is the cost of anything that increases in direct proportion to each addition unit of product that is made.
- E.g. If a pizza costs $5 to make, then if the pizzeria makes 2 pizzas, the cost would be $5*2 or $10.
- The first constraint for managers setting a price is they must charge at least the variable cost. If managers set a price lower than the variable costs, the business would make a loss for sure.
- E.g. If making a pizza costs $5 to make, and the pizzeria sells it for $4, then they will be losing $1 for each pizza sold.
- Knowing the variable costs give the managers a floor to set the price.
- The second type of cost that business incur is the cost of running the organization.
- E.g. In addition to the cost of making a pizza, a pizzeria will need to spend money on other expenses such as rent, utility, salaries, etc.
- The cost of operating a business organisation, as opposed to making a product, is known as **operating cost/operating expense**.
- Operating costs are known as **fixed costs**. **Fixed costs** are the costs of operating the business, which do not change as the volume of production increases.
- **Markup and Margin:**
- **Markup** is the amount that a business adds to the variable cost of making a product, in order to set its selling price.
- Variable Cost + Markup = Selling Price
- The markup ensures that with every unit the business sells, the business will generate funds towards the fixed cost of running the organization.
- **Contribution margin** is the markup expressed as a percentage of the selling price.
- Contribution Margin (%) = Markup / Selling Price
- The business' managers must now make a choice. They can either choose a high markup, which will deter many customers, but each unit of product sold generates a lot of revenue, or they can choose a low markup which will attract many customers but each unit of product sold won't generate a lot of revenue.
- **Skimming** is the strategy of charging a high price, expecting a small volume of sales, but making a large contribution from each.
- Examples of businesses that do skimming are:
    - Rolls-Royce cars
    - Rolex watches
    - Mont Blanc pens
- The advantage of skimming is that even though the target market is small, this segment is not **price sensitive**.
- **Price sensitivity** is the degree to which the price of a product affects consumers' willingness to buy.
- The disadvantage of skimming is that the target market is small.

- Other businesses do the opposite. They add a small markup to their costs and attract a large number of customers. This is known as **penetration pricing**.
- Some well-known successful businesses use skimming strategy are:
    1. Honda Civic cars
    2. Casio watches
    3. Bic pens
    4. Wal-Mart
- The disadvantage of penetration pricing is that the company must sell large number of units to make a profit.
- Since most people won't be able to afford expensive items, and people will think of cheap items as having poor quality, the most likely pricing policy for the majority of businesses is somewhere in the middle.
- **Break-even Analysis:**
- To understand the implications of choosing a slightly higher or lower price, businesses perform **break-even analysis**.
- **Break-even analysis** is a tool that helps managers understand the relationship between their costs, their chosen price, and the number of units that the business must sell in order to make a profit.
- **Break-even quantity** is the minimum number of units a business must sell in order to recover all costs and begin to make a profit.
- Break-even quantity = Fixed Costs / (Selling Price - Variable costs)
- **Consumers Aren't Necessarily Rational:**
- Marketers should remember that consumers, being human, make purchasing decisions based on emotions as well as logic/reason.
- There are a number of tactics that businesses can use to excite customers into making purchases. These tactics are collectively known as **psychological pricing**.
- Two tactics are:
    1. **Odd-Even Pricing:**
    - A strategy of setting the price of a product just below the whole dollar amount.
    - E.g. Using $4.99 or $4.95 instead of $5.
    - Buyers tend to associate the price with the first digit they see. Hence, if a business uses $4.99 or $4.95, customers will perceive the price to be closer to $4 than $5.
    - This also applies to larger numbers.
    - E.g. Using $399, 999 instead of $400, 000.
    2. **Bundle Pricing:**
    - Packaging several products together and offering the combined package at a single price that is less than the sum of parts.
    - "Combo" and "package" are commonly used words.
    - E.g. A combo package of a large popcorn and medium drink costs $5 while individually, a large popcorn costs $4 and a medium drink costs $3.

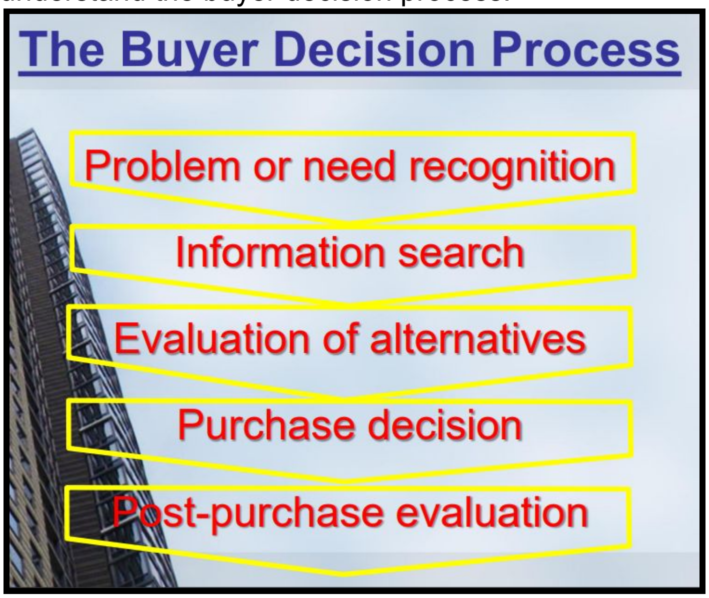
Textbook Definitions (Chapter 4):

- **Break-even analysis:** A tool that helps managers understand the relationship between their costs, their chosen price, and the number of units that the business must sell in order to make a profit.
- **Break-even quantity:** The minimum number of units a business must sell in order to recover all costs and begin to make a profit.
- **Bundle pricing:** Packaging several products together and offering the combined package at a single price that is less than the sum of parts.
- **Contribution margin:** The markup expressed as a percentage of the selling price.

- **Cost of sales/Cost of goods sold:** The cost of the ingredients, parts, and materials that go directly into making a product.
- **Fixed costs:** The costs of operating the business, which do not change as the volume of production increases.
- **Market price:** At any particular time, the prevailing price to which buyers and sellers agree.
- **Markup:** The amount that a business adds to the variable cost of making a product, in order to set its selling price.
- **Odd-even pricing:** A strategy of setting the price of a product just below the whole dollar amount.
- **Operating cost/Operating expense:** The cost of operating a business organisation.
- **Penetration pricing:** The strategy of charging a low price, and relying on a large volume of sales, making a small contribution from each.
- **Price sensitivity:** The degree to which the price of a product affects consumers' willingness to buy.
- **Psychological pricing:** A range of tactics designed to appeal to customers' emotions.
- **Skimming:** The strategy of charging a high price, expecting a small volume of sales, but making a large contribution from each.
- **Variable cost:** Costs that increase in direct proportion to every additional unit of product that is made.

Lecture Notes:

- **Promotion:**
- In a market buyers are looking to make purchases while sellers are looking to make sales.
- Promotion should:
    - raise awareness
    - create interest
    - stimulate sales
- Buyers go through a 5 stage process before and after making a purchase. This is called the **buyer decision process**. Before considering methods of promotion, you must understand the buyer decision process.



- There are 4 types of promotional methods. They are:
    1. **Advertising**
    - Paid, non-personal communication used to inform an audience about a product.
    - Sellers advertise in any medium that gets their names in front of people. Some mediums are the internet, television, radio, newspaper, direct mail and outdoor (billboards and signs).
    - Advertising helps with building the brand image.
    - It is most effective in delivering messages that represent the perceived value of the product/service.
    - Businesses are required to take responsibility for the content.
    - Is used for raising awareness.
    - Is not good for educating or closing the sale.
    - Addresses the “Problem or need recognition” and “Information search” stages of the buyer decision process.
    2. **Personal Selling**
    - Salesperson deals directly (one-on-one) with potential buyers.
    - It is appropriate if the product is complex with many features and/or buyers need individual attention.
    - Personal selling is the most expensive form of promotion.
    - Companies that use it include Avon, Tupperware and Mary Kay.
    - It is more likely to be used for complex or customised products such as cars, houses, insurance, investment, etc.

- Is used for educating, creating enthusiasm and closing the sale.
- It is not effective for raising awareness.
- Addresses the "Information search", "Evaluation of alternatives" and "Purchase decision" stages of the buyer decision process.

3. Sales Promotion

- Short-term promotional activities designed to stimulate consumer interest and excitement.
- Promotional strategies include:
    - **Every Day Low Pricing (EDLP):** Used by Dollarama, Wal-Mart and No-Frills
    - **High-Low Pricing (HLP):** Bay days at Hudson's Bay and Boxing Day sales
    - Sales
    - Coupons & discounts
    - Bonuses and premiums
- Effective for creating enthusiasm and closing the sale.
- Not effective for raising awareness and educating people.
- Addresses the "Purchase decision" stage of the buyer decision process.

4. Publicity & Public Relations

- Any activity that generates positive news coverage about a business.
- Can be done by sending press releases or sponsoring causes or events.
- The advantage is that it can be done for free.
- The disadvantage is that it can't be controlled.
- **Public relations** are activities designed to create goodwill.
  E.g. A company can sponsor an individual or sponsor an event.
- Public relations are effective for post purchase evaluation and post purchase validation.
- Public relations are not effective for educating people or closing the sale.
- Addresses the "Post-purchase evaluation" stage of the buyer decision process.

- The **promotional mix** is the combination of advertising, personal selling, sales promotion, publicity and public relations that a business uses. It is intended to address various stages of the buyer decision process.
- **Place:**
- The part of marketing mix concerned with getting product from seller to buyer.
- People are less likely to buy a product if it's hard to get.
- Therefore, the business must make the product easy to get and must have a strategy for getting the product into customers' hands.
- There are 2 key issues:
    1. **Intensity:** How common/easy is it to find the product?
    2. **Channel:** How to get the product to the consumers?
- **Distribution intensity:** Producers can distribute everywhere they can or in a few selected locations.
- There are 3 general strategies for distribution intensity:

1. Intensive distribution:

- Obtain maximum exposure by saturating all possible outlets.
- It is appropriate when buyers won't go out of their way or there are acceptable substitutes, such as soft drinks and snack foods.

2. Selective distribution:

- The product is available through a limited number of selected stores.
- Appropriate when consumers are willing to shop around.
- Examples of businesses that use this are Ralph Lauren and Black & Decker.

3. **Exclusive distribution:**
   - The product is available through a very limited number of selected stores.
   - Typically used in luxury goods, where exclusivity is an important part of the value package.
   - Examples of businesses that use this are Gucci, Louis Vittion and Tiffany.
- **Channels** are concerned with how to get products into consumers' hands.
- Producers can distribute the product themselves or use intermediaries.
- **Direct selling/Direct channels** is when a business sells their products directly to the consumer without passing through any intermediary. This can be done by mail order such as through catalogues, through the internet, through door-to-door selling or through selling your products or services at your stores or branches. Examples of the last case include Canadian Tire stores selling its own line of Mastercraft tools and bank branches.
- **Indirect selling/Indirect channels** is the distribution of a product by selling to intermediary as opposed to the end user.
- A **distribution intermediary** is any business which helps another business to distribute their goods and services to the consumer. For example, retail stores like Hudson's Bay that sell shoes made by Nike are distribution intermediaries.
- Indirect sales includes any chain of distribution that involves retail stores, wholesalers, distributors, brokers and agents.
- The most obvious distribution intermediaries are retail stores. **Retailers** are intermediaries who sell products directly to the end user.
- Each link in the distribution channel charges a markup. For example, if you purchase a drill from Black and Decker for $30, you might find the same drill at Canadian Tire for $60. This is because Canadian Tire bought the same drill from Black and Decker for $30 and also charges a $30 markup for the service it provides.
- This means that indirect distribution means higher prices. The more intermediaries, the higher the final price.
- However, intermediaries provide useful services such as displaying the product, providing customers with advice and doing all the work involved with the final transaction.
- **Electronic retailing (e-tailing)** is the use of the internet to promote products and services and allow consumers to purchase them online.
- **Wholesalers** are intermediaries who buy products in large quantities from manufacturers, store it, and then distribute it to retailers.
- **Agents/Brokers** are individuals who act as representatives on behalf of sellers. They receive a percentage of the revenue in return.
- Examples of agents include travel agents, hotel agents and real-estate agents.
- Agents get paid in commission, a percentage of the revenues they generated on behalf of their client.
- The value of agents lies primarily on their knowledge of the markets and their expertise at selling.

Textbook Notes (Chapter 5):

- **Promotion:**
- **Promotion** is any technique that is used to inform, educate and excite consumers about the products that are available in a business and induce them to buy.
- Promotion seeks to accomplish 4 things with potential customers:
  1. Make them aware of product(s)
  2. Make them knowledgeable about it
  3. Persuade them to like it
  4. Persuade them to buy it
- The ultimate goal of promotion is to induce people to buy.

- **The Buyer Decision Process:**
- The **buyer decision process** is a 5 stage process that most customers go through before and after buying a good or service.
- The 5 stages are:
  1. **Problem or need recognition:**
     - Consumers become aware of some situation in their life that needs solving or satisfying.
     - For example, a consumer could become hungry.
     - Since our needs can be satisfied through the purchase of a good or service available, marketers must make sure that buyers are aware of their products.
  2. **Information search:**
     - Consumers search for information as to what goods or services may provide a solution.
     - At this stage, the objective of promotion is to inform consumers about available products.
  3. **Evaluation of alternatives:**
     - Consumers evaluate the different products that are available based on each product's function, features, and benefits.
     - This stage of the process is heavily influenced by one's attitude to the provider. For example, if you had a bad experience with a provider, it's likely you won't buy from them again regardless of the features they offer.
     - The goal of promotion at this stage is to demonstrate product quality and performance compared to their competitors' products.
  4. **Purchase decision:**
     - If the consumer has spent some time researching, they will be fairly committed to a particular product.
     - The goal of promotion at this stage is to make the purchase convenient and to give customers an incentive to buy.
  5. **Post-purchase evaluation:**
     - This stage is critical if the business wants to retain customers for future repeat business.
     - Customers will ask "Was that a good choice?" and "Did I make the right decision?"
     - The goal of promotion at this stage is to create a positive post purchase impression.
     - If customers are satisfied after making a purchase, they will develop brand loyalty.
- **Note:** It isn't necessarily the case that all consumers go through all 5 stages of this process. It is less likely for a consumer to go through all 5 stages if they buy an inexpensive convenience item. The consumer would most likely go straight to the purchase stage and probably won't reflect back on their choice.
- **The Promotional Mix:**
- Traditionally, there are 4 types of promotional methods. They are:
  5. Advertising
  6. Personal Selling
  7. Sales Promotion
  8. Publicity & Public Relations
- The **promotional mix** is the combination of advertising, personal selling, sales promotion, publicity and public relations that a business uses.

- A recent US survey of 200 large public corporations showed that these businesses spend roughly 10% of their revenue on promotion.
- Promotional tool used for each stage of the buying decision process:

Stage if Consumer Buying Product	**Most Effective Promotional Tool**
Need Recognition	Advertising
Information Seeking	Personal Selling
Search for and Evaluate Alternatives	Sales promotion, Personal Selling, Advertising
Purchase Decision	Personal Selling, Sales Promotion
Post-purchase evaluation	Personal selling, advertising, publicity

- **Advertising:**
- **Advertising** is paid, non-personal communication used to raise awareness about the business and their products.
- It is the promotional method most people are most familiar with.
- Advertising messages are most effective if the message is repeated and reinforced. That's why we often see the same advertisement many times.
- Furthermore, a person's attention span is ~8 seconds which is long enough to remember a slogan or jingle. This is why advertisements must be kept short and be repeated.
- Advertising is the main promotional method.
- Advertising is useful for raising awareness.
- Since customers tend to ignore the bulk of advertising messages that bombard them, marketers must find out who their customers are, which media they pay attention to, what messages appeal to them and how to get their attention. Thus, marketers use several different **advertising media** which are specific communication devices or channels used to carry sellers' messages to target audiences.
- Some forms of advertising media are TV, internet, newspaper, magazines, radio, and outdoor advertising (i.e Billboards),
- TV has been the medium to attract the largest amount of advertising revenue in the past 50 years. It allows advertisers to combine motion, sound and sight, thus appealing to almost all the viewer's senses. However, TV has lost dominance to the internet since now, it's very easy to skip ads and there are now hundreds of channels compared to a dozen channels before.
- The internet is now the largest medium in terms of advertising spending. It has many benefits for both consumers and businesses, such as the ability for consumers to browse products in the comfort of their own home and the ability for businesses to take in customers from around the world. The disadvantages of internet advertising are information overload, consumer concern for authenticity of the site, and security issues.
- In recent years, the amount of advertising spent on newspapers has declined as advertisers have shifted to the internet. One benefit of newspaper ads is that because newspapers are local, it lets businesses attract consumers from the same or nearby regions.
- The main advantage of magazine advertising is that the ad will be shown to someone who has an interest in that type of product or service. For example, you know that if someone has a subscription to a car magazine, they're probably interested in cars. Therefore, car magazines will tend to have a lot of ads related to cars.

- Since radio stations are programmed locally, the advantage is that it lets businesses reach out to potential consumers in the same location/area. The disadvantage is that most radio ads are very short, usually 30 seconds or less.
- Outdoor advertising, such as billboards and signs, have the same advantage newspapers and radio stations have; they let businesses reach out to consumers in the same location/area.
- **Personal Selling:**
- **Personal selling** is a promotional tool in which a salesperson communicates one on one with potential customers.
- When faced with making a purchasing decision, consumers want someone with whom to interact; a real live human to answer questions. Personal selling provides this interaction. It also helps establish a level of credibility and trust between the seller and consumer.
- Personal selling is an appropriate promotional method if the products being promoted by personal selling are complex or have many features because consumers can ask questions and get responses from a real life person. This is why personal selling is so common in the marketing of houses, cars, insurance, investment products and cosmetics.
- The principal disadvantage of personal selling is the cost. Personal selling is very labour intensive and if the seller is on the road, the cost includes travel, food and lodging.
- Personal selling is an effective method for educating potential customers about a product's feature. It is also good for creating enthusiasm and therefore, is the best method for "closing the sale."
- Since personal selling is usually done one-to-one, it's not effective for raising awareness.
- **Sales Promotion:**
- **Sales promotion** is a variety of short term incentives intended to stimulate immediate interest and excitement in a product and to stimulate sales.
- Whereas advertising is designed to offer reasons to buy a good or service, sales promotion is designed to offer reasons to buy the product now.
- Sales promotion often gives people the impression that they're getting a "deal." Therefore, this method is good at creating enthusiasm and good at "closing the sale" but useless in raising awareness or educating people.
- There are several types of sales promotion. They are:
  1. **Premiums:**
     - A premium is a method of sales promotion in which an Item is offered free or at a bargain price.
     - E.g. "Buy one get one Free."
  2. **Bonus Packs:**
     - A bonus pack is an item that has an increased quantity and is sold at the same price as the regular item.
     - E.g. A package of 6 razors being sold for the price they normally charge for 4.
  3. **Coupons:**
     - A coupon is a method of sales promotion featuring a certificate that entitles the bearer to savings off a product's regular price.
     - Coupons can be used to encourage customers to try new products, to attract customers away from competitors or to induce customers to buy more of a product.
  4. **Finance Deals:**
     - Applies to big ticket items such as cars or home appliances to get customers to buy a product that they might not be able to afford on the spot.
     - E.g. The supplier will offer very low cost financing like 0% interest on the first three years.

- **Publicity and Public Relations:**
- **Publicity** is any activity that generates news coverage about a business.
- The principal advantage of publicity is that it is free. However, the disadvantage is that it is difficult for the business to control and not all publicity is good publicity.
- **Public relations** are public service activities designed to create goodwill and to enhance the business image. The most common way of doing this is for the business to sponsor a not-for-profit cultural or charitable organization or to sponsor an event.
- **Place:**
- **Distribution** is the area of marketing concerned with products from the producer to the buyer.
- **Distribution Channels:**
- Producers of goods and services have a number of choices as to how best to distribute their products. They can go door-to-door, open a store or sell warehouses full of items to retailers who will deal with getting it to the consumers. **Distribution channels** are the various paths a product can take from producer to consumer.
- **Direct selling/Direct channels** is when a business sells their products directly to the consumer without passing through any intermediary. This can be done by mail order such as through catalogues, through the internet, through door-to-door selling or through selling your products or services at your stores or branches. Examples of the last case include Canadian Tire stores selling its own line of Mastercraft tools and bank branches.
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- This means that indirect distribution means higher prices. The more intermediaries, the higher the final price.
- However, intermediaries provide useful services such as displaying the product, providing customers with advice and doing all the work involved with the final transaction.
- **Non-Store and Electronic Retailing:**
- Some of Canada's largest retailers sell all or most of their products without brick-and-mortar stores.
- **Electronic retailing (e-tailing)** is the use of the internet to promote products and services and allow consumers to purchase them online.
- **Wholesalers:**
- Retail distribution requires a large amount of floor space to store the products and to showcase the products. Due to the increasing costs of store space, many retailers cannot afford both retail and storage space. This is where wholesalers come in. **Wholesalers** are intermediaries who buy products in large quantities from manufacturers, store it, and then distribute it to retailers.
- **Agents/Brokers** are individuals who act as representatives on behalf of sellers. They receive a percentage of the revenue in return.

- Examples of agents include travel agents, hotel agents and real-estate agents.
- Agents get paid in commission, a percentage of the revenues they generated on behalf of their client.
- The value of agents lies primarily on their knowledge of the markets and their expertise at selling.
- **Distribution Intensity:**
- A product can be made widely available or it can be distributed sparsely.
- The decision about how widely available to make a product is known as **distribution intensity**.
- The more widely available a product becomes, the more people see it, become aware of it and may be tempted to buy it.
- There are 3 main types of distribution strategies:
  1. **Intensive Distribution:**
  - Making the product available from as many outlets as possible, using every possible means of distribution.
  - It is a strategy designed to give product maximum exposure.
  - It is most appropriate for products that consumers won't go out of their way to find and where there are acceptable substitutes, such as coke and candy bars.
  - It is used by many low priced goods.
  - The benefit is that it adds more exposure, but the downside is that it adds complexity and cost to the distribution process.
  2. **Exclusive Distribution:**
  - A strategy that involves making a product available through a very small number of carefully selected dealers and distributors.
  - Sometimes these distributors would purchase the right to be the only one allowed to sell the product.
  - It is usually used for high-cost luxury goods for which part of the value package is the aura of exclusivity or prestige.
  - Since the visibility and availability is small, the goal is to make a large profit from each sale rather than a smaller profit from a large number of sales.
  - Examples of businesses that use exclusive distribution are Piglet, a luxury Swiss watchmaker (It only has 6 stores in Canada - 2 in Toronto, 2 in Vancouver and 1 in both Montreal and Calgary) and Rolls Royce (There are no Rolls Royce dealerships in any of the 4 Atlantic provinces.)
  3. **Selective Distribution:**
  - A strategy that uses a limited number of outlets for a product.
  - Falls between intensive and exclusive distribution.
  - Is used for medium priced goods with strong branding.
  - Examples of businesses that use selective distribution are Ralph Lauren and Black and Decker.
- **Physical Distribution:**
- **Physical distribution** is the activities needed to transport a good from the manufacturer to the end user.
- The major transportation modes are rail, water, truck, air, and pipelines.
- Differences in cost are most directly related to the delivery speed.
- Air is the fastest method but also the most expensive.
- Trucks are good for short-distance transportation. The advantages of trucks include flexibility, fast service and dependability. The disadvantage of trucks include delays because of bad weather, some parts of the world cannot be reached by trucks and limits in the volume they can carry in a single load.
- Railroads are now primarily used to transport heavy, bulky products, such as cars.

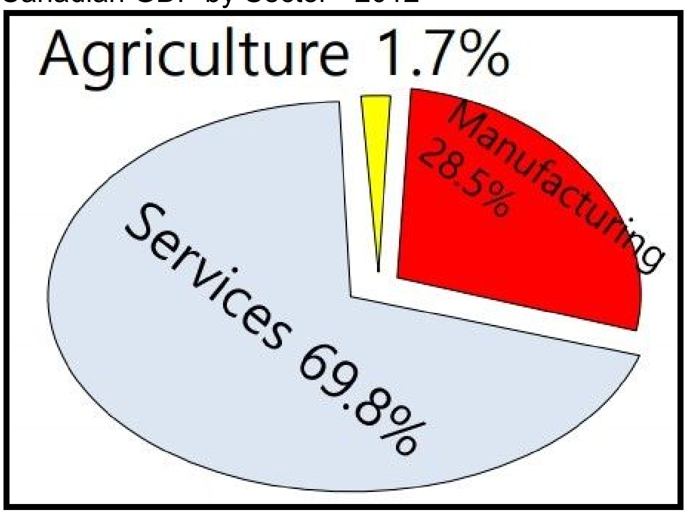
- Water is the slowest method but also the cheapest.

Textbook Definitions (Chapter 5):

- **Advertising:** Paid, non-personal communication used to raise awareness about the business and their products.
- **Advertising media:** Specific communication devices or channels used to carry sellers' messages to target audiences.
- **Agents/Brokers:** Individuals who act as representatives on behalf of sellers. They receive a percentage of the revenue in return.
- **Buyer decision process:** A 5 stage process that most customers go through before and after buying a good or service.
- **Exclusive distribution:** A strategy that involves making a product available through a very small number of carefully selected dealers and distributors.
- **Direct selling/Direct channels:** When a business sells their products directly to the consumer without passing through any intermediary.
- **Distribution:** The area of marketing concerned with products from the producer to the buyer.
- **Distribution channels:** Various paths a product can take from producer to consumer.
- **Distribution intensity:** The decision about how widely available to make a good or service.
- **Distribution intermediary:** Any business which helps another business to distribute their goods and services to the consumer.
- **Electronic retailing (e-tailing):** Use of the internet to promote products and services and allow consumers to purchase them online.
- **Indirect selling/Indirect channels:** Distribution of a product by selling to intermediary as opposed to the end user.
- **Intensive distribution:** Making the product available from as many outlets as possible, using every possible means of distribution.
- **Personal selling:** A promotional tool in which a salesperson communicates one on one with potential customers.
- **Physical distribution:** The activities needed to transport a good from the manufacturer to the end user.
- **Promotion:** Any technique that is used to inform, educate and excite consumers about the products that are available in a business and induce them to buy.
- **Promotional mix:** The combination of advertising, personal selling, sales promotion, publicity and public relations that a business uses.
- **Public relations:** Public service activities designed to create goodwill and to enhance the business image.
- **Publicity:** Any activity that generates news coverage about a business.
- **Retailers:** Intermediaries who sell products directly to the end user.
- **Sales promotion:** A variety of short term incentives intended to stimulate immediate interest and excitement in a product and to stimulate sales.
- **Selective distribution:** A strategy that uses a limited number of outlets for a product.
- **Wholesalers:** Intermediaries who buy products in large quantities from manufacturers, store it, and then distribute it to retailers.

Lecture Notes:

- **Operations:**
- **Operations** is managing the creation of goods and services using the factors of production.
- Operations help bring cash into the business (inflow).
- Operations ensure healthy supplier relationships (outflow).
- Operations contribute to the financial well-being of an organisation (net cashflow).
- It's called operations because production implies Canadian businesses "produce" goods rather than "provide" services.
  Note: 80% of Canadians work in services.
- **Operations Management:**
- **Operations management** is the planning, organising, leading, and controlling the creation of the goods and services that the businesses' customers demand.
- **Goods and Services:**
- **Goods** are products you can see and touch.
- **Services** are products that are intangible.
- Canadian GDP by Sector - 2012

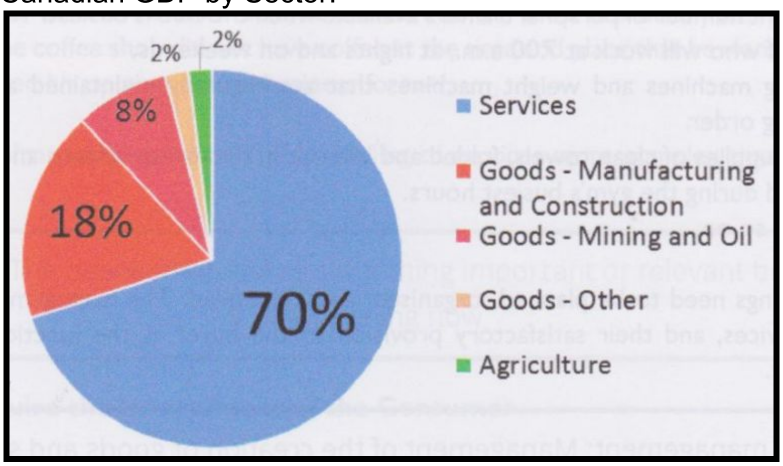


- Examples of services include:
  - Finance: loans, deposits, investments
  - Consulting: marketing, ideas, design
  - Legal advice: leases, wills, contracts
- **Service operations** is the provision of services that needs to be planned, organized, and controlled.
- In some ways services more difficult to provide than goods:
  1. **Immediacy:**
  - Services can't be stored.
  - Goods such as books, laptops, tvs, etc can be stored.
  - Services can't be stored. You can't store a doctor appointment.
  2. **Customer involvement:**
  - Goods can be manufactured without customer involvement.
    E.g. Cars, laptops, etc are manufactured without customer involvement.
  - Services, such as doctor appointments, need customer involvement.
  3. **Customization:**
  - Goods are usually identical with a few slight differences. Consider the same type of an iPhone. They are mass produced with the same dimensions and features. The only possible difference is the colour of the iPhone.

- Services are customized. If a group of people go see the same doctor, each person will probably have different issues.
- **Operations Management:**
- We need operations managers because general managers are often too busy to pay attention to details.
- What operations managers because:
  1. **Demand planning:** Forecast how much you need to make.
  2. **Capacity planning:** Ensure there is enough space and workers to meet demand.
  3. **Location planning:** Finding the best location for getting raw materials, good employees, and being close to customers.
  4. **Layout planning:** Arrange the store/factory for smooth flow of materials.
  5. **Schedule:** To finish on time, we need to start on time.

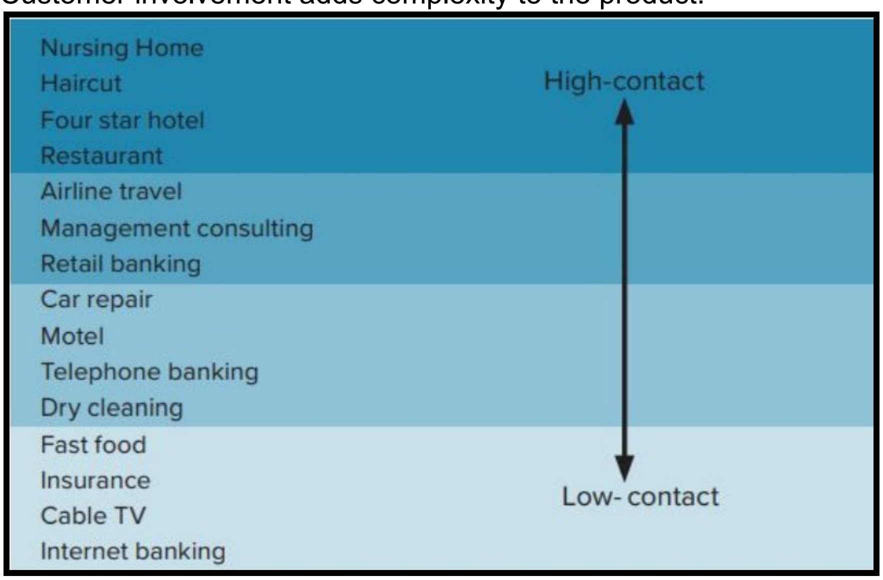
Textbook Notes (Chapter 6):

- **Operations - Providing the Things That People Want:**
- **Operations** is the function of the business that transforms factors of production into goods or services that customers want.
- Historically, the business function that created products was known as production and the responsibility of managers in this function was called product management. However, during the last quarter of the 20th century, the term "production" was replaced by "operation".
- **Production operations** are activities that turn inputs into tangible goods.
- Canadian GDP by Sector:



- **Service operations** are activities that turn inputs into intangible services.
- **Operations management** is the management of the creation of goods and services, and their satisfactory provision to the buyer.
- Operation managers are responsible for ensuring that the business is producing products that work as they should, at the right time, and in the right quantity to satisfy customer needs. At the same time, being mindful of profit, they attempt to do so while using as few resources as possible.
- **Special Characteristics of Services:**
- **Goods** are products which are tangible. Examples include laptops, jeans, pencils.
- **Services** are products which are **intangible** but can be experienced. Examples include healthcare and education. **Intangibility** is the characteristic of services that makes them unable to be touched or seen.

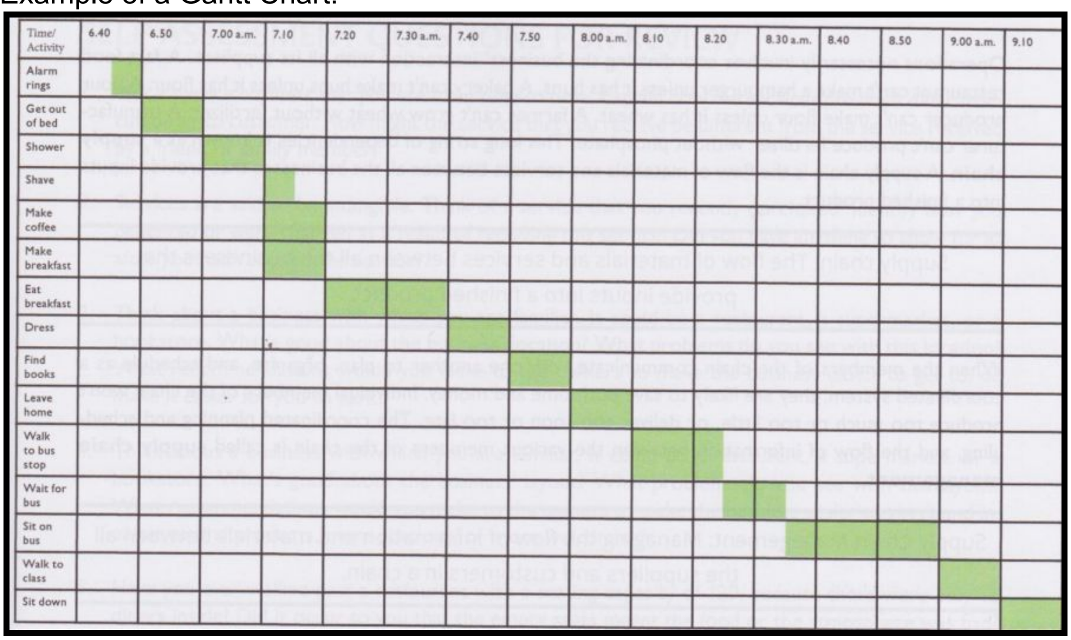
- Differences Between Goods and Services:
  1. **Goods can be made in advance while services are performed immediately:**
  - Consider goods such as laptops, jeans or pencils. They are made in advance.
  - Now, consider services such as healthcare or education. They cannot be made in advance. It must be made there and then.
  - The term used to describe this characteristic of services is **immediacy**. **Immediacy** is the quality that makes something important or relevant because it is happening there and then.
  - Because of immediacy, for businesses that provide services, scheduling is likely to be more complex than for businesses that provide goods.
  2. **Many services require the involvement of the customer:**
  - As a consequence of immediacy, many services necessarily involve the presence and involvement of the customer.
  - E.g. Think of a haircut.
  - Services that require personal interaction with the customer are called **high-contact services**.
  - **Low-contact services** are services that don't necessarily involve interaction with the customer.
    E.g. Mowing someone else's lawn.
  - Customer involvement adds complexity to the product.



  3. **Services are customized:**
  - Many goods come in one form or have little variety.
  - Services are tailored made for customers and it's unusual for 2 customers to want the same service delivered in the same way.
  - The characteristic that no 2 customers want the same service delivered in the same way is called **customization**.
  4. **Most goods can be stored while services cannot:**
  - Consider services such as education or healthcare. It can't be stored while goods such as jeans or laptops can.
  - Furthermore, services can't be purchased in bulk while goods can.
- As a result of the 4 factors above, services are harder to provide than goods.
- About 80% of Canadians work in services.

- **The Activities of Operations Management:**
- Operations planning involves determining how much the business will be supplying to its customers.
- The business' owners and strategic leaders will use their prior knowledge and intuition, observation of existing competitors and market research to develop an idea of the potential size of the overall market. This will allow the business to **forecast** future demand for the business' goods or services.
- The operations plan then needs to address the following:
    - **Capacity:** How much of the market should the business prepare to capture?
    - **Location:** Where should factories, warehouses, stores and offices be located?
    - **Layout:** What is the most efficient design for factories, shops and offices?
    - **Scheduling:** What days of the week and hours should the business operate?
    - **Material Management:** Where to buy materials, how many to buy and when should they be ordered by?
- **Capacity Planning:**
- **Capacity** is the quantity of product that a business plans to produce under normal working conditions.
- Observation and research can help the business' managers estimate future demand.
- The capacity of a business depends on the quantity of machinery and equipment it uses and on the number of people it employs.
- A business can produce more if it buys more, bigger or more modern equipment or if it hires more people. However, equipment is expensive to buy, install and maintain and people are expensive to recruit, train and employ.
- A business whose capacity is too small may have to turn customers away. On the other hand, a business whose capacity is too large is wasting money on unused machinery and under-employed workers.
- **Location Planning:**
- **Location planning** is the decision as to where best to locate the business' facilities and operations.
- Choosing the best location for performing operations needs to take into consideration the location and availability of:
    - Raw materials
    - Employees
    - Electricity
    - Transportation
    - Distribution intermediaries
    - Customers
- A lot of success depends on location.
- High contract service businesses must be located close to the customer. There's a well-known saying in the retail business that success depends on 3 things:
    1. Location
    2. Location
    3. Location
- **Layout Planning:**
- **Layout planning** is designing the business' factories, shops and offices so as to provide maximum efficiency and effectiveness.
- Customer-facing areas need to be spacious and easy to locate.
- The good producing areas in factories must be arranged so that the machinery, equipment and supplies can be efficiently used to make more than one model or one design of product and can quickly respond to each customer's specific needs.

- **Scheduling:**
- **Scheduling** is determining when an activity should take place so as to accomplish a goal by its target completion date.
- Although the production of goods lacks some of the immediacy of the provision of services, businesses that sell or produce seasonal products need to ensure that the product is available to coincide with customer demand.
  For example, a sports store should sell winter gear during winter and summer gear in summer.
- **Lead time** is the gap between the time when a customer wants a product, and when the producer needs to begin the process of creating it.
- To finish on time you must start on time.
- A popular tool used by operations managers to aid their scheduling is the Gantt Chart. The **Gantt Chart** is a visual representation of all of the activities required to complete an activity and the time needed to accomplish each activity. It is named after Henry Gantt.
- The Gantt Chart allows planners to see the sequence of activities, when activity is scheduled to begin or end, duration of activity, when two or more activities overlap they must be done simultaneously.
- A Gantt Chart displays activities, either tasks or events, as a list down the left hand side of a table. Along the horizontal axis at the top is a suitable time scale. This may be expressed in hours, days, weeks, months or years. Each activity is represented by a bar; the position and length of the bar reflects the start date, duration and end date of the activity.
- Example of a Gantt Chart:



- **Supply Chain Management:**
- **Supply chain** is the flow of materials and services between all the businesses that provide inputs into a finished product.
- For example, a bakery can't make buns unless it has flour, flour can't be produced unless it has wheat, wheat can't be produced without fertilizer, etc.
- **Supply chain management** is managing the flow of information and materials between all the suppliers and customers in a chain.
- The saved time and reduced costs that businesses enjoy as a result of good supply chain management should result in greater profits.

- When members of a supply chain communicate with one another to plan, organize and schedule a coordinated system, they are likely to save both time and money.

Textbook Definitions (Chapter 6):

- **Capacity:** The quantity of product that a business plans to produce under normal working conditions.
- **Customization:** The characteristic that no 2 customers want the same service delivered in the same way.
- **Forecast:** An estimate of the future demand for a business' goods and services.
- **Gantt chart:** A visual representation of all of the activities required to complete an activity and the time needed to accomplish each activity.
- **Goods:** Products which are tangible.
- **High-contact services:** Services that require personal interaction with the customer.
- **Immediacy:** The quality that makes something important or relevant because it is happening there and then.
- **Intangibility:** The characteristic of services that makes them unable to be touched or seen.
- **Layout planning:** Designing the business' factories, shops and offices so as to provide maximum efficiency and effectiveness.
- **Lead time:** The gap between the time when a customer wants a product, and when the producer needs to begin the process of creating it.
- **Location planning:** The decision as to where best to locate the business' facilities and operations.
- **Low-contact services:** Services that don't necessarily involve interaction with the customer.
- **Operations:** The function of the business that transforms factors of production into goods or services that customers want.
- **Operations management:** Management of the creation of goods and services, and their satisfactory provision to the buyer.
- **Production operations:** Activities that turn inputs into tangible goods.
- **Scheduling:** Determining when an activity should take place so as to accomplish a goal by its target completion date.
- **Service:** Products which are intangible but can be experienced.
- **Service operations:** Activities that turn inputs into intangible services.
- **Supply chain:** The flow of materials and services between all the businesses that provide inputs into a finished product.
- **Supply chain management:** Managing the flow of information and materials between all the suppliers and customers in a chain.

Lecture Notes:

- **Productivity:**
- **Productivity** is a ratio that compares inputs to outputs and factors to products.
- Measures of productivity are ratios.
- **GDP per Capita:**
- A measure of how productive an economy is **GDP per capita**. A country can be productive when it has plentiful, high quality factors of production that are used effectively.
- Real GDP per capita = $\frac{Real\ GDP}{Population}$
- It is a better measure of material well-being than nominal and real GDP.
- A country with a higher GDP and large population might not fare well in this calculation.
- GDP only measures the material well being. GDP only reports total and average productivity but not the distribution of wealth. GDP ignores social and political factors such as human rights, democratic rights, treatment of less-privileged, etc.
- **Why Canada is Productive:**
  1. **Natural resources:**
  - Clean water, fertile soil, oil, gold, natural forests, and preserved eco-systems.
  2. **Labour:**
  - Healthy, well-educated, well-trainedCanadians.
  - Canada has the highest post secondary education participation among OECD countries.
  3. **Capital:**
  - Canada has a good transportation, good communication, and good financial system.
  4. **Entrepreneurship:**
  - The Canadian government supports business initiatives.
  5. **Information/Knowledge:**
  - Canada has good patents, scholarly journals and global research.
- **Labour Productivity:**
- **Labour productivity** is a ratio that divides GDP but by number of hours worked.
- It is a more accurate measure of productivity of workers when on the job.
- Working long hours is not key to prosperity.
- In 2014, the average Canadian worked 1708 hours, roughly the OECD average. Canadians work 25% fewer hours than much poorer Mexicans (2236). Canadians work 20% more hours than much wealthier Norwegians (1403).
- Increasing productivity means doing more with less and is the result of many factors. However, there is no easy or simple formula for increasing productivity.
- **Business Productivity:**
- **Business productivity** is an individual business' measure of outputs to inputs. Inputs are labour, money, and/or materials.
  Outputs are products or services.
- A higher ratio of outputs to inputs means higher profits.
- Manufacturing: Product/labour hours
- Retailing: Sales/square foot
- Restaurants: Revenue/table or Revenue/store
- Business Productivity = $\frac{Quantity\ or\ value\ of\ goods\ or\ services\ produced}{Quantity\ or\ value\ of\ resources\ used\ to\ produce\ it}$
- Productivity is important because:
  1. People and raw materials cost money.
  2. The more time you spend making a product the more it costs.
  3. The more materials you spend making a product the more it costs.
  4. Operations managers are concerned with the best way to produce things.
-

- **Quality:**
- **Quality** is meeting or surpassing the customer's expectations.
- Quality does not mean:
    - Fancy
    - Expensive
    - Lots of features
- Benefits of quality:
    1. Fewer costs
    2. More revenues
- **Fewer Costs:**
- If you give the customer what they want, then there is:
    - no return of product
    - no repairing product
    - less time on customer service
    - less bureaucracy
- **More Revenue:**
- If you give the customer what they want, then they will come back, meaning that you have repeat customers and easy sales.
- If the customer is unhappy with the product and/or the service, then, not only will they demand repairs/refunds, they won't come back and they'll tell all their friends/family/co-workers to not shop there too.
- 90% of unhappy customers don't complain. They just don't go back.
- On average, unhappy customers tell 9 other people about their experience.
- The business will lose a lot of current and potential customers.

<u>Textbook Notes (Chapter 7):</u>

- **Doing More With Less:**
- **Productivity** is a ratio that measures how much gets achieved relative to the inputs that are used to achieve it.
- Productivity measures how much gets done relative to the inputs used to achieve it. By definition, the more we are able to accomplish while using fewer inputs, the more productive we are.
- Another term for productivity is **efficiency**. The two terms are synonymous.
- It is in every business' interest to maximize its productivity or efficiency because resources (inputs) are finite and scarce.
- **Measuring Productivity:**
- Gross Domestic Product per capita is the most widely used measure of a country's wealth relative to that of other countries.
- GDP per capita = Total value of all goods and services in a country/Number of people who live there.
  I.e. GDP per capita = Country's GDP/Country's Population
- **Economic productivity** is a measure of productivity that uses dollar values as the measure of output.
- When comparing productivity between countries, we commonly use US dollars.
- Canadians, with a GDP per capita of $44, 000, are wealthier than the citizens of all but a handful of other countries. Canada's prosperity is due to the fact that we enjoy plentiful supplies of all the factors of production. For example, Canada has the world's 3rd largest supply of fresh water, is the world's 3rd largest producer of aluminum, the world's 5th largest producer of oil and natural gas and the world's 7th largest producer of wheat. Furthermore, Canada enjoys a safe, well-run banking system that can provide capital and Canada has one of the world's best-educated and best-trained workforce.
- **Note:** Prosperity is not the result of working long hours. Working longer hours does not make a country wealthier.
- The Organisation of Economic Cooperation and Development (OECD) is a multinational think tank and research organisation with 34 member countries. It collects and

distributes research and data on wealth creation, economic development and productivity of these countries.The scatter plot below shows as work hours decrease, GDP per capita rises.

- **Labour Productivity:**
- **Labour productivity** is a measure of the productivity of a country's labour force which divides GDP by total number of hours worked.
- The key to prosperity is not working hard, but working smart.
- **Business Productivity:**
- **Business productivity** = $\dfrac{\textit{Quantity or value of goods or services produced}}{\textit{Quantity or value of resources used to produce it}}$

  It is the measure of how much a business produces relative to labour, capital and other resources used to produce it.
- The higher the ratio of output to inputs, the greater is a business' productivity.
- The most common way to compare productivity across different industries and businesses is to measure economic productivity.
  I.e. To use dollar value as a measure of output.
- In addition, when two competing businesses make the same or very similar goods, productivity can be measured by **physical productivity**. **Physical productivity** is a measure of productivity that uses a numerical quantity as the measure of output. Physical productivity measures the quantity of units produced relative to the inputs.
- Farms can measure their output in bushels per acre.
- Higher productivity gives a company a competitive edge because its costs will be lower.
- **Note:** Each industry is different and the choice of what outputs and inputs to use to measure productivity will vary.
- **What Makes Workers Productive:**
- **Experience curve/Learning curve** is the phenomenon that the more often that a person performs a task, the more adept they become at doing it.
- People build up mastery by repeating a task or activity over and over again.
- Businesses want to hire workers with more experience as the company can be more productive.
- Rather than hiring new workers or building new factories, a business should strive to increase its output by raising the productivity of its existing resources. Businesses can do this through training and coaching their workers as well as investing in tools that can help them finish tasks in less time.
- Increasing productivity means doing more with less.
- Increased productivity is the result of many factors, including:
  1. Having a clear and credible strategy.
  2. Investing in good technology/tools.
  3. Creating motivated employees.
  4. Good human resource management and management in general.
- **Quality:**
- **Quality** is meeting or surpassing the customer's expectations.
- By using resources more effectively, the quantity of output will be greater. While producing more is good, producing it well is better.
- Even if a business can produce high quantity items, if the goods or service does not meet the customer's expectations, they don't want it.
- Quality doesn't mean expensive or fancy. It just has to meet customer's expectations so they are satisfied.
- If a business gives a customer what they want, the customer will most likely continue shopping at that business, generating more revenue for the business.
- On the other hand, if a business does not give a customer what they want, not only will they stop shopping there, they will also tell their friends and family not to shop there, losing revenue and customers for the business.
-

- **Quality Management**
- In the decades after World War 2, American consultant W. Edwards Deming tried to convince firms in North America that they need to improve quality as much as quantity. While his ideas were not successful in the US, the Japanese embraced it. Before the 1960s, “Made in Japan” was synonymous with cheaply made goods. However, this changed between 1960 and 1970 where Japanese managers worked to improve quality, reliability, and durability of products. By the 1980s, “Made in Japan” was now synonymous to goods that are well made and dependable.
- The Japanese’ reputation for building dependable cars allowed them to take market share away from their US rivals as American cars had developed a reputation for **planned obsolescence**.
- **Planned obsolescence** is a deliberate policy of making a product with an artificially limited useful life so it will soon become obsolete.
- **Total Quality Management (TQM)** is involving everyone in the business to ensure products meet or surpass expectations and that no defects are tolerable.

Textbook Definitions (Chapter 7):

- **Business productivity** = $\frac{\textit{Quantity or value of goods or services produced}}{\textit{Quantity or value of resources used to produce it}}$
  It is the measure of how much a business produces relative to labour, capital and other resources used to produce it.
- **Economic productivity:** A measure of productivity that uses dollar values as the measure of output.
- **Efficiency:** A synonym for productivity. A ratio that measures how much gets achieved relative to the inputs that are used to achieve it.
- **Experience curve/Learning curve:** Phenomenon that the more often that a person performs a task, the more adept they become at doing it.
- **Labour productivity:** A measure of the productivity of a country’s labour force which divides GDP by total number of hours worked.
- **Physical productivity:** A measure of productivity that uses a numerical quantity as the measure of output.
- **Planned obsolescence:** A deliberate policy of making a product with an artificially limited useful life so it will soon become obsolete.
- **Productivity:** A ratio that measures how much gets achieved relative to the inputs that are used to achieve it.
- **Quality:** Meeting or surpassing the customer’s expectations.
- **Total Quality Management (TQM):** Involving everyone in the business to ensure products meet or surpass expectations and that no defects are tolerable.

Lecture Notes:

- **Data:**
- **Data** is raw facts and figures.
- Data lacks analysis and context.
- **Information:**
- **Information** is data organised, analysed and put into context.
- **Knowledge:**
- **Knowledge** is the accumulation of understanding and experience, to use information to form judgements and make decisions.
  I.e. Through education and experience, managers can use information to make decisions.
- **Management Information System (MIS):**
- **Management information systems (MIS)** is any system for collecting data that can be organised in such a way that it produces information of use to the managers of a business.
- I.e. MIS is any system that allows managers to:
  - Record and store data
  - Organise and analyse that data
- The purpose of a MIS is to give managers the information they need to organize and control the business more effectively.
- Business owners/managers can use MIS to make better informed decisions.
- **Accounting:**
- **Accounting** is a system for collecting, analysing and communicating financial information.
- The purpose of accounting is to measure business condition and performance (revenue, expenses, profits or losses, taxes) and to managers use that information to make decisions.
- Everyone with an interest in the business will use accounting information. These people include:
  - Investors: Buy or sell shares?
  - Bankers: Will the loan be repaid?
  - Employees: Will I receive profit sharing?
  - Government: How much tax is owing?
  - Managers: For all kinds of reasons.
- To measure and analyse all businesses, we use a common unit of measurement: the Dollar.
- There are 2 types of accounting:
  1. **Managerial Accounting:**
  - Aimed at internal users.
  - Is detailed.
  - Tells internal users about performance and problems for planning, decision making and control purposes.
  - Tends to look at individual products, plants or divisions.
  2. **Financial Accounting:**
  - High level.
  - Aimed at external users.
  - Tells external users about financial condition and financial performance.
  - Looks at the business as a whole.
- Financial accounting information is collected on an annual basis. This is because tax authorities want to know how much tax is owed.
- Accountants help businesses plan and prepare annual tax returns.

- Accountants ensure tax payments comply with the law.
- Financial accounting info collected on an annual basis. The year end does not need to be Dec 31st. Owners choose the start/end of the financial year, known as the **fiscal year**.
- Businesses prepare their financial information at the end of every year which doesn't need to be Dec 31.
- Here are the fiscal years of some companies/governments:
    - Best Buy: 1 March to 28 February
    - Govt. of Canada: 1 April to March 31
    - Fed-Ex: 1 June to May 31
    - Maple Leaf Sports: 1 July to 30 June
    - Bank of Montreal: 1 Nov to 31 October
    - Tim Horton's: Sunday closest to 31 Dec
- Accounting terms:
    - **Transaction:** An accounting transaction is a business event having a monetary impact on the financial statements of a business. It is recorded in the accounting records of the business.
    - **Source Documents:** In the accounting industry, source documents include receipts, bills, invoices, statements, checks – i.e., anything that documents a transaction. Any time a business spends or receives money, a source document is created. Source documents are an integral part of the accounting and bookkeeping process.
    - **Books of Prime Entry:** The journals in which information about business transactions are first recorded.
    - **Ledgers:** A ledger is a book containing accounts in which the classified and summarized information from the journals is posted as debits and credits. It is also called the second book of entry. The ledger contains the information that is required to prepare financial statements.
    - **Trial Balance:** A trial balance is a bookkeeping worksheet in which the balance of all ledgers are compiled into debit and credit account column totals that are equal. A company prepares a trial balance periodically, usually at the end of every reporting period.
- **Financial Statements:**
- Are key reports all companies must prepare.
- **Income statement** shows revenue, expenses, and profits.
- **Balance sheet** shows resources owned and available to the business.
- **Generally Accepted Accounting Principles (GAAP)** is a common set of accounting principles set by Canadian Institute of Chartered Accountants. All businesses must use the same procedures and methods.

Textbook Notes (Chapter 8):

- **Why Businesses Need Information:**
- Businesses need information to make decisions and to take the appropriate actions.
- **Note:** Information on its own is not a factor of production.
- **Data:**
- **Data** is a collection of raw facts and figures.
- Data on its own has little value.
- It needs to be interpreted to be turned into usable information.
- **Information:**
- **Information** is data that has been structured or put into context so that it becomes useful to people.

- **Knowledge:**
- **Knowledge** is the accumulation of understanding and experience, to use information to form judgements and make decisions.
- **Management Information Systems (MIS):**
- **Management information systems (MIS)** is any system for collecting data that can be organised in such a way that it produces information of use to the managers of a business.
- The purpose of a MIS is to give managers the information they need to organize and control the business more effectively.
- Often, the motivation of creating a MIS is to bring order to disorder. For example, a business will want to use a MIS if they find that an employee already cleaned the washroom and 5 minutes later, a second person cleans it again. There's no need for the second employee to reclean the bathroom 5 minutes after it was cleaned.
- **Information Technology & Information Systems:**
- **Information system** is any system that allows people to record and store data, to organize the data into usable form, and then transmit information to the people who need it.
- **Information technology** is any technology that allows managers to collect, record, store and organise data.
- Earliest forms of information technology include chisel and stone, paper from the Han dynasty, printing press and then the information age of computers and digital methods.
- **Information age** is the period since the 1970s when the development of affordable personal computers allowed large quantities of data to be assembled, stored and manipulated by the average person.
- **Moore's Law** is the observation that the amount of data that can be recorded, stored and analyzed by information technology doubles every two years
- The 18th century had the industrial revolution while the 20th century had the information revolution.
- **Data Analysis:**
- **Data analysis** is any operation that organises data into a form that is useful to the user.
- The most common form of data analysis involves some form of mathematical manipulation.
- Other forms of sorting data includes:
    - Statistical analysis involves manipulating the data so as to serve such common statistics as the mean, median or range or the standard deviation.
    - Time series analysis involves sorting data points across different dates or times, from oldest to newest. Time series analysis allows the user to spot a direction or trend.
    - Cross sectional analysis involves looking at a data point for a single representative, for example one store or one sales person, and comparing that result to others in the population.
- By far, the most commonly used and important collection of management information is accounting information.
- **Accounting information:**
- **Accounting** is the system for collecting, analysing and communicating financial information.
- **Accountants** are individuals trained how to collect, organise and present financial data.

- Jobs of accountants:
    - Examine statements/documents to ensure accuracy.
    - Ensure that statements and records comply with law and regulations.
    - Compute taxes owed, prepare tax returns, and ensure prompt payment.
    - Organize and maintain financial records.
    - Prepare standardised reports for business managers.
- People that use accounting information:
    - Business owners/managers to set goals, budgets and develop plans.
    - Lenders such as banks.
    - Employees and unions to negotiate wages and salaries.
    - Government departments and ministries use the information to fulfill their duties.
- **Management Accounting:**
- **Management accounting** is the collection, organisation and presentation of financial information of interest to managers within the business.
- It is used to tell internal users about the business' performance and problems for planning, decision making and control purposes.
- Tends to look at individual products, departments and/or divisions.
- Managers need this information in order to make decisions for their departments, to monitor current projects and to plan for future activities.
- **Financial Accounting:**
- **Financial accounting** is the collection, organisation, and presentation of financial information of interest to the public, concerning the performance and financial condition of the business as a whole.
- **Fiscal year** is a business' operating year for financial accounting purposes especially for the payment of taxes.
- A business' fiscal year does not need to coincide with the calendar year.
- Often businesses will choose their fiscal year to coincide with the ebb and flow of their business activity. They do this to make them look good.
  I.e. They have their fiscal year a few months after their busiest month(s).
- Most retail stores have their fiscal year end in January - February because Christmas is usually their busiest time.
- **Auditing:**
- **Audit** is a formal examination of an organisation's financial procedures and financial statements.
- **Auditor** is someone authorized to perform checks on the collection, organisation, and presentation of accounting information in order to prevent fraud and reassure investors and lenders.
- **Generally Accepted Accounting Principles (GAAP)** - The rules and methods that an organisation's accounting system must follow.
- **Financial Statements:**
- **Financial statements** include the balance sheet and the income statement. They are documents that a business must prepare and publish at regular intervals.

Textbook Definitions (Chapter 9):

- **Accountants:** Individuals trained how to collect, organise and present financial data.
- **Accounting:** The system for collecting, analysing and communicating financial information.
- **Audit:** A formal examination of an organisation's financial procedures and financial statements.
- **Auditor:** Someone authorized to perform checks on the collection, organisation, and presentation of accounting information in order to prevent fraud and reassure investors and lenders.
- **Data:** A collection of raw facts and figures.
- **Data analysis:** Any operation that organises data into a form that is useful to the user.
- **Financial accounting:** The collection, organisation, and presentation of financial information of interest to the public, concerning the performance and financial condition of the business as a whole.
- **Financial statements:** The balance sheet and the income statement, documents that a business must prepare and publish at regular intervals.
- **Fiscal year:** A business' operating year for financial accounting purposes especially for the payment of taxes.
- **Generally Accepted Accounting Principles (GAAP):** The rules and methods that an organisation's accounting system must follow.
- **Information:** Data that has been structured or put into context so that it becomes useful to people.
- **Information age:** The period since the 1970s when the development of affordable personal computers, allowed large quantities of data to be assembled, stored and manipulated by the average person.
- **Information system:** Any system that allows people to record and store data, to organize the data into usable form, and then transmit information to the people who need it.
- **Information technology:** Any technology that allows managers to collect, record, store and organise data.
- **Knowledge:** The accumulation of understanding and experience, to use information to form judgements and make decisions.
- **Management accounting:** The collection, organisation and presentation of financial information of interest to managers within the business.
- **Management information systems (MIS):** Any system for collecting data that can be organised in such a way that it produces information of use to the managers of a business.

Lecture Notes:

- **Introduction:**
- Businesses must prepare 2 types of financial statements, income statements and balance sheets. Both must use the same rules and methods: Generally Accepted Accounting Principles (GAAP).
- **Income Statement:**
- Also known as “Statement of profit and loss” or “Statement of earnings”.
- Its purpose is to:
    - Show revenue from sales
    - Show the cost of making the product
    - Show the cost of running business
    - Show the profit the business made
- It is like a movie as it has a beginning, middle and end.
- It tells us the following information:
    - **Revenue/Sales:**
        - It is the value of products or services sold.
        - The purpose of business is to satisfy customer needs.
        - Revenue or sales shows business doing something right.
        - It is stated at the beginning of an income statement.
        - Revenue should increase year-to-year.
        - Growing revenue indicates more customers and/or more spending.
        - Falling revenue indicates less customers and/or less spending.
    - **Cost of Goods Sold:**
        - It is the cost of making the product.
        - Also known as “Cost of Sales”.
        - It is the cost of the materials and labour that go directly into making the product. (Analogous to “variable cost” in BreakEven analysis)
    - **Gross Profit:**
        - Revenue - Cost of Sales = Gross Profit
        - Gross Profit = profit from making & selling the product
    - **Operating Expenses:**
        - It is the cost of running the business. (Analogous to Fixed Cost in BreakEven analysis)
        - Also called “Selling and general expense”.
        - An example is depreciation and amortisation.
        - Operating expenses should not vary with sales. Doubling sales should not lead to doubling everyone’s salary or doubling the rent paid at the head office.
    - **Operating Income:**
        - Shows the profits made from operating a business.
        - **Operating profit** is the profit made from operating a business that sells products.
        - Operating profit = Gross profit - Operating expenses
    - **Interest Expense:**
        - It is the cost of borrowed money.
        - **Note:** The loan is not considered revenue or expense since you have to pay it back in full. However, the interest you pay on top of the principle is considered an expense.
        - E.g. $500,000 @ 8% interest = $40,000
    - **Income Tax:**
        - Everyone must pay tax. It’s the law.

        - Everyone must tell the government their income or go to jail.
        - Sole proprietors and general partnerships treat any income derived from their employment as personal income, so they'll pay taxes at their marginal personal rate.
        - Corporations are separate legal entities from their owners, so corporations pay taxes in their own name.
        - In Canada business income tax = 15% to 40%
    - **Net Income:**
        - Also called: "Net Profit" or "Net Earnings".
        - Net Income is "the bottom line" of the income statement.
        - It is the result after all expenses are deducted.
        - Net Income = Revenues – All Expenses
        - Net Income = Benefit of owning business
    - **Profit (or Loss):**
        - Was it worth it?
- **Balance Sheet:**
- It shows the value of an organization's accumulated possessions, also known as **assets**, as well as a business's liabilities and equity.
  It can show if a business is big or small and if a business is growing or shrinking.
- It is like a snapshot. It shows information about the business at one, frozen, moment in time.
- **Assets** are possessions available to a business (I.e. Things that can be sold or given away). In accounting, people are not assets. Generally, assets are good to have as they are a store of value and are a potential source of cash.
- **Liabilities** are money that is borrowed or owed.
- Liability is one of two ways of acquiring an asset.
- E.g. To buy a house, you get a mortgage.
- **Equity** is the money from your earnings or savings that you put towards purchasing an asset.
- E.g. To buy a house, you make a down payment.
- Equity is the second way of acquiring an asset.
- **Accounting Equation:** Assets = Liabilities + Equity (The two sides must balance.)
- Assets are things owned. You can pay for assets either through liabilities (borrowing money) or equity (putting down your own money).
- Typical business assets:
    - Cash – bank accounts, petty cash
    - **Accounts receivable** - money owed to you by your customers that is to be paid within the month.
    - Inventory - products ready to be sold
    - Property and equipment
- Typical business liabilities:
    - Short term borrowing - bank line of credit
    - **Accounts payable** - money owed to suppliers. It is usually paid within the month.
    - **Accrued liabilities** - unpaid bills for rent, phone, hydro, etc
    - **Term loans** - truck and car loans
    - Mortgages
- A business gets its equity from either:
    - **share capital** - shareholders invest money to start a business
    - **earnings** - business makes profit, buys more assets

  E.g. Walmart's equity = shares/stock + retained earnings

- A balance also shows when assets are likely to become cash and when liabilities must be paid.
- **Current Assets:** Assets you hope to cash in < 1 year.
- **Current Liabilities:** Liabilities you must pay in < 1 year.
- If a business has a lot of liabilities, this is exciting but risky.
- If the owners use a lot of their resources, this is safe but limiting.

Textbook Notes (Chapter 9):

- **The Income Statement:**
- The **income statement** is a financial statement that shows how much revenue the business generated, and the costs incurred in the course of making and selling products.
- The purpose of an income statement is to show how the business performed in the course of the prior year.
- It is also known as the “Statement of Profit and Loss”, frequently referred to as the “P and L”.
- It is laid out in a logical fashion:
    1. It starts with revenue.
    2. It then deducts various categories of costs, including the cost of making the good or service sold, the cost of running the business and any taxes paid.
    3. It ends by showing the profit after taxes which is the net benefit to the owners from operating the business.

    E.g.

Paul's Guitar Shop, Inc. Income Statement For the Year Ended December 31, 2015		
Revenues		
Merchandise Sales	$ 24,800	
Music Lesson Income	3,000	
Total Revenues:		$ 27,800
Expenses		
Cost of Goods Sold	10,200	
Depreciation expense	2,000	
Wage expense	750	
Rent expense	500	
Interest expense	500	
Supplies expense	500	
Utilities expense	400	
Total Expenses:		14,850
Net Income		$ 12,950

- **Revenue:**
- The first item on an income statement shows the value of revenues that the business generates by selling its goods and services.
- Recall that the purpose of a business is to sell products and services to customers in order to satisfy customer needs. Therefore, the ability to generate revenues is evidence that the business is doing something right.
- If a business’s revenue is growing over time, it suggests that customers are buying more products. Falling revenue suggests fewer customers buying less products or the business has to reduce its prices to maintain sales.

- To judge a business's progress, its revenues should be viewed in terms of a 3 to 5 year trend. However, most public corporations use a 5 year trend. Furthermore, GAAP dictates that businesses must compare their income statement for the current year to the year before, for the same reason.
- Revenue should grow by at least the growth rate of the national GDP. Revenue that doesn't keep up with GDP growth means that the business is growing less quickly than the economy generally.
- While growth in revenue is good, a business should not grow faster than its ability to create and deliver products that maintain their quality. Investors and lenders are suspicious of businesses that promise or display sudden, huge increases in revenue.
- Unexplained or unexpected spurts in revenue suggests that either products are underpriced or sales managers are promising more than the operations managers can deliver. If this is the case, quality will fail.
- **Cost of Sales:**
- **Cost of sales** is the cost of making the product itself, and omits all of the administrative costs of running the business.
- **Gross Profit:**
- **Gross Profit** is Revenue - Cost of Sales. It is the profit that comes from selling its products.
- Gross profit shows if business is making a profit from selling its products.
- If a business fails to make gross profit, managers must either:
    - Increase the price of their products. This can be managed by more effective promotion, and advertising.
    - Reduce the cost of making their products. This can be done by buying cheaper materials and employing less people.
    - **Note:** Both have costs. Spending more on promotion & advertising may not generate more sales. Buying cheaper materials will make the quality of your products worse and employing less employees may force customers to wait a long time to purchase your products.
- **Operating Expense:**
- **Operating expense** is the cost of running the business organization as opposed to the cost of making the product. (It is the fixed expenses.)
- It is also known as the "General and Administrative Expense".
- Lenders and shareholders tend to monitor a business's operating expense carefully because the ability to control costs is a sure way to attain profit.
- **Operating Profit:**
- **Operating profit** is the profit made from operating a business that sells products. Operating profit = Gross profit - Operating expenses
- It is also known as "Earnings before Interest and Taxes" or "EBIT".
- If a business has a positive gross profit but a negative operating profit, it usually means that their fixed costs are too high.
- **Interest Expense:**
- **Interest expense** is the interest costs of borrowing money to finance the business.
- The cost of borrowing money does not include the loan amount itself. The loan is neither revenue or a cost since we end up repaying the amount. However, the interest accrued on the loan is an expense.
- **Profit Before and After Tax:**
- Every individual and organization in Canada that earns an income or makes a profit must pay tax.
- Sole proprietors and general partnerships treat any income derived from their employment as personal income, so they'll pay taxes at their marginal personal rate.

- Corporations are separate legal entities from their owners, so corporations pay taxes in their own name.
- **Pre-tax profit** is a company's operating profit after interest on debt has been paid plus any unusual items, but before taxes are paid.
- Also known as “Earnings before taxes” and “EBT”.
- **Net Profit:**
- **Net profit** is the result after all of the business’ costs and expenses (including tax) deducted from its revenues. It represents the benefit, or the return, from owning a business.
- Also known as “The bottom line” as it is the last line in the income statement.
- **The Balance Sheet:**
- The purpose of a **balance sheet** is to show how much capital a business has accumulated and to show how the business has used that capital.
- The balance sheet is like a snapshot as it provides information about the business at a moment in time.
- A balance sheet is a financial statement that reports a company's assets, liabilities and shareholders' equity at a specific point in time.
- **Assets** are the resources owned or acquired by an organization from which benefits are expected to flow.
- Assets include things that can be sold or can be used to create products. Therefore, an asset represents a potential future source of cash. For this reason, assets are generally good to have.
- **Depreciation** is the gradual decline in asset’s value because of age, use or obsolescence.
- **Appreciation** is the increase in market value for an asset.
- **Note:** While employees are a benefit for a business, people are not assets because they cannot be sold to another company. As for sports where it seems like players are sold/bought, they are really buying/selling the player’s contracts. The contract is the asset.
- Example of a balance sheet:

Example Company
Balance Sheet
December 31, 2017

ASSETS		LIABILITIES	
Current assets		Current liabilities	
Cash	$ 2,100	Notes payable	$ 5,000
Petty cash	100	Accounts payable	35,900
Temporary investments	10,000	Wages payable	8,500
Accounts receivable - net	40,500	Interest payable	2,900
Inventory	31,000	Taxes payable	6,100
Supplies	3,800	Warranty liability	1,100
Prepaid insurance	1,500	Unearned revenues	1,500
Total current assets	89,000	Total current liabilities	61,000
Investments	36,000	Long-term liabilities	
		Notes payable	20,000
Property, plant & equipment		Bonds payable	400,000
Land	5,500	Total long-term liabilities	420,000
Land improvements	6,500		
Buildings	180,000		
Equipment	201,000	Total liabilities	481,000
Less: accum depreciation	(56,000)		
Prop, plant & equip - net	337,000		
Intangible assets		STOCKHOLDERS’ EQUITY	
Goodwill	105,000	Common stock	110,000
Trade names	200,000	Retained earnings	220,000
Total intangible assets	305,000	Accum other comprehensive income	9,000
		Less: Treasury stock	(50,000)
Other assets	3,000	Total stockholders’ equity	289,000
Total assets	$ 770,000	Total liabilities & stockholders’ equity	$ 770,000

The notes to the sample balance sheet have been omitted.

- Types of Assets Commonly Owned in Businesses:
    - **Cash** - Cash is used to buy other assets, and pay bills.
    - **Account Receivable** - Money that a business is legally owed, and is expecting to receive. Most account receivables are not due from customers. They are mostly due from other businesses in the supply chain.
    - **Raw Materials** - Businesses need raw materials to produce goods and services. Warehouses full of parts, supplies, and natural resources have value.
    - **Finished Goods** - Once built or assembled, a company hopes and intends to sell the finished products. **Inventory** is finished goods ready to be bought.
    - **Machinery and Capital Equipment** - Businesses can't operate without machinery plant and equipment. While machines and equipment can be rented or leased by businesses, they are often owned.
    - **Buildings and Real Estate** - While many businesses rent or lease their offices, often they are owned.
    - **Intangible Assets** - A resource or possession that has little to no tangible value, but can bring financial benefit. Examples include sports player's contract, trademarks, patents and copyrights.
- **Owner's Equity:**
- **Owner's equity** is the value of the capital put into a business by its owner.
  E.g. If you start a tutoring business and you buy a $400 colour printer for your business, the money you paid for the asset represents your financial commitment to the business. It is your owner's equity.
- Usually, the founder's capital is limited. Once the entrepreneurs have exhausted their own capital, they must find investors.
- A balance sheet splits the owner's equity into 2 parts:
    1. **Paid-in capital** is capital that business owners actively pay into the business.
       If a sole proprietor or partners will use their own money to buy assets, then on the balance sheet, it will say "owner's capital" on the balance sheet.
       If a shareholder purchases shares of a company and the corporation uses the capital to buy assets, then it will say "share capital" on the balance sheet.
    2. **Retained earnings** are the profits that a business accumulates as it grows. These are used to buy more assets, hire new employees and create more profit in future.
- At the end of each fiscal year, the accounts prepare the business's financial statements and calculate the profits. At that point, the owners of the business have every right to take that profit as cash. Every partner, limited partner, or shareholder could demand that they take their money, but most don't because of investment.
- **Investment** is a decision not to spend one's capital for immediate consumption, but to put it to work so that it might produce more capital in the future.
- Business owners not only put capital into a business. Their intent is to keep capital in business as long as it grows to make more profit.
- **Liabilities:**
- **Liabilities** are money that a business has borrowed or money that it owes.
- Liability is another way of saying loan, obligation or debt.
  E.g. Mortgage
- Businesses can raise capital from one of 2 sources:
    1. Owner's Equity
    2. Borrowing Money/Capital (Liabilities)
- Types of liabilities commonly owed by most businesses:
    - **Bank line of credit** - These are loans from a bank. Many of these loans are short in duration. A **line of credit** is an agreement between a bank and a borrowing

customer that the customer can withdraw money up to an agreed amount as long as the loan is repaid fully at some point during the year. Lines of credit are used by businesses that make large purchases but don't want to negotiate separate loans each time. Your personal credit card is a line of credit.

  - **Accounts payable** - Money that a business legally owes, and is expecting to have to pay. It is usually paid within the month. These are mostly due to other businesses in the supply chain.
    E.g. An ice cream factory purchases a large quantity of milk from a farmer and promises to pay the farmer at a later date.
  - **Tax payable** - Money owing to a municipal, provincial or federal government.
  - **Loans payable** - Loans due to be repaid in next 12 months.
  - **Term loans** - Loans that must be repaid eventually but not within the next 12 months.
  - **Mortgages** - These are loans to pay for buildings like warehouses, factories and offices. The borrower must hand over ownership of the building if payments on the loans are not made.
- **Accounting Equation:**
- **Accounting Equation:** Assets = Owner's Equity + Liabilities
- **Liquidity:**
- **Liquidity** is the ease and speed with which an asset can be converted into cash.
- The reason why liquidity is important is because at the end of the day, businesses need cash and some assets can be hard to sell/turn to cash while other assets can be easily turned to cash. For example, if a company has a lot of machinery and equipment, but not enough cash to pay its taxes or debts, it will be in trouble.
- Assets are used to generate revenue but most assets aren't cash and can't be used to buy things. A business needs money to pay day-to-day bills. That's why we care about a business's current assets and current liabilities.
- Cash is the most liquid asset.
- **Current Assets:**
- **Current assets** are assets that an organization hopes or expects to convert into cash within the current year, in other words, the next 12 months.
- The most liquid asset is cash itself followed by any short term bank deposits. Cash is the most liquid because we can use it right away. With other assets, we have to wait some time to convert it into cash. For example, accounts receivable, money owed to you by your customers, is usually due to be paid within 30 days.
- List of current assets includes:
  - **Cash** - By definition cash is a perfectly liquid asset.
  - **Accounts Receivable** - Money owed to the business which is normally due within a month.
  - **Finished Goods Inventory** - These are the products ready and available for sale.
  - **Work in Progress** - These are the products that will soon be available for sale.
  - **Raw Materials** - Inputs to products which are scheduled to be created and made available for sale.
- **Fixed assets** are assets that aren't intended for immediate sale. Examples include machinery, equipment, parts, trucks and buildings. These items are assets because they are used in the creation of goods and services, but they generate cash indirectly.
- **Current Liabilities:**
- Liabilities, like assets, are not all the same.
- Some liabilities are paid in the short term while others are paid in the long term.

- E.g. If you get a mortgage to buy your house, you may spend 20-25 years paying it off. However, you pay credit card debts at the end of each month.
- **Measures of Liquidity:**
- **Cash** - The quickest, surest source of liquidity. This is followed by having a bank account.
- **Working capital** = Current Assets - Current Liabilities. It is the difference between an organization's current assets and current liabilities or anticipated inflows and outflows for the next 12 months. Working capital is intended to help the organization understand its ability to pay bills during the period
- **Current ratio** = Current assets / current liabilities. It shows the relative difference between current assets and liabilities. The purpose of the current ratio is the same as working capital, to understand an organization's ability to pay its bills during the current year. It is a more useful measure for managing short term cash flows.
- **Leverage:**
- **Leverage** is the ratio of how much borrowing a business does, relative to the owners' equity.
- Leverage is important because while borrowing allows business to get more assets, it also means they have to pay more interest and the more risk they are taking. Furthermore, the more capital a company/business borrows, the more they are asking others to take the risk.
- Banks look at a company/business's leverage before approving another loan for that company/business.
- **Debt to equity ratio** = Total liabilities / total owners' equity.
- Debt to equity ratio is important because banks and other lenders place limits on what the ratio should be.
- It was previously stated that Canadian Banks will lend home buyers only 75% of purchase price of property. They limit the debt to equity ratio on mortgage lending to 75% : 25% or 3:1.
- While there is no limit to what the ratio should be but banks and other lenders usually provide no more than 80% or a 4:1 ratio to any enterprise, no matter how reputable it is.
- Both the income statement and the balance sheet show how the business has done and where it currently stands and tells the reader about the profit made relative to the capital risked.
- **Return on Investment:**
- **Return on investment (ROI)** is the profit generated by a business relative to the amount of capital invested by the owners at the beginning of the year.
  ROI = (Net Profit / Owners' Equity) x 100%
- This final piece of information from financial statements combines the information from the income statement with information from the balance sheet.

Textbook Definitions (Chapter 9):

- **Accounting Equation:** Assets = Owner's Equity + Liabilities
- **Accounts payable:** Money that a business legally owes, and is expecting to have to pay. It is usually paid within the month.
- **Accounts receivable:** Money that a business is legally owed, and is expecting to receive. It is usually paid within the month.
- **Appreciation:** The increase in market value for an asset.
- **Assets:** The resources owned or acquired by an organization from which benefits are expected to flow.
- **Balance sheet:** The financial statement that shows how much capital has been made available to the business and how the business has used that capital.
- **Cash:** The quickest, surest source of liquidity.

- **Cost of sales:** The cost of making the product itself, and omits all of the administrative costs of running the business.
- **Current assets:** Assets that an organization hopes or expects to convert into cash within the current year, in other words, the next 12 months.
- **Current ratio** = Current assets / current liabilities.
- **Debt to equity ratio** = Total liabilities / total owners' equity.
- **Depreciation**: The gradual decline in asset's value because of age, use or obsolescence.
- **Fixed assets:** Assets that aren't intended for immediate sale.
- **Gross Profit:** Revenue - Cost of Sales. It is the profit that comes from selling its products.
- **Income statement:** A financial statement that shows how much revenue the business generated, and the costs incurred in the course of making and selling products.
- **Intangible assets:** A resource or possession that has little to no tangible value, but can bring financial benefit.
- **Interest expense:** The interest costs of borrowing money to finance the business.
- **Inventory:** Finished goods ready to be bought.
- **Investment:** A decision not to spend one's capital for immediate consumption, but to put it to work so that it might produce more capital in the future.
- **Leverage:** The ratio of how much borrowing a business does, relative to the owners' equity.
- **Liabilities:** Money that a business has borrowed or money that it owes.
- **Line of credit:** An agreement between a bank and a borrowing customer that the customer can withdraw money up to an agreed amount as long as the loan is repaid fully at some point during the year.
- **Liquidity:** The ease and speed with which an asset can be converted into cash.
- **Net profit:** The result after all of the business' costs and expenses (including tax) deducted from its revenues. It represents the benefit, or the return, from owning a business.
- **Operating expense:** The cost of running the business organization as opposed to the cost of making the product.
- **Operating profit:** The profit made from operating a business that sells products. Operating profit = Gross profit - Operating expenses.
- **Owner's equity:** The value of the capital put into a business by its owner.
- **Paid-in capital:** Capital that business owners actively pay into the business.
- **Pre-tax profit:** A company's operating profit after interest on debt has been paid plus any unusual items, but before taxes are paid.
- **Retained earnings:** The profits that a business accumulates as it grows. These are used to buy more assets, hire new employees and create more profit in future.
- **Return on investment (ROI):** The profit generated by a business relative to the amount of capital invested by the owners at the beginning of the year.
  ROI = (Net Profit / Owners' Equity) x 100%
- **Working capital:** It is the difference between an organization's current assets and current liabilities or anticipated inflows and outflows for the next 12 months.
  Working capital = Current Assets - Current Liabilities.

Lecture Notes:

- **Sources of Finance:**
- A bank.
- A friend or a family member.
- Your own savings.
- By selling shares of your business. (Investors)
- **Financial Planning & Control:**
- Involved in analysis of the current and previous financial situation of the business.
- Prepares Pro-forma statements based on estimation.
- Remember: Estimates can go wrong, so be careful.
- **Steps in the Planning Process:**
    1. Establish aims and objectives of the business.
    2. Identify available options.
    3. Evaluate each option and make a selection.
- **Preparing the Pro-forma Financial Statement:**
- Preparing pro forma financial statements involves four major steps:
    1. Identify the factors that will affect the Pro-forma statements.
    2. Forecast the sales for the period.
        - The usual starting point is to forecast sales for the period.
        - Producing a reliable sales forecast involves understanding the competitive environment and deciding upon a particular approach to forecasting.
        - Competitive Environment:
            - General Economics Conditions
            - The Industry
            - Competitive Analysis
        - Forecasting Approaches:
            - **Subjective Approach:** This approach normally relies on the views of the sales force or sales managers.
            - **Objective Approach:** This approach relies on statistical techniques or, in the case of very large businesses, econometric models.
    3. Forecast the remaining elements of the financial statements.
        - Once the level of sales has been estimated, the items appearing in the cash budget, income statement, statement of retained earnings, and balance sheet will be forecasted.
    4. Prepare the Pro-forma financial statements.
- **Financial Ratios:**
- Financial ratios provide a quick and simple means of assessing the financial health of a business.
- A ratio simply relates one figure appearing in the financial statements to some other figure appearing there.
- The problem of scale is eliminated.
- Can be expressed in various forms.
- Ratios can be grouped into categories:
    - Profitability
    - Efficiency
    - Liquidity
    - Financial leverage
    - Investment

- Key Steps in Financial Ratio Analysis:
    1. Identify the key indicators and relationships that require examination.
    2. Calculate the ratios that are considered appropriate.
    3. Interpret and evaluate the ratios.
- Key Ratios:
    - **Gross Profit Margin:** Gross Profit / Sales
    - **Net Income Margin:** Net Income / Sales
    - **Current Ratio:** Total Current Assets / Total Current Liabilities
    - **Quick Ratio:** Total Current Assets except Inventory / Total Current Liabilities
    - **Working Capital:** Total Current Assets – Total Current Liabilities
- **The Time Value of Money, Interest Rates, Risk and Inflation:**
- The main factors affecting the value of money over time are:
- **Interest Lost:** Opportunity cost.
- **Risk:** Things may not turn out as expected.
- **Inflation:** The loss of purchasing power of money over time.
- **Investment Appraisal:**
- **Accounting Rate of Return (ARR)** is the percentage rate of return that is expected from an investment or asset compared to the initial cost of investment.
- ARR = Average Profit / Average Investment
- **Payback Period:** When do I get my money back?
- **Net Present Value (NPV):** What is the present value of future cash inflows?

Textbook Notes (Chapter 10):

- **Financing the Enterprise:**
- Finance is the function of business that involves locating, collecting, packaging and redistributing capital.
- **Financial management** is planning, organizing, leading and controlling the finding and using of capital.
- Without capital businesses cannot buy or rent spaces, machinery, supplies to continue growing or even begin.
- **Chief Financial Officer (CFO)** is the senior manager responsible for overseeing the financial management of the entire organisation.
- The CFO is one of the most influential people in the organisation whether it is a not for profit organization or a for profit business.
- Finance owes its existence to 2 simple assumptions:
    - There are people who have ideas and ambitions, plans and projects that they want to undertake but they have no capital.
    - People who have capital but have no immediate need or desire to spend it.

  Note: Those who need capital don't just include the owners of businesses and entrepreneurs. It also includes managers within businesses.
- Issues that concern finance managers:
    - An individual or a department within an organisation proposes a project.
    - The project needs to be justified.
    - An estimate needs to be made of the project's cost.
    - The project must be evaluated and prioritized against alternative projects.
    - If the capital is available and the project is consistent with the organisation's mission, it can proceed.
    - If the capital is not readily available, then sources need to be identified and approached.
    - One source of capital is investors. Another source is lenders.

- Financial managers do the following:
  - Budgeting
  - Investment appraisal
  - Capital raising
  - Investor relations
  - Financial control
- **Why Businesses Need Finance:**
- A business must spend money before it can even start to make money. It needs money to rent an office, purchase equipment and hire employees.
- Few businesses become successful overnight. Amazon, which was founded in 1994, didn't make its first annual profit until 2003. Furthermore, between 1995 and 2002, Amazon paid out roughly $3 billion more in costs than it collected in revenue. It took almost 7 years before the volume of sales allowed it to break even. Until a business attains its break-even quantity of sales, it must rely on the owner's pockets (equity) or borrowed money (liability) to survive.
- At the beginning of a business's life, banks and other lenders are reluctant to lend money. They don't want to lend money to unsuccessful businesses. Banks usually only lend when business shows the ability to grow and make profits. Therefore, most young businesses must rely solely on the owner's pockets until they break even. Only after a business has broken even will banks and other lenders consider lending money.
- Therefore, at the beginning of a business's life, the CFO and other financial managers must ensure they have raised enough owner's equity at the outset, create relationships with their suppliers that will allow them to purchase on credit and ensure that no department overspends.
- **Financial Planning - Budgeting:**
- A **budget** is a forecast estimate of the cost of the plans and projects that the organisation wants to carry out in the coming period.
- A **budget deficit** occurs when the cost of an organization's business' plans and projects exceed its inflows.
- A **budget surplus** occurs when an organisation's inflows exceed the cost of its plans and projects.
- **Financial Planning - Investment Appraisal:**
- **Investment appraisal** is the assessment of the attractiveness of competing investment opportunities.
- Businesses, in addition to worrying about the cost of this year's projects and plans, will be looking further down the road to future projects. The role of finance is to appraise and prioritize these.
- While many factors will influence the decision to make a major investment, some of the fundamental considerations will be:
  - **Size of investment:**
    - How much would the investment cost?
  - **Length of Investment:**
    - Investors are more likely to invest in a project if the returns are expected in the near future.
    - Investments with shorter payback periods are preferred as they involve fewer unanticipated changes in the business environment.
    - The greater the length of any investment, the greater the risk.
    - The **payback period** is the time in which the cash generated by a project is expected to exceed the initial outflows.

- **Return on Investment:**
    - The payback period alone is not enough to separate attractive projects from others. Long term commitments and small but steady returns is also good.
- **Risk of Return:**
    - **Risk of return** is the range of possible returns from an investment, if it doesn't perform exactly according to the forecaster's assumptions.
    - Since any investment has risk and risk has a range of possible outcomes, financial managers must make forecasts about the profit that will come from a project or investment. These forecasts are often presented using several scenarios, which show a variety of possible outcomes. This scenario analysis typically consists of:
        - Base/Expected case: Investment performs largely as expected.
        - Best/Optimistic case: One or two things go better than expected.
        - Worst/Pessimistic case: One or two things go worse than expected.
    - An investment whose return will not vary much between best and worst case has low risk.
    - An investment whose range of possibilities is large has high risk.
- **Financial Organization - Capital Raising:**
- Once the organization's projects and investments have been appraised and prioritized, financial managers will start to raise capital.
- There are different ways/methods of raising capital:
    - A sole proprietor can take on partners or incorporate.
    - A partnership can look for additional partners or incorporate.
    - A private corporation can invite its existing shareholders to buy more shares.
    - A public corporation can invite its existing shareholders to buy more shares or make new shares available to the public.
    - Any type of business can borrow money from lenders.
- Raising capital from debt or liabilities has both advantages and disadvantages. The same goes for raising capital from owner's equity. The choice of how best to raise the necessary capital will depend on the relative merits and costs of each source and type of finance.
- **Capital structure** is the combination of the debt and equity capital that a business chooses to use in order to finance its operations and growth.
- Equity Financing:
- For growing businesses, either the owner can invest more or look for new investors to invest in their business. New investors can bring new ideas and perspectives. However the injection of new capital dilutes the ownership of the existing owner.
- **Dilution** is a decrease in the proportion owned by existing partners or shareholders, after new investors put capital into a business.
- For example, suppose your company has 100 shares in circulation, of which you have 10. That means you own 10% of the company. Now, in order to raise more capital, your company decides to put out another 100 shares. Now, there are 200 shares in circulation but you still have 10. That means you now own 5% of the company.
- A disadvantage of equity financing is that people who start businesses tend to be independent and achievement oriented. Some entrepreneurial personalities are not comfortable with sharing decision making or explaining themselves. This may lead to irreconcilable disagreements with other investors. For example, Steve Jobs was fired from Apple for being difficult to work. However, he returned 12 years later.

- Debt Financing:
- Debt Finance - Advantages:
    - Owners don't need to dig into their own pockets or find new investors. This means that the business can grow without changing its ownership.
    - A borrower's only duty to a lender is to make the required loan repayments plus interest on time.
- Debt Finance - Disadvantages:
    - The loan must be repaid with interest.
    - The more a business borrows the more it has to pay in interest.
- Most businesses opt for a blend of both equity and debt financing to expand their business.
- **Financial Leading - Investor Relationships:**
- **Investor relations** is communicating the company's financial results, strategy and plans to everyone with an interest in a business' activities.
- Businesses finance a great deal of their activity on credit from suppliers. It is important that these suppliers be kept advised, informed and reassured.
- Businesses should have well-handled relationships with banks, investment dealers, shareholders and suppliers. This will allow them to be more supportive when the business needs to raise capital.
- Investors and lenders must be kept advised through meetings and updates. Financial managers should ensure that all interested parties are provided with quarterly and annual balance sheets and income statements.
- Typically, large businesses will conduct conference calls with investors immediately following the release of their quarterly financial statements. During these meetings, the CFO will highlight business' successes, calm fears, and provide an overview of the major issues that affected the company's performance in the last quarter and a preview of what can be expected in the upcoming quarter.
- Investor relations also call for formal presentations also known as roadshows when a business is attempting to sell shares to new investors. Finance managers will travel to major cities to give presentations to investment dealers, pension fund managers and other potential investors. Roadshows are meant to generate interest and excitement.
- **Financial Control:**
- The final responsibility of financial managers is financial control.
- **Financial control** is establishing a standard, measuring performance, and taking action to improve or regulate the raising and spending of capital.
- Recall that control has 3 parts:
    1. Establishing a standard.
    2. Measuring the performance against that standard.
    3. Improve/Correct performance if the performance doesn't reach the standard.
- The first stage is to establish a standard. The budget is the financial standard. It is meant to put a limit on expenditure by various departments and divisions of business and set goals for revenue generation.
- Examples:
    - The advertising budget for the next quarter is $3 million.
    - In the next fiscal year, our stores in Alberta are expected to deliver $20 million in revenue and $3 million in profit.
- The second stage of the control process is to measure the actual performance of the activity. The quarterly financial statements are the tools of measurement. Finance managers can look at these statements and compare the performance against the budget.

- Examples:
  - The operating expenses were 10% higher than we forecasted, due to overspending on advertising.
  - The income statement for the first half of the year shows revenues of $13 million in Alberta.
- The final stage is for managers to take action and to improve or correct performance and to bring it into line with standards.
- Examples:
  - Cancelling the TV advertisements will save $600, 000 from the market budget.
  - Our sales people in Alberta are working hard. Revenue for the first six months are 30% above forecast. We should thank them by giving them a bonus.
- The purpose of the control function is to get people and resources to perform in a manner to achieve the organization's goals.
- The role of financial managers is to plan and organise capital.
- Effective financial management will ensure that the business has capital to carry out a plan that will contribute to positive future growth of revenues, profits and return on investments.

Textbook Definitions (Chapter 10):

- **Budget:** A forecast estimate of the cost of the plans and projects that the organisation wants to carry out in the coming period.
- **Budget deficit:** When the cost of an organization's business' plans and projects exceed its inflows.
- **Budget surplus:** When an organisation's inflows exceed the cost of its plans and projects.
- **Capital structure:** The combination of the debt and equity capital that a business chooses to use in order to finance its operations and growth.
- **Chief Financial Officer (CFO):** The senior manager responsible for overseeing the financial management of the entire organisation.
- **Dilution:** A decrease in the proportion owned by existing partners or shareholders, after new investors put capital into a business.
- **Financial control:** Establishing a standard, measuring performance, and taking action to improve or regulate the raising and spending of capital.
- **Financial management:** Planning, organizing, leading and controlling the finding and using of capital.
- **Investment appraisal:** The assessment of the attractiveness of competing investment opportunities.
- **Investor relations:** Communicating the company's financial results, strategy and plans to everyone with an interest in a business' activities.
- **Payback period:** The time in which the cash generated by a project is expected to exceed the initial outflows.
- **Risk of return:** The range of possible returns from an investment, if it doesn't perform exactly according to the forecaster's assumptions.

Lecture Notes:

- **Human Resource Management (HRM):**
- HRM is the process of determining human resources needs and then:
    - Recruiting
    - Selecting
    - Developing
    - Motivating
    - Evaluating
    - Compensating
    - and scheduling employees to achieve organizational goals.
- One reason why human resource management is receiving increased attention is the major shift from traditional manufacturing industries to service and high-tech manufacturing industries that require highly technical job skills. About 80% Canadian workforce is in services. This shift means that many workers must be retrained for new, more challenging jobs.
- **Human Resource Challenges:**
- A growing percentage of new workers who are undereducated and unprepared for jobs in the contemporary business environment.
- A shortage of workers in skilled trades due to retirement of aging baby boomers.
- A shift in employee attitudes toward work. Leisure time has become a much higher priority, as have flextime and a shorter workweek.
- A declining economy that is taking a toll on employee morale as well as increasing the demand for temporary and part-time workers.
- A growing concern over health care, elder care, child care, and opportunities for people with disabilities.
- A decreased sense of employee loyalty, which raises employee turnover and the cost of replacing lost workers.
- **The Hiring Process:**
    1. Recruit
        - Job Analysis
        - Person Specification
        - Job Advertisement
    2. Select
        - Application Form
        - Interview
        - Test
        - Investigate
        - Probation
    3. Train/Develop
        - Orientation
        - On-the Job Training (OJT)
        - Apprenticeship
        - Off-the-Job Training
        - Online Training
        - Vestibule Training
        - Job Simulation
- **Job Analysis:**
- A summary of what the “role” will involve.
- It tries to incorporate both qualitative and quantitative aspects of the job.
- It is usually a list of responsibilities alongside a description of the activities of the job.

- **Person Specification:**
- Used to find the ideal candidate for the job.
- It includes both technical and soft skills.
- It details both the academic and professional requirements.
- **Job Advertisement:**
- It contains information from both job analysis and person specification.
- Published through a variety of platforms:
    - Internet – the most cost effective medium
    - Newspaper – the most expensive medium
    - Company's own website – for internal/connected candidates only
- **Recruiting Employees From A Diverse Population:**
- **Recruitment** is the set of activities used to obtain a sufficient number of the right people at the right time. The end result is to have a pool of qualified applicants.
- **Selecting Employees:**
- A typical selection process involves five steps:
    1. Obtaining complete application forms.
    2. Conducting initial and follow-up interviews.
    3. Giving employment tests.
    4. Confirming background information.
    5. Establishing trial (probationary) periods.
- **Training and Developing Employees For Optimal Performance:**
- **Training** and **development** includes all attempts to improve productivity by increasing an employee's ability to perform.
- Training focuses on short-term skills, whereas development focuses on long-term abilities.
- Some common training and development activities are:
    - Employee orientation
    - On-the-job training
    - Apprentice programs
    - Off-the-job training
    - Job simulation
- **Employee orientation** is the activity that initiates new employees to the organization, to fellow employees, to their immediate supervisors, and to the policies, practices, values, and objectives of the firm. Orientation programs include everything from informal talks to formal activities that last a day or more.
- **On-the-job training** is the most fundamental type of training. The employee being trained on the job immediately begins his or her tasks and learns by doing, or watches others for a while and then imitates them, right at the workplace.
- **Apprentice programs** involve a period during which a learner works alongside an experienced employee to master the skills and procedures of a craft. Some apprenticeship programs also involve classroom training. Many skilled crafts, such as bricklaying and plumbing, require a new worker to serve as an apprentice for several years.
- **Off-the-job training** occurs away from the workplace and consists of internal or external programs to develop any of a variety of skills or to foster personal development. Training is becoming more sophisticated as jobs become more sophisticated.
- **Online training** offers an example of how technology is improving the efficiency of many off-the-job training programs. In such training, employees "attend" classes via the Internet.
- **Job simulation** is the use of equipment that duplicates job conditions and tasks so that trainees can learn skills before attempting them on the job. Job simulation differs from

vestibule training in that the simulation attempts to duplicate the exact combination of conditions that occur on the job.

- **Networking:**
- **Networking** is the process of establishing and maintaining contacts with key managers in one's own organization and in other organizations and using those contacts to weave strong relationships that serve as informal development systems.
- Of equal or greater importance to potential managers is a mentor.
- **Mentor:** A corporate manager who supervises, coaches, and guides selected lower-level employees by introducing them to the right people and generally being their organizational sponsor.
- **Performance Appraisal:**
- Do allow sufficient time, without distractions, for the appraisal.
- Do end the appraisal with positive suggestions for employee improvement.
- Do include the employee in the process as much as possible.
- Don't attack the employee personally. Critically evaluate his/her work.
- Don't make the employee feel uneasy or uncomfortable. Never conduct performance appraisals where other employees are present.
- Don't wait for the appraisal to address problems with the employee. It's best to have short, quick discussions with employees to let them know how they can improve.
- **Compensating Employees:**
- Companies don't just compete for customers; they also compete for employees.
- Compensation is one of the main marketing tools that companies use to attract (and retain) qualified employees, and it is one of the largest operating costs for many organizations.
- **Pay equity** refers to equal pay for work of equal value. It compares the value of male and female jobs by objectively evaluating the jobs in terms of four neutral factors: skill, effort, responsibility, and working conditions.
- Pay Systems include:
    - Salary
    - Hourly Wage or Day work
    - Piecework System
    - Commission Plans
    - Bonus Plans
    - Profit-Sharing Plans
    - Gain-Sharing Plans
    - Cost-of-Living Allowances (COLAs)
    - Stock Options
- Learning about reasons for employees leaving can be invaluable in preventing the loss of other good people in the future.

Textbook Notes (Chapter 11):

- **Managing Human Resources - Introduction:**
- A hiring decision is among one of the most important decisions a manager can make.
- **Human Resource Management (HRM)** is the activities that is involved with planning, organising, leading, controlling a business people.
- **Determining the Jobs to be Done:**
- Before approaching anyone to hire, you should make a **job analysis**.
- A **job analysis** is a careful breakdown of all the mental and physical activities a job involves.
- Job analyses should be a list of precise activities and actions done in a job.
- The best way to write a job analysis is to ask someone who is already doing the job what their activities are.

- The purpose of a job analysis is to understand what is involved in doing the job, not to describe the ideal person for the job. The ideal person to do the job is described by a job specification.
- A **job specification** documents the knowledge, education, experience, and characteristics that are essential to the individual who will perform the job.
- **Recruiting:**
- Having understood the job to be done and identified the qualities of the ideal candidate, the hiring process turns to recruiting.
- **Recruiting** is attracting interested and appropriate applicants to fill a position.
- While recruiting should cast the net wide, its purpose is to attract only candidates who are appropriately qualified and who will fit into the organization.
- A **job description** is a description of an organization's environment and culture and of the position and atmosphere of the job within the organization.
- Job descriptions usually contain the following keywords and their corresponding information:
    - Job Title
    - Location
    - Size of Organisation
    - Level of Seniority
    - Number of colleagues
    - Degree of autonomy
    - Conditions
    - Hours of work
- Recruiting is a promotional activity. Like any promotional activity, the intention of recruiting is to make potential, qualified applicants:
    - Aware of opportunity
    - Knowledgeable of opportunity
    - Interested in opportunity
    - Persuade to apply
- Businesses can use a variety of promotional methods such as advertising and personal selling.
- **Recruitment Agency/Head Hunters** are businesses that act as intermediaries in locating prospective candidates on behalf of employers with vacancies.
- Most small and medium sized businesses use them.
- **Internal Recruiting/Hiring from Within:** When looking to fill a vacancy, give preference to current employees.
- Benefits:
    - The business can save time and money as these employees already know how the business operates.
    - Promotion opportunities can boost morale and incentive employees to work harder.
- Downsides:
    - The business risks becoming stale without the occasional injection of fresh ideas from outside. If you only hire people from within the business, groupthink, the reluctance to stray away from the established ways of doing things, will prevail.
- **Screening:**
- **Screening** is sifting through a large number of applications to get a shorter list of the most suitable candidates.
- Screening happens after the recruiting process is successful.

- Written submissions are usually job applications, resumes and curriculum vitae (CVs). The main difference between resumes and CVs is length. Resumes are usually 1-2 pages in length and more concise while CVs are longer and more detailed.
- A **resume** is a 1-2 page summary of an individual's skills, education, and experience.
- A **CV** is a longer, more detailed portrayal of individual skills, accomplishments, education, and experience.
- Generally, after screening all the written documentations, employers draw up a list of people to interview. There are two important reasons for interviewing:
    1. They offer an employer an opportunity to learn about a candidate's soft skills. **Soft skills** are the array of manners, social graces, charm, confidence, and other interpersonal traits that people possess. Soft skills are important for jobs that require the person to influence or lead others.
    2. Allows employers to see how a candidate responds to situations that can put people under stress.
- **Employment Equity and Non-discrimination Laws:**
- **The Employment Equity Act** requires employers to provide equal employment opportunities to four designated groups:
    1. Women
    2. Aboriginal peoples
    3. Persons with disabilities
    4. Members of visible minorities

  The purpose of the act is to achieve equality in the workplace so that "no person shall be denied employment opportunities". The act applies to all private sector employers and specifies that employers have the duty to identify and eliminate employment barriers against persons in those designated groups.
- **The Canadian Human Rights Act** makes it discriminatory to refuse to employ, continue to employ, or differentiate toward any individual on the grounds of race, national or ethnic origin, colour, religion, age, sex, sexual orientation, marital status, family status, disability and conviction for an offence. The Act also specifies that it is a discriminatory "to use any form of application for employment, or to publish any advertisement that expresses or implies any limitation, specification or preference" based on any of the prohibited grounds.
- **Selection:**
- **Selection** is the process of choosing the right person for the job.
- The best practice is informing the successful candidate by phone. This adds a personal touch to the hiring and allows the hiring manager to convey a sense of enthusiasm and excitement. The phone call should be followed immediately with written confirmation. This letter should include written confirmation of all the elements of the job, such as pay, benefits, hours, etc.
- **Paying for What you Get:**
- **Compensation** is all forms of reward going to employees and arising from their employment.
- Typically, compensation comes in 4 forms:
    1. Guaranteed pay
    2. Bonuses
    3. Benefits
    4. Profit sharing
- Guaranteed pay is the employee's fixed monetary reward. This is paid on an hourly, daily, weekly or monthly basis.
- A **minimum wage** is the lowest hourly wage that an employer must legally pay.
- In Ontario, the minimum wage as of 2015 $11/hr. Now it is $14/hr.

- Some provinces allow lower wages to be paid for those who wait on tables in bars and restaurants because it's assumed they'll earn tips.
- **Bonuses and Commissions:**
- The most common form of bonus is gain sharing.
- **Gain sharing** occurs when an employer shares any increase in profits that result from improvements suggested or initiated by employees.
- Gain sharing is most commonly used in manufacturing plants, where increases in productivity or quality are relatively easy to track and measure. Consistent with the concept of Total Quality Management (TQM) gain sharing works best when employees themselves are responsible for the quality and quantity of output and are encouraged to improve the way the product is made.
- The other common form of variable pay is sales commission. **Sales commission** is a reward paid to salespeople, based on a percentage of revenues generated by their efforts.
- Many salespeople have a low base pay but earn a lot of commission.
- Advantages for giving employees bonuses & commission:
    - Bonus plans allow employers to pay employees more in good times and less when revenues and profits are reduced.
    - Bonuses and commissions are intended to drive employee performance.
- Disadvantages for giving employees bonuses & commission:
    - Many capable hard working people are risk averse. So they prefer security and certainty of knowing how much they earn in a year.
    - Bonuses may also reward wrong kinds of behaviour such as doing illegal or unethical things for the bonus.
    - Poorly designed bonuses may force managers to take more risks and focus on the short term instead of the long term.
- **Benefits:**
- **Employee benefits** are non-financial forms of compensation offered in addition to salary in order to reward and enrich employees.
- Examples include paid vacation time beyond the 2 weeks minimum mandated by Canadian law, pension plan, life insurance, health/dental care.
- **Profit Sharing:**
- **Profit sharing** is a form of compensation that allocates a percentage of profits to a pool to be shared by employees.
- The common range for the profit sharing pool is 5% - 10% of pre-tax profit.
- The business must then define triggers, based on objectives such as a target level of sales or profits, to determine whether the profit pool will be paid out. Without clearly defined triggers, profit sharing will fail in its intent to be a form of performance incentive.
- The business must also develop a methodology for allocating the profit sharing. This must be clear, logical, and fair. Otherwise it may cause rivalries and jealousies between employees who receive large bonuses and those that don't.
- **Orientation:**
- **Orientation/Introduction** is the process of introducing new or inexperienced people to an organisation.
- The purpose of orientation is to introduce newcomers to the new environment, make them feel comfortable and provide them with the knowledge they need to become effective members of the community.
- Research shows that orientation programs lead to higher job satisfaction, better job performance, and greater commitment to the organization from employees who have been through one.

- The specific benefits of orientation includes:
    - **Reducing Learning Time -** Orientation helps the employee get up to speed quickly, reducing the costs associated with learning how to do a job.
    - **Reducing Anxiety -** By receiving guidelines for their behaviour and conduct, new employees won't have to stress over not knowing what to do.
    - **Reducing Turnover** - Employee turnover increases if the employee doesn't feel that he/she is valued and welcome. Orientation shows the employee that their arrival is valued.
    - **Saving Management Time** - The better the orientation, the less likely that managers and coworkers will have to spend time teaching the new employee at a later date.
- **Setting Standards and Goals:**
- **Management By Objectives (MBO)** is a theory which suggests that a business can best improve its performance when managers and employees define objectives that are agreed to by both parties.
- MBO was proposed by Peter Drucker, one of the 20th century's pre-eminent thinkers about management.
- **Performance Appraisal:**
- **Performance appraisal** is an evaluation of an employee's achievements and growth, or lack thereof.
- Performance appraisal helps managers determine which employees should be awarded raises and bonuses.
- It also allows employees and their managers to create plans for training and development.
- However, employees and their managers should have frequent discussions about the employee's performance, so that they have time to improve and it'll make the performance appraisal less stressful.
- **Training and Development:**
- **Training** is activities aimed at increasing an employee's skills to enable them to do a particular job more efficiently.
- **Employee development** is activities aimed at increasing an employee's general skills and knowledge, coupled with career planning.
- Employee development goes beyond the scope of the employee's current position and is Intended to groom them for increasing responsibility within the organisation.
- Employee development is a shared responsibility of management and the individual employee. The responsibility of the management is to provide the resources and environment that supports the employee's development needs and aspirations.
- Ways businesses can provide employees with learning opportunities:
    - **Job Expansion** - Give an employee new or additional duties, grooming them for promotion and keeping them challenged.
    - **Job Rotation** - Gives an employee the choice to work in different areas of the business on a temporary basis. They keep their existing job but exchange responsibilities with another employee.
    - **Job Shadowing** - The employee can observe someone at work to learn about what their responsibilities are and what they do.
    - **Peer-assisted Learning** - Two employees share their knowledge or skills with each other.
    - **Coaching** - This involves an agreement between an experienced manager and their employee. The role of the coach is to demonstrate skills and to give the employee guidance, feedback and reassurance while the employee practices the new skill.

    - **Mentoring** - Similar to coaching. **Mentoring** occurs when a senior, experienced manager provides guidance and advice to a junior employee.
    - **Classroom Training** - A business can offer opportunities to attend courses, seminars, and workshops that are offered either internally or externally.
- All of the above processes for hiring and managing employees are important as the cost of hiring the wrong person or losing the right one is big.
- **Employee Retention:**
- **Retention** is the activities a business goes through in order to keep and manage its people.
- **Turnover** is the percentage of employees who leave their job in a year.
- Turnover does not include people who retire at retirement age but it does include the people who quit to go back to school, to another organisation, to travel, or to stay at home.
- Turnover measures the percentage of an organization's workforce who would rather be doing something else.
- Not all turnover is bad. A business can benefit when a poorly performing employee leaves. Furthermore, having old people leave and hiring new people injects new and fresh blood and ideas into the business.
- Turnover is expensive. The average cost of replacing a white collar employee in the US is around $50k - 65k. Furthermore, turnover is expensive, even for minimum wage jobs.
- There are 2 main factors that make up the cost of replacing a departed employee:
    1. The cost of lost output while a replacement is getting up to speed.
    2. The logistical cost of recruiting and absorbing a new worker.
- It doesn't matter if the employee left the job on their own or if they were fired. It will still cost the business alot to replace them.
- The other problem with unhappy employees is that they don't want to come to work. This is known as absenteeism.
- **Absenteeism:** An employee's absence from work due to illness or personal or family responsibilities.
- Unhappy employees may take sick days when they're not actually sick because they're demotivated to work.
- In Canada in 2014, the absenteeism rate was 8.8 days per employee on average.

<u>Textbook Definitions (Chapter 11):</u>

- **Absenteeism:** An employee's absence from work due to illness or personal or family responsibilities.
- **Compensation:** All forms of reward going to employees and arising from their employment.
- **CV:** A longer, more detailed portrayal of individual skills, accomplishments, education, and experience.
- **Employee benefits:** Non-financial forms of compensation offered in addition to salary in order to reward and enrich employees.
- **Employee development:** Activities aimed at increasing an employee's general skills and knowledge, coupled with career planning.
- **Gain sharing:** An employer shares any increase in profits that result from improvements suggested or initiated by employees.
- **Human Resource Management (HRM):** The activities that are involved with planning, organising, leading, controlling a business people.
- **Internal Recruiting/Hiring from Within:** When looking to fill a vacancy, give preference to current employees.
- **Job analysis:** A careful breakdown of all the mental and physical activities a job involves.

- **Job description:** A description of an organization's environment and culture and of the position and atmosphere of the job within the organization.
- **Job specification:** Documents the knowledge, education, experience, and characteristics that are essential to the individual who will perform the job.
- **Management By Objectives (MBO):** A theory which suggests that a business can best improve its performance when managers and employees define objectives that are agreed to by both parties.
- **Mentoring:** Occurs when a senior, experienced manager provides guidance and advice to a junior employee.
- **Minimum wage:** The lowest hourly wage that an employer must legally pay.
- **Orientation/Introduction:** The process of introducing new or inexperienced people to an organisation.
- **Performance appraisal:** An evaluation of an employee's achievements and growth, or lack thereof.
- **Profit sharing:** A form of compensation that allocates a percentage of profits to a pool to be shared by employees.
- **Recruiting:** Attracting interested and appropriate applicants to fill a position.
- **Recruitment Agency/Head Hunters:** Businesses that act as intermediaries in locating prospective candidates on behalf of employers with vacancies.
- **Resume:** A 1-2 page summary of an individual's skills, education, and experience.
- **Retention:** The activities a business goes through in order to keep and manage its people.
- **Sales commission:** A reward paid to salespeople, based on a percentage of revenues generated by their efforts.
- **Selection:** The process of choosing the right person for the job.
- **Screening:** Sifting through a large number of applications to get a shorter list of the most suitable candidates.
- **Soft skills:** The array of manners, social graces, charm, confidence, and other interpersonal traits that people possess.
- **The Canadian Human Rights Act** makes it discriminatory to refuse to employ, continue to employ, or differentiate toward any individual on the grounds of race, national or ethnic origin, colour, religion, age, sex, sexual orientation, marital status, family status, disability and conviction for an offence. The Act also specifies that it is a discriminatory "to use any form of application for employment, or to publish any advertisement that expresses or implies any limitation, specification or preference" based on any of the prohibited grounds.
- **The Employment Equity Act** requires employers to provide equal employment opportunities to four designated groups:
    1. Women
    2. Aboriginal peoples
    3. Persons with disabilities
    4. Members of visible minorities

  The purpose of the act is to achieve equality in the workplace so that "no person shall be denied employment opportunities". The act applies to all private sector employers and specifies that employers have the duty to identify and eliminate employment barriers against persons in those designated groups.
- **Training:** Activities aimed at increasing an employee's skills to enable them to do a particular job more efficiently.
- **Turnover:** The percentage of employees who leave their job in a year.

Lecture Notes:

- **Introduction to Motivation:**
- Is one factor of production more important than the others? → Not Necessarily
- Does one factor of production need to be managed with more care and effort? → Yes. The human resource.
- If we neglect, abuse or waste natural resources and/or capital, the cost is finite.
- However, if we neglect, abuse or waste human resources it may never recover.
- **Motivation** refers to the overall desire to excel.
- The key to leadership success is: Motivating others to do their best.
- Losing an employee is costly.
- Hiring and retaining good employees is a major function of management.
- Happy workers lead to happy customers, and happy customers lead to successful businesses.
- Some statistics - 40% of US workers work for bad bosses:
    - 39% of them said that their supervisor failed to keep promises.
    - 37% of them said that their boss failed to give credit when due.
    - 27% of them said that their supervisor made negative comments about them to other employees.
    - 23% of them said that their boss blamed others for their mistakes.

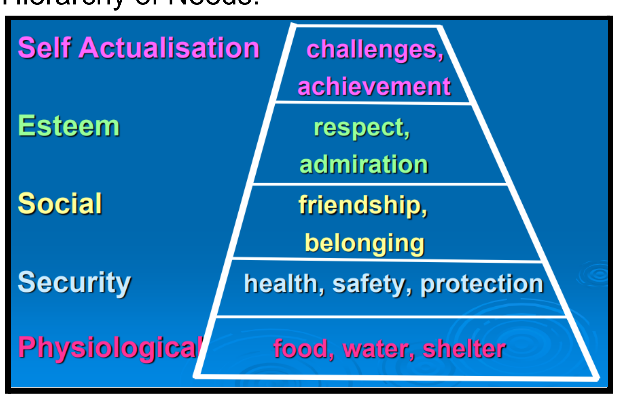
  Note: These bosses probably aren't bad all the time, but research suggests how easy it is to upset people, and de-motivate them
- **Intrinsic vs Extrinsic:**
- An **intrinsic reward** is the good feeling you have when you have done a good job.
- An **extrinsic reward** is something given to you by someone else as recognition for good work and includes pay increases, praise, and promotions.
- **Classical Theory of Motivation:**
- States that workers are motivated only by money.
- **Scientific Management/Taylorism:**
- Was developed by Fredrick Taylor. Taylor wrote a book about it, Principles of Scientific Management, in 1911.
- Taylor was an efficiency expert and his goal was to increase output.
- Taylor wanted to develop the best way to perform a job, train workers in the standard method and eliminate delays and interruptions. To do so, he proposed the following:
    - Perform time and motion studies.
    - Break the job into simple, separate tasks.
    - Introduce specialisation + repetition.
      I.e. Make each worker do 1 or a few tasks only, but make sure they do them well and quickly rather than get the workers to do a lot of tasks but do each task slowly.
    - Remove inefficiencies and wasted time.

  Then, productivity should increase.
- Some of Taylor's ideas are still being implemented.
- Some companies still place more emphasis on conformity to work rules than on creativity, flexibility, and responsiveness.
  For example, UPS tells drivers how fast to walk (three feet per second), how many packages to pick up and deliver per day (average of 400), and how to hold their keys (teeth up, third finger).
- The first businessman to apply Scientific Management/Taylorism was Henry Ford.
- Problem With Scientific Theory:
    - Productivity does increase in the short term, but people are not machines.
    - Boring, repetitive jobs lead to alienation, disaffection and absenteeism.

- **Hawthorne Studies:**
- Conducted by Harvard University in 1925 at the Hawthorne factory.
- The purpose of the study was to determine the most optimal/best working environment.
- Researchers did not discover what they expected. They found that people will try harder if they feel that they are part of a team, and what they do matters. This is called the **Hawthorne Effect**. Take notice of your employees. If they do good work, thank them.
- **Theory X & Theory Y:**
- Proposed by Douglas McGregor (1906 – 1964). He was a professor of Management at the MIT Sloan School and was the author of "The Human Side of Enterprise". He was also voted the 4th most influential management text of the 20th century.
- **Theory X:** Assumes that employees are unmotivated and dislike working.
- **Theory Y:** Assumes that employees are hard-working, self-motivated and enjoy responsibility.
- Comparison of Theory X and Theory Y:

Theory X assumes that people:	**Theory Y** assumes that people:
Are lazy	Are energetic
Lack ambition	Are ambitious
Dislike responsibility	Seek responsibility
Are self-centered	Can be selfless
Resist change	Want to contribute to change
Are not very bright	Are intelligent

- Most businesses are set up to manage people as Theory X, however, people see themselves behaving as Theory Y, so manage them accordingly.
- **Maslow's Hierarchy of Needs:**
- Abraham Maslow (1908 - 1970) was a psychologist at Columbia University.
- He stated that people have a variety of needs and some needs more basic than others.
- Everyone needs basic things to survive: food, shelter, clothing.
- As income, education, health and well-being improve, we want to satisfy less basic needs.
- Hierarchy of Needs:



Self-actualization	Ability to grow or develop skills	Interesting/Challenging Jobs
Esteem	Status, respect, honours	Title, big office, parking spot
Social	Love, affection, friendship	Friends at work, belong to team
Security	Physical and emotional security	Job security, pension, health insurance
Physiological	Food, shelter	Salary or wage

- People must be motivated by appealing to a variety of needs.
- A need that is already reasonably satisfied is not a powerful motivator.
- Criticisms of Maslow's Hierarchy:
    - It may not apply to all cultures.
    - It may not work in the step-by- step manner that Maslow imagined.
- **Herzberg's Motivation-Hygiene Theory:**
- Frederick Herzberg (1923 – 2000) was a professor at the University of Utah.
- Herzberg was interested in what people liked and disliked about their work.
- He surveyed engineers & accountants.
- Herzberg's Findings

They liked	**They disliked**
Responsibility	Working conditions
Recognition	Policies and rules
The work itself	Supervisors
Achievement	Pay and security
Advancement and growth	Interpersonal relations

Furthermore, he found that what people liked and disliked weren't opposites and that sources of satisfaction/dissatisfaction are not extreme ends of a single range, but two entirely separate lists.

- **Hygiene factors** are things that dissatisfy people. You can't do without them, so make these acceptable.
- **Motivation factors** are things that make people happy. Adding/increasing motivation factors increases satisfaction.

<u>**Textbook Notes (Chapter 12):**</u>

- **Why Motivation is Important:**
- **Motivation** is the internal process that gives an individual the energy and desire to act or behave in a particular way.
- Research shows that it is hard to put effort in a job if the individual is treated poorly in a regular job.
- **Classical Theory of Motivation:**
- The **classical theory of motivation** states that workers are motivated only by money.
- The word "classical" means traditional or long lasting. Therefore, the classical theory has been with us for a long time and is one of the earliest theories of motivation.
- The premise of this theory is that everyone needs money to survive.
- Since positive behaviour and compliance can be reinforced by offering more money, the logical consequence of the classical theory is that people will work harder and be more

productive if offered more pay. This means that money is a reward for both past performance and incentive to work harder still.
- The classical theory dominated management thinking up until the early years of the 20th century. However, because we now have better standards of living and social safety nets, people have more choice and freedom to look for jobs that might not pay as well but they enjoy. As a result, the classical theory no longer holds.
- **Taylor's Theory of Scientific Management:**
- Frederick Taylor was one of the earliest people to study motivation and productivity. He subscribed to the classical theory but was curious in how to use worker's motivation to make money to get them to produce more.
- Taylor promoted the idea "A fair day's pay for a fair day's work" meaning that if a worker didn't achieve enough in one day, they didn't get to be paid as much as another worker who was more productive.
- Taylor's 4 principles are as follows:
    1. Replace working by "rule of thumb" or simple habit and common sense and instead develop standard methods which are the most efficient for doing each job.
    2. Select workers to match a specific job and train them to work at maximum efficiency.
    3. Monitor worker performance and provide instructions and supervision to ensure that they are using the most efficient methods.
    4. Divide the work between managers and workers so that managers spend their time planning and training while workers concentrate on performing tasks.
- **Scientific Management/Taylorism:** Managing the business by applying principles of efficiency derived from time-and-motion studies.
- Henry Ford applied Taylorism for his Ford car company. He was one of the first to use the assembly line technique where each person does one thing along the assembly line and does it very well and very efficiently. This sped up the production time significantly.
- **Critiques of Taylorism:**
- The problem with Taylorism is that by giving workers a limited number of simple tasks to do, workers will feel bored and will feel like management is treating them like machines. Boredom leads to alienation.
- **Alienation** is an individual's loss of the ability to control his or her own life, to make decisions or take responsibility for his or her own actions.
- Bored, unmotivated workers are more prone to illness and absenteeism. As a result, in the long run, some of the productivity gains achieved from Taylorism will be reversed.
- **The Hawthorne Studies:**
- The **Hawthorne Studies** are a series of research studies designed to examine the relationship between the work environment and worker productivity.
- They were conducted by Harvard Professor Elton Mayo between 1924 and 1932 at the Western Electric Company's Hawthorne Works in Chicago.
- The first set of tests split the workers into 2 groups. The first group was in a room where the lights were brighter while the second group was in a room where the lights were dimmed. Mayo wanted to see if the difference in lighting affected productivity. No correlation was found between lighting levels in the room and productivity.
- The second set of tests was done to determine the effects that rest periods would have on total output. The participants in this study got extra days off, were able to leave early on some days and had more break time. The study found that more rest and fewer work days proved to show that there was a slight increase in productivity. Furthermore, the health of the workers also improved and absenteeism lowered as there were increased satisfaction with the job.

- The researchers concluded that it wasn't the changes in physical conditions that were affecting the worker's productivity but rather it was the fact that someone was concerned about them and their workplace. Furthermore, the researchers concluded that while lighting, rest periods and hours of work affected output, the interest, morale and motivation of the employees have a much greater effect.
- The **Hawthorne Effect** states that workers' productivity will increase when they feel they are doing something important, their work matters, and they are worthy of receiving special attention.
- Workers will respond positively if managers take interest in them and their work.
- **Theory X:** Assumes that employees are unmotivated and dislike working.
- This encourages an authoritarian style of management.
- It was built off of Hawthorne Studies by Douglas McGregor in the 1960s.
- It assumes workers:
    - Dislike work.
    - Avoid responsibility.
    - Need to be directed and supervised with lots of controls in place.
    - Need to be bribed to produce results.
- **Theory Y:** Assumes that employees are hard-working, self-motivated and enjoy responsibility.
- It is also from Douglas McGregor.
- It assumes workers:
    - Are motivated to fulfill goals.
    - Seek and accept responsibilities.
    - Do not need much direction.
    - Solve problems imaginatively.
- Organizations and individuals that subscribe to Theory Y are willing to delegate and give people at lower levels of the organization responsibility and the freedom to take decisions.
- Comparison of Theory X and Theory Y:

Theory X assumes that people:	**Theory Y** assumes that people:
Are lazy	Are energetic
Lack ambition	Are ambitious
Dislike responsibility	Seek responsibility
Are self-centered	Can be selfless
Resist change	Want to contribute to change
Are not very bright	Are intelligent

- McGregor did not say that Theory X is "bad" or that Theory Y is "good". He acknowledged that there are workers who will fall into Theory X. However, McGregor also believed that the businesses and workers whom Theory X applied to were in the minority.
- McGregor advocated that businesses and in particular managers should examine the assumptions that they make about their workers.
  I.e. Don't hire workers that fall into Theory Y and govern them as if they fell into Theory X and vice versa.

- **Maslow's Hierarchy of Needs:**
- Abraham Maslow (1908 - 1970) was a Psychologist at Columbia University who was interested in finding out what motivated people.
- Maslow argued that people have different needs. Everyone has certain basic needs, such as food, water, shelter, etc. Furthermore, once people attain a certain amount of satisfaction with one need, they will try to attain the next need. A need that is already reasonably well-satisfied is not a powerful motivator.
- Maslow identified 5 needs:
    1. **Physiological needs:** Food, water, clothing, and shelter are the most basic requirements to survival. Maslow stated that workers need to earn a basic living wage that is adequate for rent and food or else they will resort to stealing as that would be more worth their time.
    2. **Security needs:** The need for physical and emotional support when we are too old or ill to provide for ourselves. In the employment context, people will surrender salary for job security, health insurance and pensions.
    3. **Social needs:** The need for love and affection from friends and family, and a sense of belonging from our community. In the context of work, some people will surrender high salaries to work with nice people, to develop friendships on the job and feel that they are part of the team.
    4. **Esteem needs:** The desire to be given respect, status or recognition. In the context of work, our esteem needs are met through titles such as “Senior” or “Executive”.
    5. **Self-Actualisation:** The ability to grow and develop by learning new skills or acquiring new experiences. Businesses can satisfy this need by offering employees challenging opportunities that will help them develop new skills.
- **Maslow's Hierarchy of needs:** According to Maslow's theory some needs are more basic and more universally sought after than others.
- Maslow's theory points out that there is no one size fits all approach to motivate people. As a result, employers must respond to employee needs in a variety of ways so that workers of all dispositions and abilities are encouraged and enabled to fulfill their own potential.
- One criticism of Maslow's theory is that it may not apply to all cultures. Another criticism is that Maslow's theory implies that the various needs are satisfied step by step, when in reality, multiple needs can be satisfied simultaneously and not necessarily in the order listed.
- **Herzberg's Motivation-Hygiene Theory:**
- Frederick Herzberg (1923-2000) taught psychology at the University of Utah.
- Herzberg was interested in what people liked and disliked about their work, so in 1959 he conducted a survey asking engineers and accountants on this subject. He found:

They liked	**They disliked**
Responsibility	Working conditions
Recognition	Policies and rules
The work itself	Supervisors
Achievement	Pay and security
Advancement and growth	Interpersonal relations

- Something that Herzberg noticed is that what is liked and disliked are not opposites. Herzberg's key finding is that sources of satisfaction and dissatisfaction aren't opposite ends of the spectrum but rather 2 separate lists.
- Herzberg recognized that the aspects of the job that dis-satisfy people are things the business cannot do without. As a result, businesses must manage these aspects to make them tolerable and acceptable.
- **Hygiene factors** are the aspects of a job that dis-satisfy workers.
- Herzberg recognized that the aspects of the job that satisfy people are things that businesses can increase or improve at little or not cost.
- **Motivating factors** are the aspects of a job that satisfy and motivate workers.
- Motivating factors are desirable and makes workers happy, so businesses should aim to increase or improve them.
- **Motivation-Hygiene Theory/Two Factor Theory:** A theory which differentiates between the factors which contribute satisfaction and dissatisfaction to employment.
- **Equity Theory:**
- Equity Theory was developed in 1963 by Jon Stacy Adams, an American behavioural psychologist. Adams asserted that employees want a fair balance between what they perceive themselves bringing to a job and the rewards that they receive in return.
- **Equity Theory** states that an individual will perceive that he is being treated fairly if he perceives the ratio of inputs to rewards to be equivalent to those around him.
- The formula is:

$$\frac{Individual's\ Outcomes}{Individual's\ Inputs} = \frac{Co{-}worker's\ Outcomes}{Co{-}worker's\ Inputs}$$

- Thus, it is acceptable for senior colleagues to receive higher compensation since the value of their experience and input is greater.
- However, if an employee notices that another person is getting more recognition and reward even though they do the same work and the quality of their works is the same, that employee will feel unappreciated.
- If employees are rewarded equally, then the employer will be viewed as fair, observant and appreciative.
- Inputs are defined as each participant's contribution and include:
    - Time
    - Education
    - Experience
    - Effort
    - Loyalty
    - Commitment
    - Flexibility
    - Enthusiasm
    - Personal sacrifice
- Outcomes are the rewards that the employee receives and may or may not be tangible. Outcomes include:
    - Job security
    - Recognition
    - Responsibility
    - Sense of achievement
    - Praise
    - Sense of advancement/growth

- Implications for equity theory include:
    - People measure the totals of their inputs and outputs. That means that a mother may accept a lower pay in exchange for flexible working hours.
    - Different employees will place different values to the various forms of inputs and outputs.
    - Employees can adjust rewards to local conditions. This means that a worker in rural Quebec may not earn as much as someone working in Toronto if the cost of living is higher in Toronto than it is in rural Quebec.
    - Although it may be acceptable for senior staff to receive higher compensation, employees can find excessive executive pay demotivating.
- Like other motivation theories, equity theory points to the fact that there is no one size fits all approach to motivating employees.

Textbook Definitions (Chapter 12):

- **Alienation:** An individual's loss of the ability to control his or her own life, to make decisions or take responsibility for his or her own actions.
- **Classical theory of motivation:** Workers are motivated only by money.
- **Esteem needs:** The desire to be given respect, status or recognition.
- **Equity Theory:** An individual will perceive that he is being treated fairly if he perceives the ratio of inputs to rewards to be equivalent to those around him.
- **Hawthorne Effect:** Workers' productivity will increase when they feel they are doing something important, their work matters, and they are worthy of receiving special attention.
- **Hawthorne studies:** A series of research studies designed to examine the relationship between the work environment and worker productivity.
- **Hygiene factors:** Aspects of a job that dis-satisfy workers.
- **Maslow's Hierarchy of needs:** According to Maslow's theory some needs are more basic and more universally sought after than others.
- **Motivating factors:** Aspects of a job that satisfy and motivate workers.
- **Motivation:** The internal process that gives an individual the energy and desire to act or behave in a particular way.
- **Motivation-Hygiene Theory/Two Factor Theory:** A theory which differentiates between the factors which contribute satisfaction and dissatisfaction to employment.
- **Physiological needs:** Food, water, clothing, and shelter are the most basic requirements to survival.
- **Scientific Management/Taylorism:** Managing the business by applying principles of efficiency derived from time-and-motion studies.
- **Security needs:** The need for physical and emotional support when we are too old or ill to provide for ourselves.
- **Self-Actualisation:** The ability to grow and develop by learning new skills or acquiring new experiences.
- **Social needs:** The need for love and affection from friends and family, and a sense of belonging from our community.
- **Theory X:** Assumes that employees are unmotivated and dislike working.
- **Theory Y:** Assumes that employees are hard-working, self-motivated and enjoy responsibility.