

# DECA COURSE PLANS & RESOURCES

Sources:

MBA Research and Curriculum Center Modules

<http://www.education.ne.gov/entreped/PDFs/SchooJBasedEnterprisesGuide.pctf>

<http://1/homepages.wmich.edu/~kohlerp/pdf/SBEGuide.pdf>

<http://www.econedlink.org/lessons/index.php?lid=376&type=educator>

[www.entre-ed.org](http://www.entre-ed.org)

**Day 1- Objective:** Brainstorm and analyze parts of a successful business. Brainstorm and analyze what would make an effective school store.

**Activities:**

1. Students will discuss as a whole group what they think are parts of a successful business.
2. Break into 3 groups and discuss/write down what would make an effective school store. (Give students examples of categories such as goals, products, job responsibilities/ operations, advertising, and managing money.)
3. Share out answers from each group and write on chart paper for next day's session.

**Materials:** notebook paper, chart paper

**Day 2- Objective:** Brainstorm and set goals for the school store.

**Activities:**

1. Teacher will discuss what it means to set goals.
2. As a whole class, brainstorm ideas for goals for the set-up and every day management of running the school store.
3. Choose three goals for short term and three goals for long term.

**Materials:** chart paper, (See other Goal sheets in Resources section---Business Goal Template, S.M.A.R.T Goal Setting worksheets)

**Day 3- Objective:** Brainstorm and create a mission statement or business summary.

**Activities:**

1. Teacher will review the purpose and goals from the previous lessons and discuss a way to summarize what the school store will be about.
2. Students will break into partners or groups to discuss how they could summarize the purpose and goals of the school store. (30 words or less)
3. Each group will write their summary on the chart paper and whole group will discuss which summary best fits.\*

\*Students could type each summary on to one document instead of writing on paper.

**Materials:** chart paper (or computer), notebook paper, Resources section---General Company Description, Middle School Business Plan Assignment-Business Summary

**Day 4 Objective:** Brainstorm and create business name, logo, and motto.

**Activities:**

1. Brainstorm, as a whole class, different names of businesses out there now and what their mottos and logos are. (You can look some up on the computer together and discuss.)
2. Individually or in small groups, students will begin to come up with possible names for the business and mottos.
3. As they create possibilities, they can type it on the shared document on the computer or write it on the chart paper.

**Materials:** chart paper (or computer), notebook paper

**Day 5- Objective:** Create business name, motto, and logo.

**Activities:**

1. Students will look at the suggestions for a business name, narrow it down to 3, and vote on it.
2. Repeat the process with the motto.
3. Students will work on creating a logo that relates to their business name and motto.

**Materials:** notebook paper, chart paper or computer

**Day 6- Objective:** Brainstorm and organize ideas for a student and staff survey for interest of products to purchase for the school store.

**Activities:**

1. Give students 10 minutes on their own to review the sample Staff and Student Surveys.
2. As a class, suggest how to revise/add to survey to fit our school's needs. (ie what to add to the list for the student supplies)

**Materials:** notebook paper, chart paper or computer, Resources section---School Store Staff Survey, School Store Student Survey

**Day 7- Objective:** Create a staff and a student survey.

**Activities:**

1. Group students into two groups. Each group should have access to computers.
2. Using the samples, one group will create a staff survey and the other will create a student survey.

**Materials:** computer, Resources section---School Store Staff Survey, School Store Student Survey

\*\*\*\*Create a process for distributing and collecting the surveys---possibly give out to each homeroom class and give them a certain time period in order for them to get back to you.

**Day 8- Objective:** Understand and analyze the nature of budgets.

**Activities:**

1. Students will read, as a whole class, pgs. 2-4 of *Money Tracks- Nature of Budgets* and discuss the importance of budgets.
2. If time allows, have students complete *What Does Your Budget Do?* worksheet and discuss.

**Materials:** Resources Section--pgs. 2-4 of *Money Tracks- Nature of Budgets, What Does Your Budget/Do?*

**Day 9- Objective:** Identify and analyze what budgets look like and decisions affecting what to put into a budget.

**Activities:**

1. As a whole class, read pgs. 5-8 of *Money Tracks- Nature of Budgets* and discuss what a budget looks like and decisions that need to be made about what to put into a budget.
2. If time allows, have students complete either the *More Games...More Money* scenario worksheet or the *Reading Mania* worksheet with a partner to help them practice making decisions about budgets.

**Materials:** Resources Section--pgs. 5-8 of *Money Tracks- Nature of Budgets, More Games...More Money* scenario worksheet, *Reading Mania* worksheet

**Day 10- Objective:** Identify and analyze what budgets look like and decisions affecting what to put into a budget.

**Activities:**

1. Have students complete the *More Games...More Money* scenario worksheet or the *Reading Mania* worksheet with a partner and discuss possible decisions.
2. Tell students the total budget they have and brainstorm, as a whole class, what items are a necessity to put on the budget with possible costs for each.
3. Students can write or type their answers on chart or computer.

**Materials:** chart paper (or computer), notebook paper, Resources Section--*More Games...More Money* scenario worksheet, *Reading Mania* worksheet

**Day 11- Objective:** Create budget for school store.

**Activities:**

1. Working as a whole group, the teacher will guide the students on what items that need to be put on the budget and how money should be allotted for each item.
2. The teacher will write or type out the budget as it is being discussed.

**Materials:** chart paper or computer

**Day 12- Objective:** Identify and analyze the how to make effective purchasing decisions.

**Activities:**

1. Read pgs. 1-4 of *Buy Right- Purchasing*. (You could break up reading and have one group read a certain portion and another read another portion...then share out main ideas at the end.)
2. Complete the *Types of Purchasing* worksheet to review the terms and discuss.

**Materials:** Resource section--pgs. 1-4 of *Buy Right-Purchasing*, *Types of Purchasing* worksheet

**Day 13- Objective:** Identify and analyze the how to make effective purchasing decisions during the purchasing process.

**Activities:**

1. Review the different types of purchasing from the previous day.
2. Read pgs. 5-6 of *Buy Right-The Purchasing Process* and discuss.
3. Divide the class into groups of three or four and give each student a copy of the handout, *The Bookworm's Shopping List*.
4. Read the directions aloud and give students the rest of the class to begin organizing their ideas for the task. (They should have access to computers in order to get realistic suppliers and see prices for items they choose.)

**Materials:** computers, Resource section-- *Buy Right-The Purchasing Process*, *The Bookworm's Shopping List* worksheet

**Day 14- Objective:** Identify and analyze the how to make effective purchasing decisions during the purchasing process.

**Activities:**

1. Divide the class into groups of three or four and review the handout, *The Bookworm's Shopping List*.

2. Give students half the period to finish the task. (They should have access to computers in order to get realistic suppliers and see prices for items they choose.)
3. For the other half of the period, the students will share out their answers and discuss their responses and rationale.

**Materials:** computers, Resource section-- *Buy Right-The Purchasing Process*, *The Bookworm's Shopping List* worksheet

**Days 15-16 Objective:** Identify and analyze the how to make effective purchasing decisions during the purchasing process.

**Activities:**

1. The teacher will duplicate the worksheet, *What Would Happen If...?* and cut into seven different cards.
2. Divide the class into seven groups. Have each group choose a card at random. Each group then has five minutes to develop a skit based on their "What would happen if...?" scenario. Once all the groups have developed their skits, each will act out their 2-3 minute skit for the class **without** telling the rest of the class what their scenario is. After each group's performance, the rest of the class should discuss a) what the purchasing specialist in the skit did wrong, and b) the consequences of the purchasing specialist's error in judgment.

**Materials:** notebook paper, Resource section-- *What Would Happen If... ?* worksheet

**Days 17-20 Objective:** Review student and staff surveys and create a list of items to purchase.

**Activities:**

1. Break students into four groups. Two groups will examine and record data for student surveys and two staff surveys.
2. Each group will tally the results of the survey and put results on to a common document.
3. Share out results as a whole class and have one group create a list of items that staff would like and one that students would like.
4. Give students a chance to add other possible items to the list as well.
5. Students will browse through pre-selected catalogs and/or sites for the products and prices for each.....cost comparing when possible.
6. Students will create a final list and the teacher will place the order.

**Materials:** computers, completed student and staff surveys, teacher selected product catalogs and/or sites

**Days 21-24 Objective:** Determine and prepare job descriptions and job responsibilities.

**Activities:**

1. Brainstorm a list of jobs that will be needed for the school store.
2. Look at the *School Store Positions* sheets and determine which jobs are needed. Give students time to read through each description.
3. Using this as a resource, split students into equal groups so that each group can take on two job position descriptions.
4. Each group will create a job description for the two positions they are assigned.
5. At the end of the process, the groups will share out and revise as needed.
6. (It is up to the teacher if he/she wants to have students apply for the positions and vote. If so, there is a sample *School Store Application* and *School Store Applicant Evaluation* in the Resources section.) The teacher can revise as needed or have the students create an application form using the samples.

**Materials:** computer, Resource section-School/ Store Positions sheets (pgs. 4-8), *School Store Application* sheet, *School Store Applicant Evaluation* sheet

**Days 25-27- Objective:** Understand and analyze the meaning of profit as related to running a business.

**Activities:**

1. Read the *Just WHAT is PROFIT?* sheets as a whole class and discuss the meaning of profit.
2. Break students into groups and let them go through the scenario and accompanying questions from the *Let's Practice Making a Profit* and *Effects on Profit* portions of *Just WHAT is PROFIT?*
3. Have each group share out their advice they would give Amelia about running her business.

**Materials:** Resource section-- *Just WHAT is PROFIT?* packet

**Days 28-30 Objective:** Identify, analyze, and understand components of income statements.

**Activities:**

1. Read *Watch Your Bottom Line-Income Statements* (pgs. 1-8) as a whole class or in groups and discuss what an income statement is and the terms related to it.
2. Have each student locate a copy of a business's income statement or the teacher can provide one for each student.
3. The teacher will give each student the handout *Up Close and Personal* and use the questions on the handout to find and analyze certain aspects of an income statement. (Another resource included is *Inventory-Profit and Loss Statement...* .an easy explanation of profit/loss. Also, there is a *School Store Profit/Loss Statement* if teacher wants to use this when doing ongoing inventory.)

**Materials:** Resource section--*Watch Your Bottom Line-Income Statements* (pgs. 1-8), *Up Close and Personal* handout, *Inventory-Profit and Loss Statement* sheet, *School Store Profit/Loss Statement* sheet

**Days 31-33- Objective:** Identify, analyze, and understand components of cash flow and cash flow statements.

**Activities:**

1. Read pgs. 1-8 of *Count the Cash- Cash Flow Statements* as a whole class or in groups and discuss what cash flow and a cash flow statement is and the terms related to it.
2. With a partner, the students will complete the activity, *Calculating the Cash Flow* using the handout given to practice looking at a cash flow statement and analyzing the data on it.
3. As a whole class, go over the answers and discuss.
4. As an extension activity, the teacher can ask other questions to help the students look for and analyze information on the cash flow statement.

**Materials:** Resource section- *Count the Cash- Cash Flow Statements* (pgs. 1-8), *Calculating the Cash Flow* activity sheet

**Day 34-37- Objective:** Identify and create other procedures/documents for accounting purposes.

**Activities:**

1. Students will read and discuss *Accounting* information sheets that run through how to create a receipts/expenses and inventory control process.
2. Review the *School Store Daily Tally/Sa/es* sheet, discuss/practice how to use (give scenarios and have them fill it out), and make any revisions that need to be made to make it relate to JK's school store.
3. Review the *School Store Inventory Control* sheet, discuss/practice how to use (give scenarios and have them fill it out), and make any revisions that need to be made to make it relate to JK's school store.
4. Review the *School Store Deposit Slip* sheet, discuss/practice how to use (give scenarios and have them fill it out), and make any revisions that need to be made to make it relate to JK's school store.
5. Review the *School Store Daily Worksheet*, discuss/practice how to use (give scenarios and have them fill it out), and make any revisions that need to be made to make it relate to JK's school store.

**Materials:** Resource section--*Accounting* information sheets, *School Store Daily Tally/Sa/es* sheet, *School Store Inventory Control* sheet, *School Store Deposit Slip* sheet, *School Store Daily Worksheet*



**(Students will have to check in inventory, count it, and put together physical aspect of school store outside of this class time.)**

**Days 38-41 Objective:** Identify, analyze, and understand components of pricing, including factors affecting selling price.

**Activities:**

1. Break students into four groups. Two groups will split *The Price Is Right-Nature of Pricing* packet in half and two groups will split *Make Cents- Factors Affecting Selling Price* packet.
2. Each group will read the information assigned and take notes on the main points about what is pricing and what affects pricing.
3. Each group will, then, share out their main ideas as a recorder writes/types main points and whole group discusses.
4. To practice this concept, the teacher will divide the class into groups of three or four students each. Allow each group to choose a company or business and conduct research on the business's pricing activities (will need computers) using the follow questions to guide them:
  - Are the company's prices realistic, flexible, and competitive? Why or why not?
  - Who sets prices at this business?
  - What factors affect the prices?
  - How do the prices affect production, promotion, and place decisions?
5. When the groups are finished gathering information, the students will share their findings.

**Materials:** computers, Resource section--*The Price Is Right-Nature of Pricing* packet, *Make Cents- Factors Affecting Selling Price* packet

**Days 41-43- Objective:** Identify and analyze the nature of promoting/advertising.

**Activities:**

1. Read pgs. 1-8 of *Razzle Dazzle: Nature of Promotion* as a class or in groups. Have students focus on the characteristics and purposes of promotion.
2. After reading, share out and make a list of the main points to consider when creating an effective advertisement.
3. To practice identifying the purposes of advertising, have students complete *What's the Objective?* worksheet and discuss as a whole class.
4. Have the students locate on the internet or bring in a promotional message he/she thinks is effective. The student will write a paragraph for the teacher's review, answering the following questions about the promotional message:
  - How is this message persuasive?
  - How is the message relevant to its target audience?
  - How is this message appropriate for the product or idea?
  - Is this message factual?

- Is this message repeated often?
  - How does this message coordinate with other promotional messages about the product or company?
5. Have the students share out their ads and their responses.

**Materials:** computers, Resource section--What's *the Objective?* worksheet  
(Other reading material about advertising included in Resource section-- *Ad-quipping Your Business*)

**Day 44-45- Objective:** Design and create promotional posters for the school store.

**Activities:**

1. Using the techniques learned from the previous lessons, students will create their own advertisements for the school store, making sure the poster includes all the important facts and is persuasive.
2. Students share their posters and hang around the school.

**Materials:** various markers and poster paper

**Day 46-47 Objective:** Review what has been learned in this class and evaluate effectiveness.

**Activities:**

1. The teacher will have chart paper with main topics discussed throughout the semester.
2. Group students in as many groups as there are topics.
3. Each group starts at a topic and gets 3 minutes to write what they learned; each group rotates to the next topic until all topics have been done by each group.
4. Review what was stated for each topic and discuss suggestions of what went well with that topic and what are some suggestions for improvement.

**Materials:** chart paper, markers

**This course runs on a 60 day cycle since it is a three day elective for one semester (2 quarters). There are plenty of lessons in the section above; however, once the school store has started, some of those lessons may not apply. Therefore, the original lessons go up to Day 47 (with some cycles of lessons that could possibly run longer than estimated length).**

**Below are a couple of other activities, if needed, that relate to marketing in general. It would be a good idea to use them at the beginning of the semester to give a general overview of marketing (possibly with 2nd semester students when the school store is already up and running) or at the end of the course to review.**

**Time Period- 2-3 days**

**Objective:** Identify and analyze the nature of marketing.

**Activities:**

1. Have students brainstorm what marketing means and how marketing affects our society.
2. As a whole class, students will read pgs. 1-8 of the *Have It Your Way!* packet.
3. In groups, students will type or write out what is the nature of marketing and how it affects our society.
4. Discuss the main points as a whole class.
5. To review the different marketing activities, students will complete the *Getting It Done* worksheet and discuss with a partner when finished.
6. To reinforce the concepts learned about the nature of marketing, students can also complete *The Riverside Paint Store* activity.
  - Divide class into groups of three or four students.
  - Explain that each group should read the case and respond to the questions at the end of the case.
  - When all groups have completed the activity, a reporter from each group will share the group's responses.
  - After hearing from each group, the class should compare and discuss their responses.

**Materials:** Resource section- *Have It Your Way!* packet, *Getting It Done* worksheet, *The Riverside Paint Store* activity

**Time period- 2-3 days**

**Objective:** Identify and analyze the six marketing functions.

**Activities:**

1. Create six groups and assign one marketing function per group.
2. Each group reads about the assigned marketing function from pgs. 1-8 of *Work the Big Six Marketing Functions* packet and writes down the main points.
3. When all groups are finished, each group shares out their information and class discusses that marketing function.
4. To practice recognizing the separate functions, the students will complete the *Name that Function* worksheet and go over answers as a class when finished.
5. To further understand market functions, students will read the scenario from the *Functions Made This* worksheet and answer the related questions that focus on the six marketing functions.
6. Discuss the answers and possibilities as a whole class when done.

**Materials:** Resource section- *Work the Big Six- Marketing Functions* packet, *Name that Function* worksheet, *Functions Made This* worksheet

RESOURCES  
SECTION



# S.M.A.R.T. Goal Setting Worksheet

**S**

Speci  
fic

**M**

Measura  
ble

**A**

Attainabl  
e

**R**

Realistic

**T**

Timeli  
ne

# SMART Goal Setting Worksheet

SMART= *Specific, Measurable, Attainable, Relevant, Time-Based*

*Write down your business goal in the space below.*

## **GOAL:**

*Use the questions below to determine if your business goal adheres to the SMART methodology. If your goal doesn't successfully fulfill each section, rewrite it in the space provided.*

### **Is your goal specific?**

*A specific goal should clearly state what you want to accomplish, why it is an important goal, and how you intend to accomplish the goal.*

### **Is your goal measurable?**

*A measurable goal should include a plan with targets and milestones that you can use to make sure you're moving in the right direction.*

### **Is your goal attainable?**

*An attainable goal should be realistic and include a plan that breaks your overall goal down into smaller, manageable action steps that use the time and resources available to you within the timeline you've set.*

### **Is your goal relevant?**

*A relevant goal should make sense when measured against your business model, mission statement, market, client base and industry.*

### **Is your goal time-based?**

*A time-based goal is limited by a defined period of time and includes a specific timeline for each step of the process.*

## General Company Description

**Mission statement:** Many companies have a brief mission statement, usually 30 words or fewer, explaining their reason for being and their guiding principles. If you have a mission statement, this is a good place to put it in the plan, followed by company goals and objectives and business philosophy.

What business are you in? What do you do?

What is your target market? (Explain briefly here, because you will do a more thorough explanation in the *Marketing Plan* section.)

Describe your industry. Is it a growth industry? What changes do you foresee in your industry, and how is your company poised to take advantage of them?

Now give a detailed description of the business:

**Form of ownership:** Sole proprietor, partnership, corporation, or limited liability corporation (LLC)?

**Company history:** Years in business, previous owners, successes, failures, lessons learned, reputation in community, sales and profit history, number of employees, and events that affected success. Discuss significant past problems and how you solved and survived them.

**Most important strengths and core competencies:** What factors will make the company succeed? What are your major competitive strengths? What strengths do you personally bring to the business?

**Significant challenges the company faces now and in the near future:** If you are asking for funding, go on to explain how the new capital will help you meet these challenges.

**Long term:** What are your plans for the future of the business? Growth? If so, at what rate and how will you achieve it?

Are you developing strategies for continued growth, increased production, diversification, or eventual sale of the business? What are your time frames for these?



# Middle School Business Plan Assignment

<b>Business Introduction</b>	<p>Write a introduction title:</p> <p><b>Name of the Company:</b></p> <p><b>Email Address:</b> <b>Website Address:</b></p> <p><b>Name of Owners:</b></p>
<b>Business Summary</b>	<p>Write a one paragraph about:</p> <p><b>Business Plan:</b> This will be a concise outline of your business purpose and goals.</p> <ul style="list-style-type: none"> <li>• How you will create your business?</li> </ul>
<b>Organizational Matters</b>	<p>Write in one paragraph about:</p> <p><b>Business Ownership:</b> How will your group own and operate your business?</p> <p><b>Management:</b> Who and how will each run tile business?</p> <p><b>Personal:</b> Means, How will you hire future employees?</p>
<b>The Marketing Plan</b>	<p>Write in one paragraph about:</p> <p><b>Product:</b> How will you sell your product or service?</p> <p><b>Features:</b> Why should people buy your product or service?</p> <p><b>Customers:</b> Who are you targeting to sell?</p>
<b>The Financial Plan</b>	<p>Write in one paragraph about:</p> <p><b>Money needs:</b> How much money will be needed to start your business? How will you raise or bol Tow the money? How will you convince banks to invest into your business?</p>
<b>The Business Image</b>	<p>Create a business image:</p> <p><b>Company logo:</b> What will be the image that represents your business?</p>

## Appendix A

### School Store Staff Survey

The School Store is ready to get under way this year. However, we need your help. Our goal is to provide the supplies that students will need for your classes throughout the year. Please answer the following questions and return this form to \_\_\_\_\_ by \_\_\_\_\_.

Staff Name \_\_\_\_\_ Department \_\_\_\_\_

What supplies do you require students have each day for class?

During any units during the year, will students need special supplies? When do you usually complete this unit?

Do you require reports in your class that need to YES/NO  
have report covers? Do you require students to save YES/NO  
computerized projects on disk?

Will you be using specialized dictionaries or other books that students may want to purchase for their own reference? YES/NO  
If so, list below title/author.

Are there other supplies that you feel should be available to students?

Are there supplies that you personally would like to see offered for staff members?



*Leadership, Attitude, Performance ...making*

learning pay!

I .all

Financial Analysis LAP 3 Performance Indicator: FI-106

# Money Tracks

Nature of Budgets

Know your  
boundaries

Need a  
map?

Predicting  
the future



# How

So What?

## Important Is

## a Budget?

Kiyah and Teddy often go to the movies together. Since Kiyah doesn't have a car, Teddy always drives. In fact, Teddy knows the route from Kiyah's house to the movie theater so well that you might say that she could drive to the theater blindfolded. But, what would happen if Teddy tried to do just that—drive to the movie theater while wearing a blindfold? Would the girls arrive safely at their destination? Of course not. There is no way that Teddy can avoid every obstacle in her path if she can't see where she is going!

Running a business can be a lot like driving a car, especially when it comes to finances. Just as Teddy needs her eyes to drive safely and avoid bumps in the road,

where

If you've ever saved for something, even something small like a video game, you already know that the most important reason for budgeting is to accomplish a financial goal. As our goals become more expensive, budgeting becomes more complex. Saving for items like clothes, computers, and cars requires a more sophisticated plan, perhaps spread out over a longer period of time. As you become more independent and as your needs and wants change, your personal budget becomes an important tool for deciding what, how much, and when you buy.

In the same way, successful business owners have to set realistic goals and measure their progress toward achieving them. To do this, business owners develop budgets. A **budget** is an estimate

of income and expenses for a specific time period. To better understand budgets, take a look at three M's: money, maps,

and management.

(!J)

oney. Budgets are about money. Budgets use very real terms-dollar s-to define and

business owners and managers need to see they are and where they are going to be successful. How do they accomplish this? With budgets.

quantify a company's goals for a specific period of time. In fact, a budget is essentially a business plan expressed in monetary terms. It's one thing for a business owner to want to double sales in

A Businesses use budgets to translate their goals into dollar amounts.

## Objectives

1. Explain the importance of budgets.

2. Describe the characteristics of an effective budget.

the next year, and quite another to plan exactly how to do it. How much should be spent on advertising? Should more people be hired? How much inventory should be kept? By using a budget, a company can review how money has been earned and spent in the past-and can also plan how money will be earned and spent in the future to reach the company's goals.

The money involved in doing business falls into two broad categories, income and expense. When a business earns money by selling goods and services, it receives **income**. Businesses also may acquire income from investments such as stocks and bonds. When a business spends money, it incurs **expense**. Some of its expenses are utility bills, salaries, advertising, equipment, taxes, and loans.

G) **aps.** A good way to understand the purpose of a budget is to compare it with a map. If you imagine that a company's goal is a destination, and that the strategies for accomplishing that goal are directions, you can see that the budget is the map itself-showing where the company is and where it wants to go. As a financial map, a budget provides a visual representation of the company's route to achieving its goals. With budgets, businesses are able to see at a glance where things are off course and then make whatever adjustments are needed to get back on track.

**G)anagement.** It's easy to see, then, how budgets are **management tools.** They enable managers to make informed decisions about the company's strategies for reaching its goals. An accurate budget helps a manager:

- Communicate the company's goals more precisely to employees
- Make better decisions about the company's day-to-day activities based on the overall budget
- Make plans for using predicted profit
- Better see management priorities and responsibilities
- Motivate employees to excel

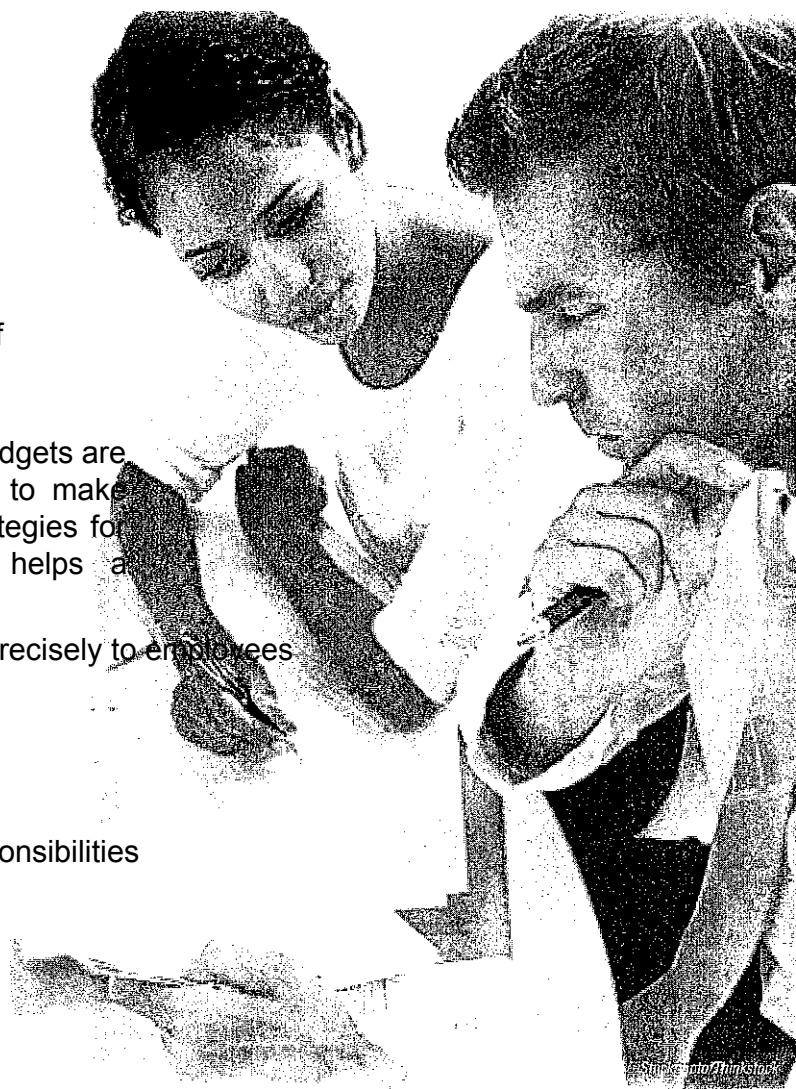
In fact, no matter what issue a manager faces, s/he can make more realistic, accurate, and useful decisions with the information provided by an up-to-date budget.

### **Importance of Budgets**

Budgets translate a company's goals into actual means for accomplishing them. They do this mainly by providing a dollar measure of past and future activity. Budgets can then be used to accomplish a variety of things.

They **create physical records.** There are countless ways for a business to spend money. Imagine trying to remember and track all of a company's financial information without the ability to record it in an organized fashion. With a budget, a business is able to keep a record of financial

information that is accurate, accessible, and meaningful. Budgets also serve as the framework for a company's annual financial reports, providing sound financial records that facilitate the process. For example, a balance sheet, which shows a company's financial position on a particular date, draws information from the budget about cash on hand, money that is owed, and recent purchases.



A. Managers use budgets to determine if their businesses are on track to reach company goals.

Budgets **organize business activities**. Creating a budget requires a business owner to put dreams into reality. A good business plan or project proposal includes a detailed budget that accounts for all related activities. In manufacturing, for example, a budget includes the cost of raw materials, the plant and equipment, storage, salaries and wages, transportation, and more—all of the everyday details that support the business's goals. This kind of disciplined approach means there will be fewer problems down the road.

Budgets **guide operational decisions**. When and what to buy, how much to pay, how much inventory to carry, and even how many employees to keep might seem like routine decisions. Managers make such decisions often, but how well they do so has a direct effect on the success or failure of the business. With solid plans from the budgeting process, a manager makes informed decisions so that the business is more likely to succeed.



Budgets also help evaluate a business's long- and short-term performance.

It's often helpful to examine previous budgets to see how a business has performed over time. Has the business grown over the last five years? Is the rate of growth increasing or decreasing?

Is demand for the product or service seasonal? Have investments in advertising paid off? A budget provides the benchmarks that help to answer these and similar questions.

In the short term, when business owners want to know if they are accomplishing their goals, budget variances show where they are on target and where they are not. A **variance** is the difference between a budgeted amount and an actual amount. Imagine a software-development company that has \$100,000 budgeted to support sales efforts for the year. By comparing original budget figures to actual figures, managers realize they have spent \$85,000 during the first six months. In this case, spending has to be controlled, or money from another area has to be

**Budgets are important because they:**

- Create physical records
- Organize business activities
- Guide operational decisions
- Help evaluate a business's long- and short-term performance
- Protect against financial crisis

Budgets also protect against financial crisis. Money management can be like walking a tightrope: Businesses need a "safety net" to avoid financial crisis. With a budget that includes a plan for savings, there is a better

chance of being able to pay expenses even when planned sales goals aren't met. If, for example, an outdoor swimming pool is forced to close during peak season because of bad weather, many of its expenses must still be paid. The money budgeted to savings can be used to help avoid a financial crisis.

**Summary**

From entrepreneurs in small businesses to top executives in big corporations, budgets are critical for anyone and any business that wants to be financially successful. Budgets can be described in terms of money, maps, and management. They

are important because they create business operational and performance, protect against crisis.



variances help managers determine when and where trouble is brewing. What could happen if this manager doesn't get company spending under control?

**Total Recall**

1. What is a budget?

2. Explain how the following terms relate to budgets:

- a. Money b. Maps c. Management

3. How are a company's goals related to its budget?

4. Why are physical records that a budget provides important to businesses?

5. How does a budget organize business activities?

6. How does a manager use a budget to guide operational decisions?

7. How do budgets help evaluate long-term performance?

8. How do budgets help evaluate short-term performance?

9. How can budgets be used to protect against financial crisis?

## THE GRAY ZONE

Gina, a successful sales manager, has a \$10,000 travel budget. She uses the funds to cover her expenses transportation, lodging, and meals-when she visits clients throughout her three-state sales region.

Recently, Gina realized that because she has taken fewer business trips than usual in the last few months, she is on track to spend only \$9,000 of her budget this year. Unfortunately, that means her travel budget for the next year will be lowered by \$1,000. Her company uses a "use it or lose it" approach to expense budgeting-

the budget for the upcoming year is automatically based on actual expenses in the current year.

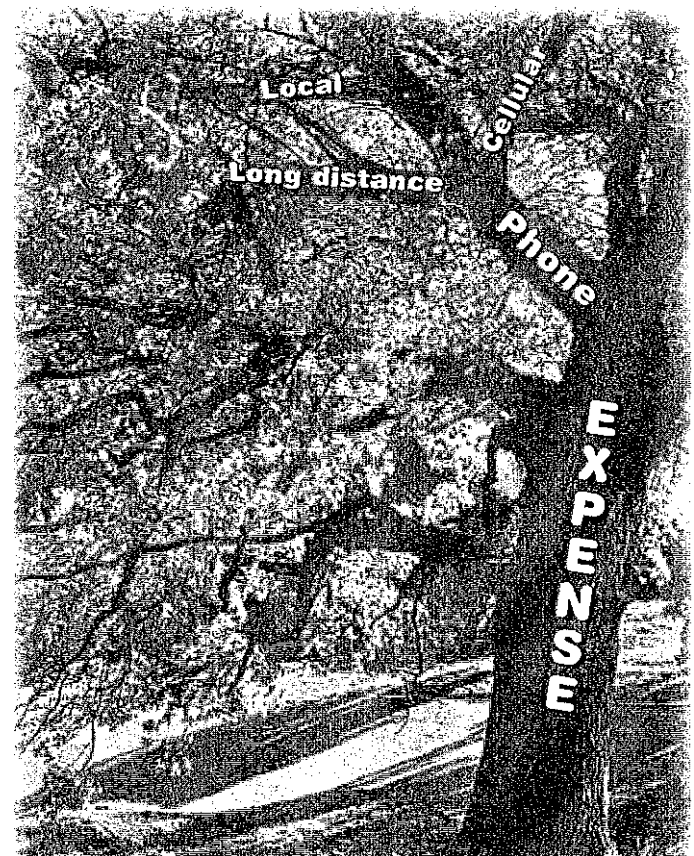
In an effort to keep her travel budget at \$10,000, Gina is considering spending lavishly on her travel for the rest of this year. By staying at nicer hotels and taking clients to fancier restaurants, she could spend most of the remaining \$1,000. She doesn't want to spend money unnecessarily, but she doesn't want to have to limit her sales activities next year, either. If you were Gina, what would you do?

## What Budgets Look like

Unfortunately for many people, the word budget initially brings to mind counting pennies and doing without any "extras." In reality though, budgets are much more than that. They are powerful tools for accomplishing financial goals, even extraordinary ones. Business owners and managers learn this early on-their decisions are all about reaching financial goals.

Think of a budget as a large tree. The trunk of the tree is labeled either income or expense. The main branches of the tree are types of income or expense. If the trunk is labeled expense, the main branches might be labeled as phone, auto, sales, salaries, equipment, etc. Those branches are further divided into smaller branches, so that the category of phone has smaller branches labeled long distance, cellular, and local.

### Preparing a Budget



more than its expense. Take a Bile's owner, like business owners everywhere, wants to earn a profit. By planning income and expense, this budget presents one way of reaching that goal.



When developing a budget, the business organizes its budget information by creating categories. In most cases, the largest income category is sales, but there also may be income from investments and other sources as well. Sales are further broken down into cash and credit, a very important distinction if the business depends upon cash sales to pay its expense.

Expense categories often include such things as rent, insurance, utilities, supplies, and wages. Once the categories are designated, management allocates a dollar amount to each one.

Companies use many methods to determine specific dollar amounts for their budgets. In some cases, managers simply rely on the previous year's budget, making adjustments based on changes in the company, in the competitive environment, and in the general economy. Other companies might use the previous budget with an across-the-board, percentage increase based on inflation or on projected growth. A third method, called **zero based budgeting**, requires managers to demonstrate the need for every expense instead of relying on figures from a previous period. In effect, each new budget begins at zero.

Budgets are prepared for a specific time period, usually a fiscal year. Budgets then are broken down into smaller time periods, usually quarters and months, so that managers can more easily monitor activity. This is especially important in companies with seasonal demand, where month-to-month activity varies.

Many businesses now use **rolling, or continuous, budgets**. Beginning with a 12-month budget, a new month is added as each month goes by. If it were June, there would be a budget in place for June through the following May. In July, figures for the recent June drop off, and the budget covers July through the following June. Advantages of this system are that there is

### Take a Bite Out of This Bagle Co.

be more flexible. Instead of simply dividing the work of an annual budget over 12 months, a rolling budget encourages managers to assess activities and adjust figures more frequently.

The **master budget** is made up of information from specialized budgets that are generated by individual departments. The kind of specialized budgets a company has depends upon the kind of business it is. A **retailer** is likely to have specialized budgets for sales, purchases, selling expense, general and administrative expense, and cash. A **service business**, on the



**Budget Categories   November   December**

**Income**

Cash sales	<u>40,000</u>	<u>30,000</u>
Credit sales	25,000	37,500
<b>Total Income</b>	<b><u>\$65,000</u></b>	

**\$67,500 Expense**

<u>Food supplies and paper</u>	<u>13,000</u>	<u>13,500</u>
Coffee beans	2,000	2,450
Store supplies	650	800
Advertising	1,300	1,300
<u>Insurance</u>	<u>200</u>	<u>200</u>
<u>Licenses</u>	<u>150</u>	<u>150</u>
<u>Loan repayment</u>	<u>3,000</u>	<u>3,000</u>
Maintenance	750	750
<u>Payroll taxes</u>	<u>2,288</u>	<u>2,530</u>
<u>Rent</u>	<u>3,000</u>	<u>3,000</u>
<u>Salaries/Wages</u>	<u>20,800</u>	<u>23,000</u>
<u>Telephone</u>	<u>250</u>	<u>275</u>
Utilities	1,450	1,560
<b>Total Expense</b>	<b><u>\$48,838</u></b>	<b><u>\$52,515</u></b>

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other hand, probably wouldn't have a separate budget for purchasing inventory. Similarly, the master budget for a manufacturer includes specialized budgets relating to manufacturing—raw materials, plant and equipment, transportation, etc. Each **specialized budget** reflects the goals and activities for that particular area of the company.

These specialized budgets are **interrelated**, depending upon one another for estimates of future activity. The budgeting process often begins with a **sales forecast**. How much of a good or service does the company expect to sell? Other departments then estimate how much they have to spend to support that forecast. For example, using the sales forecast, an inventory manager plans how much product to keep on hand. Too little inventory means that customer needs will not be met, resulting in lost sales. Too much inventory and money must be spent on storing, protecting, and insuring it.

There are many different ways businesses create budgets. A small business can use simple paper and pencil, but there are now many inexpensive computer programs that make creating and managing a budget very easy. Common features include suggested income and expense categories, customized reporting, and automated bill payment. Large corporations with international operations and many divisions are likely to have customized financial software. In all cases, computerized budgets offer many advantages. They can be built on and modified from year to year, they are easy to reproduce for communication purposes, and they can easily incorporate formulas that make it easier to illustrate and compare the effects of different decisions.

The **format** of a particular budget report can change to meet the manager's needs. Ifs/he wants to know what has been forecast for the coming year, a straightforward report with just the annual budget might be appropriate. Sometimes it is helpful to view budgeted and actual figures from current and recent time periods, say, this March with last March. To compare budgeted and actual figures, a report with those columns side-by-side is useful. When comparing figures, the report might also include helpful columns that summarize the differences, as shown below.

Budgets are often prepared by the ones responsible for managing people and money, including everyone from top executives to middle managers. To be relevant, a budget should be prepared with input from the people responsible for generating income and incurring expense. Budgets that are handed down from top management as a way of communicating expectations to employees are typically unsuccessful. Knowing the characteristics of an effective budget is important for everyone.

"Instead of using negative signs, negative amounts on budgets and financial reports are enclosed in parentheses.

### Characteristics of an Effective Budget

The characteristics most often associated with effective budgets are as follows:

- **Well planned.** Money is a limited resource. Therefore, when developing a budget, a business must plan how best to support each department and budget category in accomplishing the company's overall goals. This planning process is based on the manager's knowledge, on past budgets, and on external factors, such as economic trends and the level of competition.

A well-planned budget is also one that integrates all of the specialized budgets, so that they work together and are in agreement. It's not that difficult to integrate the specialized budgets of a small firm that has one or a few managers. However, for larger businesses, particularly for large corporations, communication among department managers can be a challenge. Regardless of the difficulty, the master budget and each of its parts must consistently reflect a company's activities.

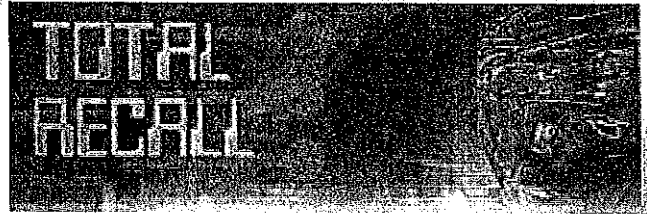
- Realistic. The amount of money that a business allocates to different budget categories must be based on realistic estimates. Established businesses usually base their estimates on past performance. By comparing past budgets, sales records, and expense records, companies are able to determine if their current budget figures are realistic. As much as possible, managers try to avoid making guesstimates: estimates made without adequate information.

Money Tracks

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Month:	Budget	Actual	Variance	Variance(
March	ed		(\$)	%)
Widget A	\$10,000	\$11,500	\$1,500	15%
Widget B	\$10,000	\$8,500	(\$1,500)	(15%)





...management. The local library and the Internet are also valuable resources.

- **Flexible.** Budget estimates must be seen for what they are—estimates. Businesses might spend or earn more money than originally estimated. To accommodate these variances, budget figures may have to be adjusted.

There are also factors outside of a manager's control that affect budget outcomes. If attendance at a ski resort is low due to a heat wave in January, the manager needs to reevaluate and adjust the budget. Retail stores some times suffer simply because street construction blocks the front door. Other common factors that affect budget estimates are economic trends, changes in competition, and population shifts.

- **Clearly communicated.** Even the best, most accurate budget is ineffective if no one sees it. Successful budgets are those that have been clearly communicated to all employees, so that each person in the company is aware of his/her effect on the company's profits. Oftentimes, just knowing budget information motivates employees to be more cost-conscious. Simply being told not to work overtime, for example, is very different from understanding that there is no budget for overtime pay. Employees know how their decisions affect the bottom line only when budget expectations are clearly communicated to them.
- **Evaluated.** An effective budget is one that is evaluated regularly. The real value of a budget comes in using it to assess the company's progress in achieving its goals. A manager who fails to evaluate the budget from time to time misses a great opportunity to move the business forward.

1. How do businesses use categories when creating their budgets?
2. Describe the time periods that are covered by budgets.
3. What is the relationship among specialized budgets?
4. Explain why different budget report formats are useful.
5. Who prepares a budget in a business?
6. Why must budgets be well planned?
  - How can new and established businesses develop realistic budgets?
  - Why should budgets be flexible?
  - Why should budgets be communicated to all employees?

Business owners in your community keep track of what they do financially. They plan ahead for income and expense, so they don't get stuck in a situation that's undesirable. If the owners of a local swimming pool leave something out of the budget as important as regular cleaning, they are certain to have an undesirable situation!

Imagine you're putting together the pool's budget.

What income and expense categories would you include?

and evaluated.

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## WHAT DOES YOUR BUDGET DO?

**Directions:** Read each short scenario. From the following list of what budgets do, select the letter of the activity that applies to the scenario. Put the letter in the blank beside the scenario. When you have finished, ask your instructor for a copy of the answer guide.

- A. Create physical records
- B. Organize business activities
- C. Guide operational decisions
- D. Help evaluate performance
- E. Protect against financial crisis

\_\_\_\_\_ 1. **Amanda's Animals**

For Amanda, putting a budget together-and sticking to it-is a matter of survival. She knows that, without a budget, her pet store would not last long.

\_\_\_\_\_ 2. **Corbin's Coffee Shop**

Now that Corbin is roasting his own coffee, he uses his budget to figure out how much better his business is doing.

\_\_\_\_\_ 3. **Dushon's Diving Equipment**

With a budget, Dushon can keep a written account of what he's bringing in and what he's spending.

\_\_\_\_\_ 4. **Belinda's Beauty Supplies**

For Belinda, knowing how much shampoo to keep on the shelf is important. Her budget helps her make the everyday choices that keep her business on track.

\_\_\_\_\_ 5. **Evan's Eggs**

Evan uses his budget to figure out what he's going to do first, second, and third. It's his way of making sure that he does the important things before the not-so-important.



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## WHAT DOES YOUR BUDGET DO?-ANSWER GUIDE

- A. Create physical records
- B. Organize business activities
- C. Guide operational decisions
- D. Help evaluate performance
- E. Protect against financial crisis

### E 1. **Amanda's Animals**

For Amanda, putting a budget together-and sticking to it-is a matter of survival. She knows that, without a budget, her pet store would not last long.

### D 2. **Corbin's Coffee Shop**

Now that Corbin is roasting his own coffee, he uses his budget to figure out how much better his business is doing.

### A 3. **Dushon's Diving Equipment**

With a budget, Dushon can keep a written account of what he's bringing in and what he's spending.

### C 4. **Belinda's Beauty Supplies**

For Belinda, knowing how much shampoo to keep on the shelf is important. Her budget helps her make the everyday choices that keep her business on track.

### B 5. **Evan's Eggs**

Evan uses his budget to figure out what he's going to do first, second, and third. It's his way of making sure that he does the important things before the not-so-important.

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## MORE GAMES...MORE MONEY

**Directions:** Write a one-page response for the scenario that follows. When you have finished, ask your instructor for a copy of the answer guide.

### Scenario

*Jermaine owns a small store that sells video games to teens and young adults. Every year, Jermaine creates an annual budget-and sticks to it. Working within his budget is what has helped him stay in business and be profitable. Now he is considering adjusting the budget that is in place, and here's why.*

*Jermaine's goal is to compete effectively by offering outstanding customer service. So far, he's done very well, but he's worried about increased competition from super stores in his area (Best Buy, Wal-Mart, and others) and from the Internet. One way for him to increase the level of service in his store would be to add gaming stations where customers could try out games before buying. His dream is to create a unique experience for his customers with video game chairs, a wide variety of gaming accessories such as controllers and headsets and some snacks and beverages. He might even include a station for downloading games, add ons, and free trials that Jermaine doesn't have in stock.*

*Before making a decision, Jermaine wants to carefully consider what it would cost to offer this service.*

### Question

Jermaine's current expense budget includes these categories:

**Expense:**

Game purchases Shelving

Office supplies Advertising Insurance

Loan repayment

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What new expense categories would Jermaine need to include in the expense budget if he implements the proposed changes? How would his current expense categories be affected?

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## MORE GAMES...MORE MONEY-ANSWER GUIDE

### ***Sample answer***

To add gaming and download stations to his video-game store, Jermaine would have to add some new expense categories to his budget. Right now, there is no category for buying furniture or equipment, and he would have to buy some of each just to get set up. The story does not mention whether the store is wired for Internet, so if Jermaine decides to offer downloading, he may have to spend money on setting up Internet access.

Many of Jermaine's current expense categories would also be affected.

- *Game purchases-Gaming* stations that allow people to try out games will increase how much Jermaine has to spend on inventory.
- *Shelving-Storage* games that are open and available for playing would be necessary.
- *Office supplies-No* change
- *Advertising-This* may or may not change. Jermaine could increase his level of advertising or simply change the content of the advertising he already pays for.
- *Insurance-Depending* on the cost of the new equipment, he may have to purchase special insurance. What if a customer accidentally spills a drink on it?
- *Loan repayment-This* is affected only if Jermaine has to borrow the money for the furniture and equipment.
- *Rent-No* change.
- *Maintenance-No* change.
- *Salaries/wages-May* or may not change, depending on whether special training for the employees is needed. If the store becomes busier, he may eventually have to add an employee.
- *Payroll taxes-May* or may not change, depending on number of employees.
- *Utilities-May* have a higher electric bill and a new Internet connection.

### ***Scoring***

- *Award 10 points (up to 40 points)* for each new category discussed. Possibilities include furniture, equipment, and wiring for Internet access. There may be others, especially if Jermaine follows through on his idea of offering snacks and beverages.
- *Award 10 points (up to 60 points)* for each current category correctly identified as being affected. The only categories that are not likely to be affected in any way are office supplies, rent, and maintenance.





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## READING MANIA

*Greg opened a new bookstore called Reading Mania. He was sure his business would be a success because he was not aware of any other bookstores in his area. He thought he had done everything correctly, but after opening day, he had fewer and fewer customers. Finally, he had to close the business. He decided to retrace his steps to see what might have caused his business to fail.*

*Greg had read many articles about owning a business. Each article recommended developing a detailed budget. Greg decided to keep his budget short and simple. He developed two budget categories: income and expense. When it came to determining the business's income, Greg was an optimist. He decided the business would make \$95,000 the first year. Next, Greg determined the business's expenses. Greg's family had offered to work at the business for free if they could read and then return books and magazines at no charge. What a deal! Greg decided that his only expenses, then, would include rent, supplies, utilities, and the cost to buy the books and magazines. He estimated \$50,000 for first-year expenses.*

*Since Greg wanted to make \$95,000 in one year's time, he decided to charge the full cover price for each book and magazine. He also did not want to spend money on a computer and decided to record all of his financial transactions by hand.*

*On opening day, Greg had a great customer turnout. Although several customers commented about the high prices, Greg was sure it would work out.*

*One day, a customer asked about purchasing a newly released book by a very popular author. Greg had just gotten 10 copies of the book, but, when he went to take the book off the shelf, all of the copies were missing. After some investigation, Greg found that each member of his family had taken a copy of that book home to read. The customer left, and Greg lost a sale. Greg began to wonder how many times this had happened. He went to look through his record books. When he opened them, most of the handwriting was unreadable, and some records didn't even have dates.*

*Later, a customer came in and remarked that she would go to the bookstore at the mall because that store offered a 10 percent discount off the cover price of all books and magazines and always had the newest releases available. Greg was amazed. He thought he had the only bookstore in town because he had never seen any others.*

*Finally, Greg's business failed. He is still unsure why. Can you help?*

### Questions:

1. Why do you think Reading Mania was unsuccessful?
2. What factors might have affected the budget?
3. What mistakes did you find in the budget development?
4. Give one example of something Greg could have done differently in developing his budget to ensure his business's success.



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## READING MANIA-ANSWER GUIDE

1. Why do you think Reading Mania was unsuccessful?

- *Greg did not develop or utilize his budget correctly. Students may list the various ways.*
- *Greg did not base his financial estimations on research.*
- *Greg did not clearly communicate his goals to his employees.*

2. What factors might have affected the budget?

- *There was a change in competition.*
- *Greg did not evaluate his budget until he was in trouble; at that point, it was too late.*

3. What mistakes did you find in the budget development?

- *Greg did not budget for savings. There was no preparation for financial crisis.*
- *The recordkeeping system was inadequate. He should have used a computer instead of relying on hand-written documents.*
- *There was little planning.*
- *Greg didn't include factors that would affect sales such as lending books and magazines to family members.*

4. Give one example of something Greg could have done differently in developing his budget to ensure his business's success.

Answers will vary. Possible responses include, but are not limited to:

- *Use a computer to record financial information*
- *Research for competition through the Internet*
- *Account for all factors that might affect sales*
- *Base financial estimations on market figures instead of unrealistic guesses*



# Leadership, Attitude, Performance ...making learning pay!

Student Guide

Operations LAP 2 Performance Indicator:

OP:015

# Buy Right

## Purchasing

A

For example, when she needed a pair of shoes for prom, she checked the selection at several shoe stores. She searched for shoes in the size she needed, the style she wanted, and, finally, the price that was best, given the brand of the shoes. By doing some research, she was able to find the best deal on prom shoes at the mall.

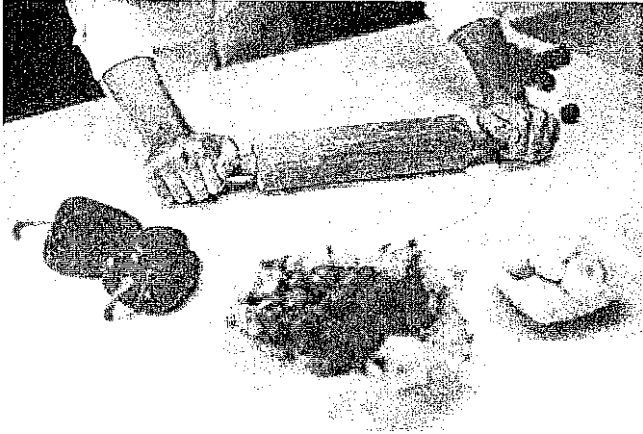
"If only I could find a way to make shopping a full-time job!" Keisha often says to herself. In fact, she can! Professional shopping, called purchasing in the business world, is a viable career choice for individuals who enjoy finding good values. Read on to learn more about the importance of purchasing, its role in business, and the purchasing process that businesses use.

## Purchasing's Pivotal Part

On the surface, the **purchasing** function in business is pretty easy to understand. A purchasing specialist in business buys goods and services for his/her company, just as you buy things for yourself. But what exactly does a purchasing specialist buy? That depends on the business and its needs. A purchasing specialist-sometimes called a purchasing agent, purchasing manager, procurement manager, or buyer-might buy raw materials, parts, equipment, finished products, supplies, furniture, uniforms, or any number of services.

Let's think about Brad, the purchasing specialist for Roma's Pizza Parlor. What does Brad need to buy for the restaurant? He needs to buy pizza ingredients, such as flour, yeast, salt, pizza sauce, cheese, meats, and toppings, right? What other less obvious supplies or equipment does the pizza parlor need to be successful? The restaurant needs napkins, plates, glasses, silverware, cleaning supplies, pizza ovens, and pizza pans, among other

things. In short, Brad has a very long shopping list!



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,t. What does a purchasing specialist buy? That depends on the business and its needs. The purchasing specialist for a pizza parlor needs to buy pizza ingredients.

## Types of Purchasing

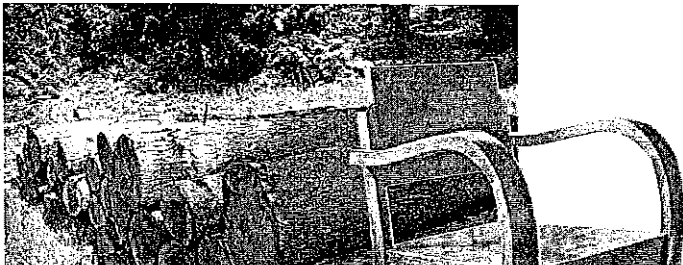
In the corporate world, there are three types of purchasing: buying for resale, buying for transformation, and buying for business use. The kind of purchasing that a company does is based on the nature of the business.

**Buying for resale.** When a business purchases items for resale, it buys things to sell to other businesses or consumers. Two types of businesses buy items for resale: **wholesalers** and **retailers**. Wholesale buyers purchase goods from manufacturers and other wholesalers to sell to retailers and businesses. Retail buyers, on the other hand, purchase goods from wholesalers or manufacturers to resell to consumers. Whether wholesalers or retailers, buyers must understand trends and know what will appeal to their customers. In many cases, it's up to the buyers to purchase what they think their companies will resell successfully.

One company that specializes in buying for resale is Half Price Books, the largest privately-owned new and used bookstore chain in the United States. Half Price Books employs numerous buyers who specialize in retail purchasing. These retail buyers conduct business with wholesalers and publishers around the world to purchase truckloads of new books, toys, and other merchandise to resell to their store customers. Other Half Price Books buyers focus on wholesale buying. These purchasing specialists purchase books to resell to other bookstore chains and retail businesses through the company's wholesale division, The Texas Bookman. Finally, there are buyers on staff at each Half Price Books store to purchase used books, CDs, and DVDs from customers. These items are typically resold in the stores.

**Buying for transformation.** To transform something means to change its shape or appearance. Purchasing specialists who buy items for transformation purchase raw materials and components that will be converted into finished products through some type of production process. These purchasing specialists, also called industrial buyers, typically work for manufacturing companies.

**A Purchasing specialist can buy raw materials and components that will be transformed into finished products. A purchasing specialist might buy lumber to turn into furniture.**





To read more about industrial buyers and what they do, check out this article from WiseGEEK, "What Does an Industrial Buyer Do?":

<http://www.wisegeek.com/what-does-an-industrial-buyer-do.htm>.

Industrial buyers need to be involved in production planning if they are to be successful at their jobs. Before an industrial buyer can place an order for raw materials or components, s/he needs to know the following:

- The finished products the company is planning to produce
- The quantity of goods the company is planning to produce
- The raw materials or components needed to produce the finished products
- The process of converting the raw materials or components into finished products
- When the raw materials or components are needed
- Whether the company has room to store the raw materials or components until they are used

Many industrial buyers are involved in the production of Apple's iPhone, the highly popular smartphone that you and many of your classmates might have. Rather than making the iPhones completely from scratch, the company purchases the components and parts that will ultimately become the iPhone from a variety of suppliers. The iPhone's c!Jips

come from Samsung, its camera from Sony, its flash memory from Toshiba, and its many other components from numerous sources.

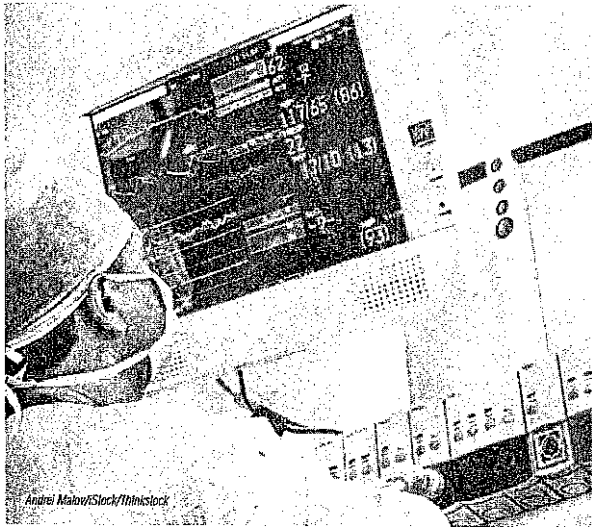
In fact, Apple does not even assemble the iPhone's parts itself; instead, the company hires outside manufacturers (often in China) to produce the final product. That means that when you purchase an iPhone from Apple, your money goes in a lot of different directions—to Apple, to the manufacturers in China, and to suppliers in Japan, the United States, Taiwan, South Korea, and elsewhere throughout the world. And chances are industrial buyers brought the components from all of these different companies together!

You can read more about all that goes into the making of an iPhone by checking out this article and infographic from Alex Hillsberg, "How and Where iPhone Is Made: A Surprising Report on How Much of Apple's Top Product is US-Manufactured":  
<http://financesonline.com/how-iphone-is-made/>.

**Buying for business use.** In addition to purchasing items for resale or for transformation, a purchasing specialist is also likely to buy many goods and services for use by his/her own company. Purchasing specialists are often responsible for buying such items as equipment, equipment parts, tools, uniforms, furniture, supplies, and repair and maintenance services. Industrial buyers, in fact, engage in buying for business use as

well as buying for transformation. They are often responsible for purchasing sophisticated machinery and equipment for business use. While these goods and services won't be resold or changed into finished products, they are necessary items for business operations.

A hospital is a business that purchases many goods and services for its own use rather than resale or transformation. A hospital's purchasing specialists buy X-ray machines, dialysis machines, surgical equipment, beds, wheelchairs, scrubs, and an endless array of other items for the hospital. Without the necessary equipment, furniture, medicine, and supplies, the hospital could not properly care for or treat its patients.



4. A hospital buys equipment, furniture, medicine, and supplies for its own use. Without these things, it wouldn't be able to take care of its patients.

## Purchasing's Ultimate Goal

The ultimate goal and purpose of purchasing is always to obtain the right goods and services from the right suppliers at the right price, in the proper quantity, at the necessary quality, and with acceptable payment and delivery terms. To reach this goal, purchasing specialists must strive to do the following:

- Prevent interruptions in the production or provision of the finished good or service
- Purchase in amounts that make sense economically
- Seek out the best value
- Develop positive relationships with suppliers
- Buy from suppliers who are dependable and treat clients right
- Locate back-up sources of goods and services
- Reduce wasted time, money, and supplies
- Look for ways to enhance profitability and productivity

## The Importance of Purchasing

Purchasing, both as a business function and as a business department, is essential to business success. Without effective purchasing policies and purchasing personnel, a company would not have the money, goods, or services necessary to survive.

**As a business function.** The purchasing function plays a vital role in business for a couple of reasons. One is that purchasing has the potential to generate further profit for a company. If a business spends the bulk of its money on materials and supplies, then finding a way to lower purchasing costs could save the company a lot of

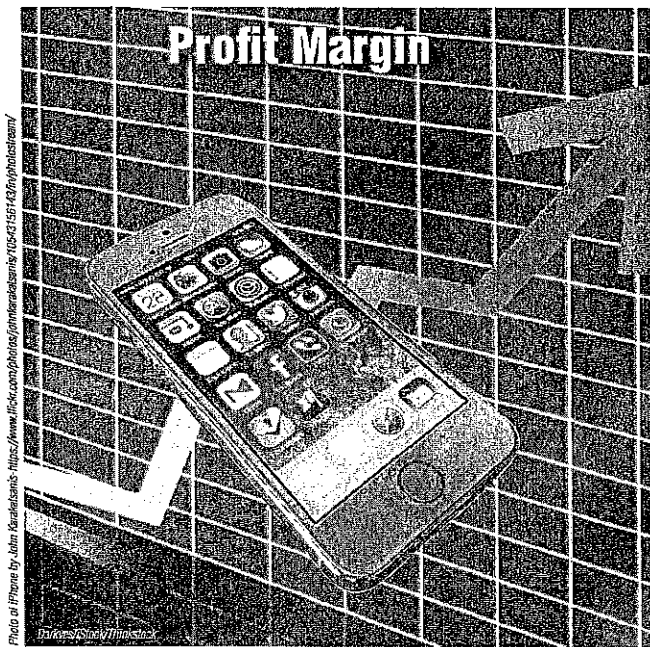
# THE GRAY ZONE

Ashleigh is the purchasing specialist for a large downtown medical practice. The doctors in the practice recently acquired some office space north of town to turn into a branch office. Ashleigh is now responsible for equipping the new office space with furniture, equipment, and supplies. One of the costlier items that she needs to purchase is a photocopier machine.

According to the practice's purchasing policies, Ashleigh should conduct competitive bidding for the copier. Ashleigh doesn't really want to do that, though. She'd rather purchase the copier from a friend who works for an office supply company. This friend has promised her a great deal on the copier. Ashleigh would save herself time, trouble, and money if she purchased from her friend, and her friend would earn a hefty commission for the sale. What should Ashleigh do? Bend the rules and buy from her friend, or go through with the competitive bidding process? Why?

A

money. For example, when a housecleaning business locates a less expensive source of vacuums and cleaning products, then that business can save money on supplies. In addition, if much of a finished product's cost is materials cost, then lowering the cost of those materials could increase the profit margin for that product. Let's go back to the iPhone example we discussed earlier. If Apple is able to buy iPhone components for less, it can increase the profit margin.



**A** How do you think a business can increase its profit margin?  
 One way is by lowering purchasing costs. If Apple buys iPhone components for less, the company can increase its profit margins.

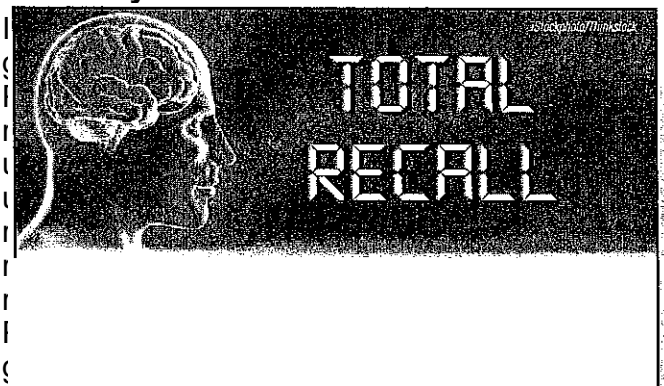
The purchasing function is also important because virtually all businesses rely on some supplies, materials, equipment, or services in order to satisfy their customers. If a purchasing specialist doesn't do her/his job correctly and get the items or services that the business needs, then the business cannot produce its finished good or service. And if a company cannot produce its finished good or service, then it may lose money and possibly even go out of business—all because the purchasing specialist didn't do her/his job properly!

**As a business department.**

Purchasing as a department also plays an important role in business. Purchasing specialists are involved in strategic planning in a number of ways. The purchasing department develops partnerships and alliances with suppliers, watches for business threats and opportunities, makes long-term purchasing plans, and looks for ways to improve processes. All are methods to plan, improve, and grow the business.

In addition, members of the purchasing department participate in new product development. They provide input on the best materials to use in new products, suggest alternative materials, and help make final material decisions based on the cost, quality, and availability. If research and development were to create a new product without getting input from the purchasing department, the new product might consist of materials that are overly expensive or hard to find. Such a product might cause the business to lose money instead of earning it. Once again, purchasing specialists play a major role in increasing profits for their businesses!

**Summary**



to strategic planning and new product development



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## TYPES OF PURCHASING

**Directions:** For each of the following purchasing situations, determine the type of purchasing that is occurring: buying for resale, buying for transformation, or buying for business use. Write your responses in the spaces provided. When you have finished, ask your instructor for a copy of the answer guide.

1. A furniture store purchased filing equipment for its office.
2. A toy store purchased 200 stuffed animals.
3. A bakery purchased 2,425 pounds of flour.
4. A car manufacturer purchased tail lights for its cars.
5. An appliance dealer purchased washing machines.
6. A dentist purchased a computer system for tracking appointments.
7. A floral shop purchased roses for Valentine's Day.
8. A department store purchased two trucks for delivery purposes.
9. A plastics manufacturer purchased petroleum for use in its products.
10. A grocery store purchased boxes of cereal.
11. A high school purchased a new oven for the cafeteria.
12. A farmer purchased a new tractor.
13. A clothing manufacturer purchased fabric and thread.
14. A discount store purchased three truckloads of overstock books.
15. A paper clip manufacturer purchased 500 spools of steel wire.

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## TYPES OF PURCHASING-ANSWER GUIDE

1. A furniture store purchased filing equipment for its office. Buying for business use
2. A toy store purchased 200 stuffed animals. Buying for resale
3. A bakery purchased 2,425 pounds of flour. Buying for transformation
4. A car manufacturer purchased tail lights for its cars. Buying for transformation
5. An appliance dealer purchased washing machines. Buying for resale
6. A dentist purchased a computer system for tracking appointments. Buying for business use
7. A floral shop purchased roses for Valentine's Day. Buying for resale
8. A department store purchased two trucks for delivery purposes. Buying for business use
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Buying for transformation
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12. A farmer purchased a new tractor. Buying for business use
13. A clothing manufacturer purchased fabric and thread. Buying for transformation
14. A discount store purchased three truckloads of overstock books. Buying for resale
15. A paper clip manufacturer purchased 500 spools of steel wire. Buying for transformation

# The Purchasing Process

Regardless of the type of purchasing, purchasing specialists implement a fairly standard purchasing process. This process consists of identifying needs, selecting suppliers, placing orders, and evaluating supplier performance.

**Identifying needs.** The first thing that a purchasing specialist is likely to do is identify the business's needs. In other words, what goods or services does the company need? To develop specifications or requirements for the goods or services to be purchased, a purchasing specialist might ask:

- What does the business need?
- How much of that item does the business need?
- What quality of that item does the business need?
- When is that item needed?
- What is the limit to what can be spent on this order?

Purchasing specialists don't always go through this lengthy purchasing process.

Some times, a purchasing specialist places

- blanket purchase orders for fairly inexpensive goods or services that the business uses on a regular basis. Once the purchasing specialist has located a trustworthy, reliable supplier that can be used on a long term basis, the purchasing specialist places a large order with the supplier to be delivered over six months to a year's time.

Placing a blanket purchase order saves the purchasing specialist time, effort, and possibly money.

Read more about the uses and benefits of blanket purchase orders in "What is a Blanket Purchase Order?" by Heather

Eastridge: <http://www.ehow.com/facts/5158253-blanket-purchase-order.html>.

them from a supplier. To make such a decision, the purchasing specialist should consider his/her company's production capabilities and the costs of making the needed parts. If the business is capable of making the needed parts and the cost would be low, then the company is likely to make the part versus buying it.

After asking and answering such questions, a purchasing specialist may have to make another decision—a **make-or-buy decision**. Essentially, the purchasing specialist may need to decide whether the company can make needed parts or should buy



On the other hand, if the company can't make the part or the cost of making it would be high, then the purchasing specialist is likely to buy it from a supplier.

**Selecting suppliers.** After identifying the business's needs and deciding to buy the needed good or service, the purchasing specialist normally starts the search for suppliers.

S/He might search for suppliers on the Internet, in trade publications, through advertisements, in catalogs, from salespeople, or at trade shows. Once the purchasing specialist has located a handful of suppliers who offer the needed product, s/he usually starts the competitive bidding process. This requires a purchasing specialist to send out a request for bids to several prospective suppliers. The purchasing specialist provides specific information about the goods and services that the company needs and asks for a price quote from the suppliers. The potential suppliers then bid, either verbally or in writing, for the account. At that point, the purchasing specialist reviews the bids, or proposed prices, and chooses the best one.

But what does choosing "the best one" mean? Does it mean the cheapest supplier or the supplier offering the best value? When it comes to selecting the "best" supplier, purchasing specialists follow purchasing policies that vary from

business to business. At some companies, the purchasing specialist required to always choose the lowest bidder. At other businesses, however, buyers are permitted to select the bidder offering the best overall terms, including quality and quantity, even if that supplier's price isn't the lowest.

In addition to or instead of competitive bidding, purchasing specialists often conduct negotiations with suppliers. During negotiations with a supplier, the two companies discuss many details of the purchase, including the price, quantity, quality, and delivery and payment terms. Talking things out prior to the purchase allows both the purchasing specialist and the supplier to discuss potential issues and ways to resolve them, thereby reducing later problems.

**A Purchasing specialists often conduct negotiations with suppliers. Talking things out can reduce later problems.**

B

The purchasing specialist may also review the potential supplier's credentials prior to placing an order. S/He might speak to the supplier's references, visit the supplier's plant, or even test the supplier's product to ensure that the buyer is making the right choice.

Once the purchasing specialist concludes that s/he has selected the right supplier for the job, s/he develops a purchase agreement or contract with the supplier. This document usually contains:

- The good or service to be purchased
- The quantity to be purchased
- The price
- Terms of delivery
- Payment information
- Warranty and guarantee information
- Other details as needed.

**Placing the order.** After searching for and selecting a supplier, the purchasing specialist may place an order with the supplier. To indicate that the company is ready to make a purchase, the purchasing specialist sends a purchase order to the supplier. The purchase order, which may be the same as the purchase contract, restates the terms of the purchase.

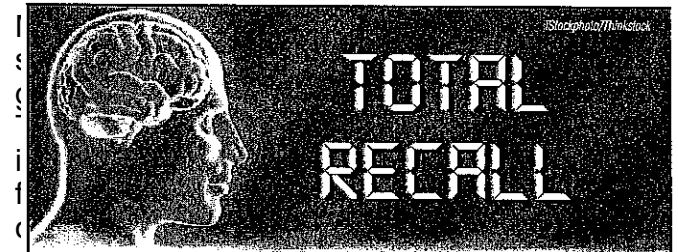
**Evaluating supplier performance.** The last step in the purchasing process is typically evaluating supplier performance. After the purchased goods or services have been delivered, a purchasing specialist is often responsible for reviewing the order and determining if the supplier followed through on its promises. The purchasing specialist checks to see if the supplier sent the right items, in the right quantity and quality.

S/He might also determine if the items were delivered at the right time and in the proper manner. Finally, the purchasing

specialist normally reviews the invoice to see if the supplier charged the agreed upon price. Evaluating the supplier's performance allows the purchasing specialist to determine whether s/he should use the supplier again in the future and if there need to be any changes next time.

Check out the video "Purchasing Managers" from Jobs Made Real to learn more about what it's like to work in purchasing:  
<http://www.jobsmadereal.com/jobs/purchasing-managers.html?video-UyJ6RNh2xjO>.

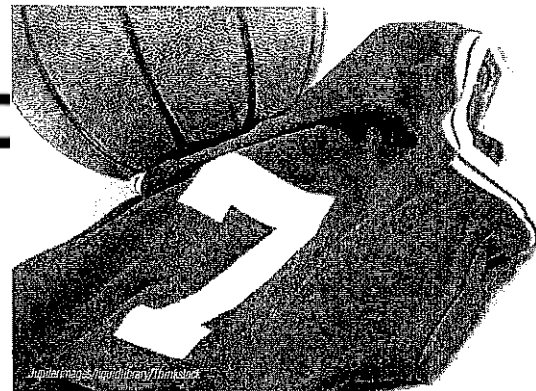
### Summary



performance.

# Make It F

Think about your school's athletic department. What goods and services does the athletic department purchase? Who purchases these goods and services for the department? What are some ways that this purchasing specialist could save money for the athletic department? What would happen if this person did not do her/his job as purchasing specialist





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## THE BOOKWORM'S SHOPPING LIST

Due to the increased demand for specialty coffees and hot beverages, the owners of the Bookworm bookstore are considering whether to turn one corner of their store into a small coffee shop.

Unfortunately, while the owners know a lot about acquiring books, they know little about how to equip and stock a coffee shop. Therefore, Bookworm's owners have hired your group to act as their consultants and researchers in this coffee shop decision.

Your task today is to create a shopping list of at least 10 items that the Bookworm would need to purchase for the coffee shop. Make sure that your list includes items for resale, transformation, and business use. After making your shopping list, locate and record three potential suppliers for each item. When you're finished, share your shopping list with the class.

---

## WHAT WOULD HAPPEN IF...?

Card 1

What would happen if a purchasing specialist did not consider the cost of his/her purchases?

C  
a  
r  
d  
5

What would happen if a purchasing specialist did not develop positive relationships with suppliers?

Card 2

What would happen if a purchasing specialist did not consider the quality of the goods and services purchased?

C  
a  
r  
d  
6

What would happen if a purchasing specialist did not locate back-up sources of goods and services?

Card 3

What would happen **if** a purchasing specialist did not participate in new product development?

C  
a  
r  
d  
7

What would happen if a purchasing specialist did not buy in amounts that make sense economically?

Card 4

What would happen **if** a purchasing specialist did not evaluate supplier performance?



## Who Can Have A School Store?

1. Elementary school students
2. Middle school students
3. High school

students This project  
can be for:

- One class
- Student government
- Organizations
- Parent groups
- Special Education classes
- Remedial math classes
- Top students who need a challenge
- Withdrawn students
- Parents (who would like to help the school)
- School Fundraising Department (Business Education Department, Math Department, Etc.)

## The Application Process

Whether the School Store is a class project or an organizational fundraiser, it is important to have the students apply to work at the School Store. (Please see Appendix C for a copy of a School Store Application). By doing this, students will have the experience of filling out a job application. Before the teacher has the students fill out the application, he or she will need to decide upon the schedule of store hours. Most school stores are open before school, during lunch, or after school. Students work in the store during their study halls or free periods. The School Store application should be signed by both the student and the parent.

In addition to the application, the School Store supervisor may want to have faculty members fill out an evaluation on the applicant. (See Appendix D). These faculty members can be chosen from the class list that was supplied by the student applicant in the School Store Application. This will give the School Store supervising teacher a true picture of the trustworthiness and dependability of the student applicant and will let him or her know that the student has the grades and the time to work in a school store.

## School Store Positions

The actual organization of the store positions is flexible and some jobs can be combined. Listed on the following pages are some suggested positions.

**General Manager** This student would report to the School Store supervising teacher. He or she would supervise the overall management of the school store.

**Shift Managers** These students would be in charge of the overall management during the particular shift in the event that the store is open more than once a day. They would be responsible for making sure all workers are aware of the following Do's and Don'ts:

**DO**

- Have a partner to work with.
- Keep the store and money locked up when unused or unsupervised.
- Be polite to ALL customers.
- Keep the store neat.
- Mark down all sales.
- Use a calculator or paper to figure totals and change if you don't have a cash register.
- Count change back to the customer.
- Report all problems IMMEDIATELY.
- Make customers wait in a single file line.

**DON'T**

- Joke with people about their money.
- Play with the store merchandise.
- Leave the store unattended.
- Give credit to customers.
- Talk to friends while working at the store.
- Have money where people can reach it.
- Put money from sales into pockets for safe keeping.
- Get flustered - take your time.

**Order Clerk** This student would keep a "Want Book." This is a book where items to be ordered, as well as items not presently carried are posted. To help determine new products, the order clerk may want to work with some of the student workers on a product analysis to come up with some new merchandise. (See Appendix E for a sample of a product analysis form). This student would also check the stock for low items. To keep track of the inventory, each shift clerk or School Store worker would keep track of each item sold on a daily tally sheet. (See Appendix F).

In order to help determine how many items to keep on hand, the order clerk would be responsible for supervising the other student workers in an inventory that would be completed periodically. (See Appendix Goran inventory control sheet). Counting the inventory and completing this sheet will ensure that there is no merchandise lost and that there are enough of each item so that purchasing can be done by the order clerk.

The order clerk should direct the student workers to work together counting inventory as a group. Students should be instructed to work together to quickly and efficiently get each item counted. Students should double check any items where discrepancies occur. The order clerk and the supervising teacher should stress accuracy. Each space should be filled in carefully with the appropriate amount when each group of students



is finished counting it. The order clerk should not wait until stock is gone before ordering. When ordering, this student would most typically order by stock numbers and item description. He or she would either phone in, mail, fax, e-mail, or order over the website when necessary.

**Receiving Clerk** This student would check off incoming orders with the order clerk. He or she would enter incoming items in a ledger or in a stock record. Incoming orders are most frequently accompanied by a packing slip. The student should check the order against this to make sure that each item on the packing slip and invoice is included in the shipment. This invoice is the document which charges you for your merchandise and is your record of your purchase. Sometimes the actual invoice arrives later in the mail. If so, it will be marked INVOICE. The receiving clerk should, before opening the order, make sure that he or she has the complete shipment on hand. Assume that there are five cartons in one shipment. In the upper right-hand corner (or somewhere else) on the shipping label, it should say "5 of 5 cartons:"

The receiving clerk also puts stock on shelves, making sure that the old stock is placed in front of the new stock. This is called "rotating the stock." It is a necessary procedure to insure that the old stock sells first.

**Accountant** This student would keep a daily record of sales. (See Appendix F for a daily tally sheet and Appendix H for a sample of the deposit record form). He or she would write in the date and the names of the School Store clerks working. All deposits made would be listed. Each check received is listed separately. Each bill type and coin type would also be listed separately.

The accountant would:

- Fill in the date and members of the group on the appropriate line.
- Obtain information on previous deposits made that week by the supervising teacher/adviser.
- Empty the money from the cash box.
- Count out the appropriate amount of cash to be placed back into the cash box for change the next week. (This would most likely be \$10-\$15).
- Count the rest of the money by denomination. \$1 bills first, \$5 bills, quarters, etc. and place the total on the deposit slip next to each of the denominations listed.
- Total the deposit.
- Get the approval of the supervising teacher/adviser.
- Take the cash and the deposit slip to the office.

The accountant should keep all receipts and may want to keep receipts and expenses in a separate ledger. A two column general ledger will be sufficient. The accountant would also assist the receiving clerk with organizing and supervising the weekly inventory.

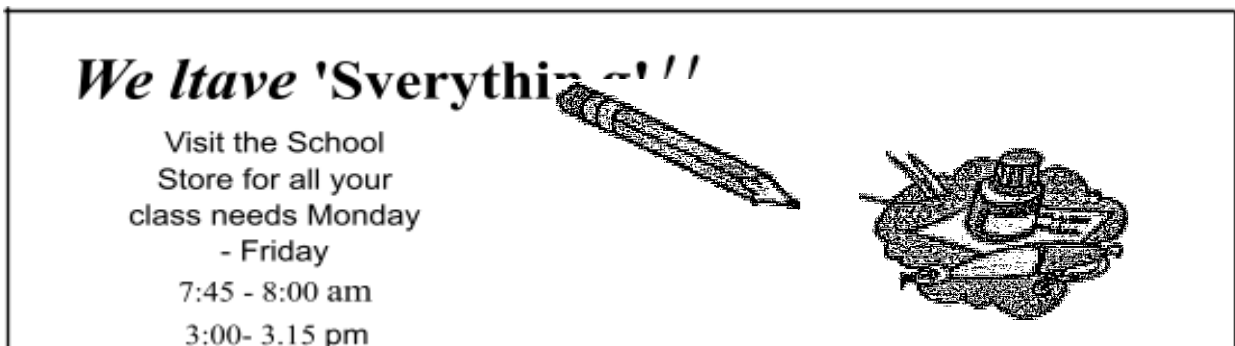
**Advertising Representatives** Advertising what your School Store has to offer is a must. If students do not know what you have when they need it, your store will not be a success. Make sure you have

posters, announcements, and notes in the parent newsletters which inform them of the School Store's existence and what they carry. This would be the duty of the advertising representatives. The following is a sample announcement for a new promotion that your advertising representatives, if allowed, could do periodically on the intercom in the mornings.

"The School Store sells everything you need for school and fun accessories to make you cool. Now for every item you purchase, we will put your name in a drawing. The winner of the drawing will be announced on Friday at 2:55 pm. If you win, you will get a prize valued up to \$5.00. So, come on down, we are open every day before school from 7:45 to 8:00 am each day and from 3:00 to 3:15 pm every day after school. Who knows, the next winner could be you!"

These students could show new items in homerooms if permitted. They would be able to take requests for items not currently in stock. They could also design and execute posters and showcase displays. Advertising is an important aspect of today's business world.

The following is a sample poster you could hang in the hallways of your school:



### **Sales Clerks**

These positions are extremely important. Sales clerks must know how to make change, must be helpful, must help to keep the stock neat, suggest items that are getting low to the order clerk, and must know the stock.

Store rules should be made clear to sales clerks. They should adhere to the following rules:

- Be courteous and polite to all customers
- Report all problems to the shift manager or the supervising teacher/adviser immediately
- There is no sitting in the School Store
- Keep track of all sales
- Make the customers wait in a straight line
- Watch for shoplifters
- Work in pairs or more whenever possible
- Keep the store in order and neat
- Count money back on all sales
- Double check all math



### **Steps to be completed by the first shift Sales Clerks before working:**

1. Look at the schedule and list all sales clerks working for the day.
2. Sales clerks working the first shift of the day need to count the cash **in** the cash box and enter the starting cash amount somewhere on the daily tally sheet. (See Appendix F). They could also use a daily worksheet form. (See Appendix I).
3. Sales clerks need to enter beginning information on the tally sheet.
4. Sales clerks need to make sure that all items can be easily located and are available.

### **Steps to be Completed by Sales Clerks while working (optional):**

1. Sales clerks need to enter an item description for each new item sold on the tally sheet. They need to enter a tally mark in the tally column for that item (see appendix F).
2. Double check the dollar total, amount given, and change amount.

### **Steps to be completed by Sales Clerks upon closing the store for the day:**

1. Total up the tally sheet.
2. Count cash in cash box. Enter total on the bottom on the tally sheet.
3. Clean up work area.
4. Have supervising teacher approve sheet and make daily deposit to the office.

Each group of sales clerks are responsible for the merchandise and money during the posted work times. If any money or merchandise is missing, students should be instructed to alert their supervisor immediately.

### **All School Store Employees**

Students will be given a schedule of those times which they will work by the supervising teacher/adviser. If at any time a student cannot work during their scheduled time the supervising teacher must be notified in time to find a replacement.

At all times the store should be kept neat and clean. Have a place for everything. Use shelf labels. Shelf labels should include:

- Stock number
- Name of item
- Price

This makes reordering easier and helps keep the store neat. It also eliminates the possibility of a popular item being sold out fast and no one being able to remember what was in that spot.

Keep the cash box out of the reach of customers. Don't have too many clerks working at one time. They get in each other's way. An adult should be present at all times so that students know that they are being properly supervised.

raymond \* gaddes \* & \* co. raymond \* gaddes \* & \* co.



school year: How would you handle someone you caught taking something from the

School Store?

If someone gave you \$5.00 to buy a compass for S.75, a notebook for \$.60, and some graph paper for S.75, what is the exact correct change you would give

them? How would you handle a erabby customer?

Return this form to \_\_\_\_\_ in Room \_\_\_\_\_ by \_ \_

r a y m o n d \* g e d d e s \* & \* c o . r a y m o n d \* g e d d e s \* & \* c o .

# Appendix D

## School Store Applicant Evaluation

To: \_\_\_\_\_

Re: School Store Workers

\_\_\_\_\_ has applied to work in the School Store for the \_\_\_ school year.

Please complete the following evaluation and return to my mailbox by \_\_\_

	Superior, Excellent	Fair	Poor
Maturity	Good		
Dependability			
Attendance			
Academic Achievement			
Peer Relationships			
Trustworthiness			
Cooperation			

Optional Comments:

Teacher's Signature: \_\_\_\_\_

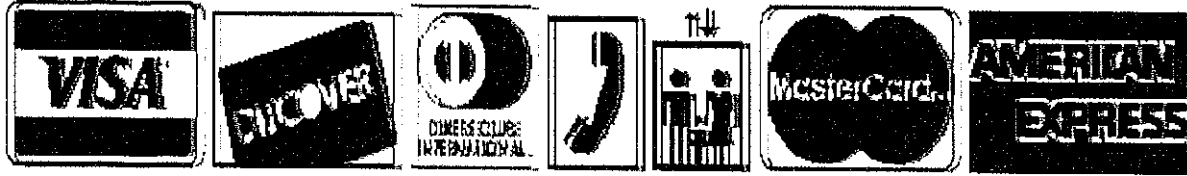
Date: \_\_\_\_\_



# Just WHAT is PROFIT?

Understanding profit is essential to anyone interested in starting their own business. It is also important for anyone who works in a business that seeks to make a profit.

Much of the misunderstanding about profit is related to a lack of understanding of the terms used in business that explain financial decisions.



For example, **return on investment** means the percentage you make each year on the money you invest. If you put \$10,000 in a savings account at the bank you will earn interest...probably around 5-6% per year. If you put that same \$10,000 in stocks you will hope to earn dividends as well as have the value of the stock go up to give you a return on your investment. Now, if you invest that \$10,000 in your business you will hope to be able to make even more as a return on your investment than just putting it in the bank. In that case you would expect to make an annual profit that is greater than about \$500 (5% of \$10,000). After all, the higher the risk the greater return the entrepreneur would expect for the investment.

**Next we need to define profit...or better yet what profit is not.**

Profit is not included in the amount of money a business owner pays himself/herself. Many new entrepreneurs forget to count the costs of their time and take out a regular salary. Or when times are tough the salary is the first thing they forget.

**Profit is not** the difference between the costs of the product or service and the price being charged for it. In addition to the costs of the product sold you must account for **the fixed costs** that are paid regularly each month no matter what. These include such items as rent or mortgage payments, utilities, regular salaries, insurance, etc.

Next you must remember to plan for the **variable costs** of running the business that fluctuate with the success of the business and resulting needs for advertising, staffing, supplies, etc. The fixed costs and the variable costs together are known as **overhead**. Overhead, as well as the costs of the products sold, is subtracted from the **income from sales** before profit can be made.

Finally you must pay taxes out of the income before actually determining your profit from your business. These include **federal, state, and local taxes** which are based on

a percentage of your income minus expenses. After all these costs, **the owners' profit is what is left.**

## **What are the decisions that affect profit?**

For any small business there are many day-to-day decisions that change the possible profit the business might make. For example consider what each of the following choices might do to your profit:

- \* Pay employees more
- \* Hire more employees
- \* Buy new furniture
- \* Buy a new truck
- \* Find a cheaper source of products
- \* Increase the advertising budget
- \* Give your daughter money to buy a new dress
- \* Select a cheaper long distance phone service
- \* Remodel your building

All of these decisions increase, or decrease your cost of operations affecting what is left as profit.

When deciding how to price the goods or services to be sold, the owner must take into consideration the costs of all decisions made. Some decisions will result in higher sales which will more than make up for increased costs. It is thought that appropriate advertising will do this. Or if you pay your employees more they may be willing to work harder and increase sales. However, nothing is really sure about these decisions and their effect on profits.

So business owners often decide to use a percentage of the product costs in determining their selling prices. The percentage is based on distributing the costs of running the business (overhead) and profits in an equal manner to all items sold, based on the product costs. This is called **markup**. Think of markup as the share of the

consumer's price that is necessary to run the business, plus what is left over as return on the owner's investment. The markup on all the products sold, added together, is designed to cover the costs of running the business and making a profit.

Business owners use past experience and experience of similar businesses to determine the expected overhead costs and profit they hope to make. This is called their **margin...the** amount of money available after the costs of products sold are deducted from the income from sales. If your sales equal \$1 million and your product costs are \$200,000, your margin is **\$800,000.Remember, this is not your profit.** We hope by now you can explain why this is so. If not, please read this article again.

## LET'S PRACTICE MAKING A PROFIT

This is the story of Goodies Gift Shop in its third year of operation in Small Town USA. Amelia Goodies, the owner, runs the shop with 4 full time employees, 2 part timers and herself. Her sales last year were \$500,000 and her profit was \$20,000 after taxes. If her balance sheet shows a net worth of\$100,000 can you tell us what her return on investment was last year?

### Balance Sheet ( Year 2)

#### Current Assets:

Cash	\$ 10,000
Accounts Receivable	\$ 15,000
Inventory	\$200,000
Property and Equipment	\$100,000
Total Assets	\$325,000

#### Liabilities:

Accounts Payable	\$80,000
Loan Balance	\$145,000
Owners Equity	\$100,000
Total Liabilities and Equity	\$325,000

This year Amelia has projected sales of \$600,000 with a margin of \$250,000. She has budgeted the following overhead:

Owner Salary	\$35,000
Employee Wages	100,000
Rent	10,000
Advertising	4,200
Supplies	1,000
Telephone	1,000
Other utilities	600
Insurance	2,000
Payroll taxes	30,000
Maintenance	3,700
Legal and other professional fees	500
Miscellaneous	2,000
Interest on Loan	10,000
Total Overhead Expenses	\$200,000

If taxes are 20% of Net Income, what is the planned profit for the year?

## EFFECTS ON PROFIT

The day-to-day decisions for the gift shop and the level of business Amelia is able to maintain will affect this budget, resulting in many variations of the plan. Discuss with other students the effects the following issues would have on profit.



1. The employees demand a 10% raise
2. The lease is up on the building and the owner would like to sell her the building for \$150,000 or increase the rent to \$15,000.
3. Amelia is considering adding another full time employee for an annual cost of \$20,000
4. Insurance coverage is too low and she needs to double it
5. There are new opportunities to advertise in connection with community events that would expand her advertising budget.
6. She needs to buy a computer to improve her record keeping systems
7. Shoplifting losses force her to increase her markup an extra 5%.
8. Sales in the first six months have been 10% below expectations.
9. Her daughter "borrows" money from the register and does not repay it.
10. She is considering buying a used van for \$10,000 and offering free delivery services to her customers.

What advice would you give Amelia about running her business after considering the information you have been given? What additional information would you like to have in order to discuss this case?

<http://www.entre-ed.org/teach/activits.htm>

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# Watch Your Bottom Line

Income Statements

**Statement  
secrets**

**Can you  
compare?**

**Ratio  
rundown**



So  
Wj

# Income Statements 101

An **income statement** is a summary of a business's income and

expenses over a period of time. Simply put, it summarizes where the business's money came from and where it went. It is a financial

picture that lists all revenues and expenses for a certain time period, usually one year.

It's Saturday night, and you're at the local movie theater with your best friends. You load up on popcorn and candy and find a seat just as the theater goes dark and the screen lights up. You're ready for the main attraction, but wait it will be a good 20 minutes before the actual movie begins! Why? The previews, of course. These clips of coming attractions are designed to spark your interest, so you will head back to the theater to see these movies when they come out. They provide "sneak peeks" but not an overall view of the movies.

Viewing a business's financial statements can be a lot like going to the movies. Some financial statements give "previews" of the business's finances by looking at a specific time period or process. The income statement, however, is more like the feature presentation because it enables a business to view much more of its entire financial picture. Income statements summarize where a business's money came from and where it went. These statements are important to every business, so read on to learn more about these "main attractions"!

## Objectives

**Describe the components of an income statement.**

**Explain how the income statement is utilized by businesses.**

Non-profit organizations sometimes refer to the income statement as the statement of financial activities. On a statement of financial activities, income is often referred to as "support."

## An Income Statement by any other name...

The income statement has many aliases. For instance, it is sometimes called an **earnings statement**. This name can be a bit deceiving, though, because even if a business is earning income, it isn't necessarily earning a profit. **Profit** is the income left over once all expenses are paid. The income statement is the only financial statement that enables the business to look at its "bottom line."

The income statement is also known as the **operating statement**. Its information is used by businesses to make a variety of decisions that *affect* how the business will operate. This includes decisions such as how to invest money and ways to cut back on expenses. The statement is also used to create other financial documents that *direct* how the business will operate, including the cash flow statement and the balance sheet.

Traditionally, the income statement was referred to as the **profit and-loss statement**, for obvious reasons—it shows a business's profit and loss. The basic calculation used to analyze an income statement is "income minus expenses." If the outcome is positive, the business has a profit. If the outcome is negative, the business has

a loss. Over time, however, **income statement** has become the common

business term for this important summary.

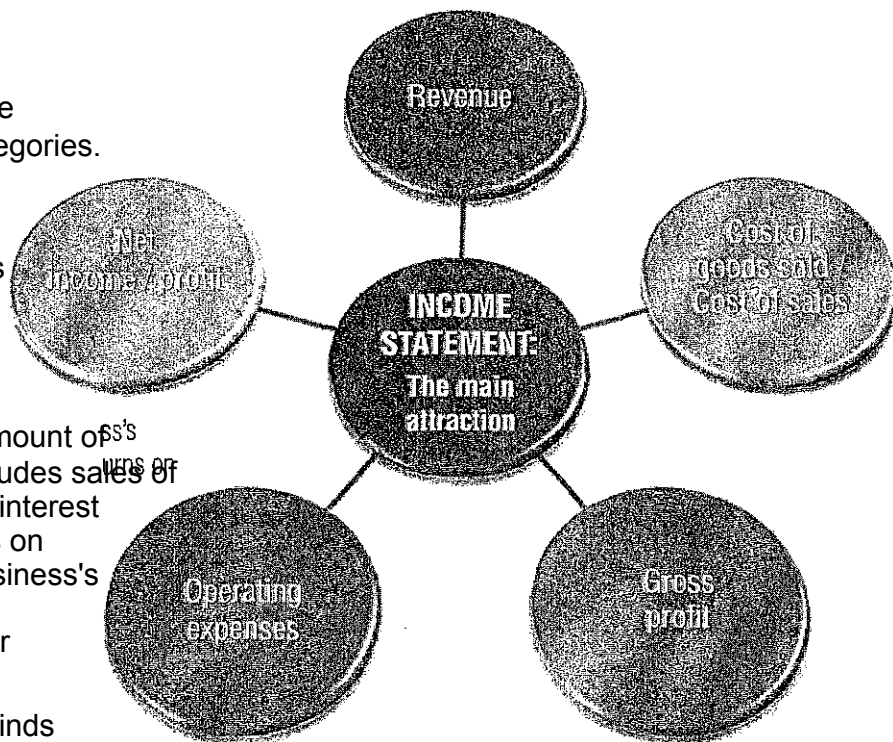


### The main attraction

No matter what you call it, an income statement has at least five main categories.

They include the following:

- Revenue
- Cost of goods sold/Cost of sales
- Gross profit
- Operating expenses
- Net income/profit



**Revenue.** Revenue is the total amount of <sup>of</sup> money earned by a business. It includes <sup>of</sup> sales of the business's goods and services, interest earned from bank accounts, returns on investments, and the sale of the business's assets. All money coming in to the business, no matter what the source, is revenue.

Think about how many different kinds of businesses exist and all the different ways there are to earn revenue. Some businesses sell services, while others sell goods.

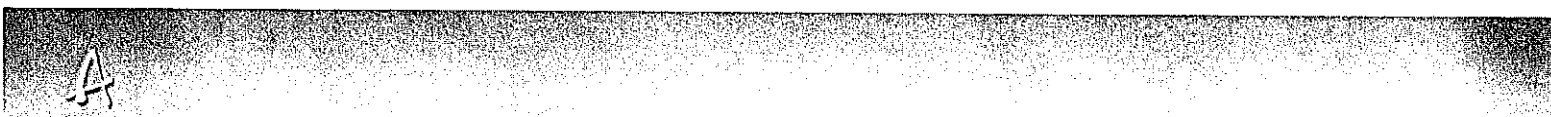
Hotels and resorts earn revenue by providing lodging and conference rooms for guests. Manufacturers such as the Ford Motor Company earn revenue by selling cars. What other examples can you think of?



A. 'There are so many different kinds of businesses, and just as many ways to earn revenue! Some businesses sell goods, like electronics or groceries. Other

Cost of goods sold/Cost of sales. This element of the income statement includes all direct costs to obtain and/or produce the goods or services that a business sells. This includes:

- Raw materials
- Labor
- Unsold items
- Returned items
- Packaging
- Supplies
- Stolen items
- Manufacturing overhead
- Shipping



costs associated with making a product. Most manufacturing firms list these expenses on their income statements as "cost of goods sold." Retailers have costs associated with obtaining goods from others and reselling them to ultimate users, while service providers are concerned with all costs directly associated with providing their services. Retailers and service providers usually list these expenses on their income statements as "cost of sales."

**Gross profit.** Businesses use the term "gross" when they are looking at a total sum of money. Gross profit is determined by subtracting the cost of goods sold from revenue. It is the total profit made *before all other remaining expenses have been deducted*. For example, you don't take operating expenses into account when calculating gross profit. Determining the gross profit helps businesses to see how much money they've invested in making or obtaining their products versus how much it costs to run the business. In this way, businesses are able to see what is costing the most money and can target trouble areas more effectively.

**Operating expenses.** This element of the income statement addresses all other expenses associated with the business, including:

- Employee wages/salaries
- Advertising
- Insurance
- Utilities (natural gas, electricity, water)
- Mortgage or rent
- Administrative costs
- Interest paid on outstanding



These are the expenses incurred from keeping a business's doors open. The business pays these expenses so it can operate. Operating expenses may be either variable (amounts that are constantly changing, such as advertising costs) or fixed (amounts that stay the same for long periods of time,

such as rent).

A business pays operating expenses so it can keep its doors open and continue serving customers. Operating expenses include things like utilities, mortgage or rent, and employee salaries.

Net income-the "bottom line." Here is where it gets exciting-net income is the business's final profit. This is the money the company actually makes after all expenses have been deducted

**W**hile all income statements should include the five categories listed previously, some will include other elements as well. Many income statements include something called earnings per share (EPS). This is calculated by dividing the company's net income by its number of outstanding shares of common stock.

"bottom line" depends on the accuracy of reported revenues and expenses. Since the income statement not only determines final profit but is also used to develop other financial documents, it must be as accurate as possible. Without an accurate income statement, a company can face serious consequences!

### The whole picture

The income statement shows a business's total financial picture-the good, the bad, and the ugly. This picture is cumulative. This means that each income statement represents a total for a specific time period, usually one year (although income statements can be produced for quarters or months if desired).

At the right is an example of a business's income statement. As you can see, the business's revenue equals \$6,019,040. This total includes all money that the business made, no matter what the source, for one year. By subtracting the cost of goods sold (\$3,912,376) from the revenue, the business is able to see its gross profit. And, when it also subtracts its operating expenses (\$1,846,668), the business is able to see its net income.

statements, operating statements, or profit-and-loss statements. Each income statement has at least five main categories-revenue, cost of goods

Income Statement	
Revenue	\$6,019,040.
Cost of Goods Sold	3,912,376.
Gross Profit	\$2,106,664.
Operating Expenses	1,846,668.
Net Income	\$259,996.

Businesses must be able to see cumulative totals such as those in this sample income statement so that they can identify where they are successful and where there might be trouble brewing. To ensure that the total for each category is correct, however, a business is also likely to develop a more complex income statement containing an extensive breakdown of income or expenses within each category.

### Summary

An income statement is a financial summary that shows how much money a business has made or has lost over a period of time. In other words, it is a financial picture that lists all revenues and expenses for a certain time period. Income statements are sometimes called earnings

1. What is an income statement?

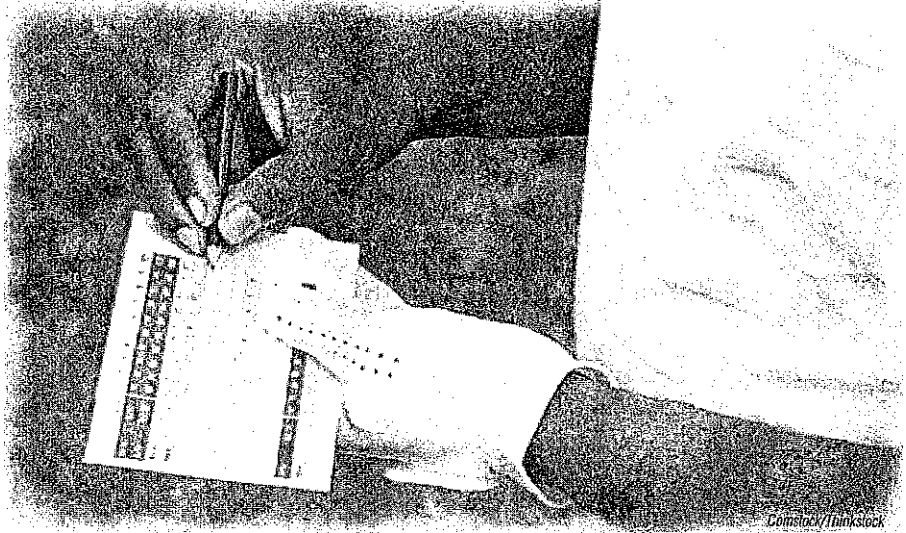


# Up to Par With Income Statements

When professional golfers play in important tournaments, how do they prepare? Do they just step onto the green and start swinging? Of course not! They review their scorecard first. The scorecard lists each player in the group, the 18 different holes on the course, and par (the established score) for each hole. Golfers use scorecards so that they know what their own score is for each hole in comparison to other golfers and par.

At the end of the match, the golfers' scores are totaled on the scorecard and compared with each other to determine the winner. By comparing scorecards kept over time, golfers can see if their game is improving, where their strengths are, and which shots are giving them the most trouble.

In the same way, managers routinely analyze their company's income statements when making significant business decisions. Just like a scorecard, the income statement is a business's best source of information regarding how well it is doing and where its weaknesses are. For example, net profit shows the business how much money it's making or losing.



4 Just like a golfer's scorecard, a business's income statement is a source of information regarding strengths and weaknesses. The income statement can help managers make significant business decisions.

If the business discovers that it's losing money, it must be able to see where this is happening and make necessary adjustments. This is critical for the business's survival. In essence, the income statement is the business's scorecard.

## Winning with the Income Statement

Now that you know what makes up an income statement and why it's important, let's take a look at how a business puts one together. First, the business gathers information that

A high gross profit margin indicates that a business is making a reasonable profit on sales. A low margin means that the business may need to find ways to better control expenses and lower operating costs.

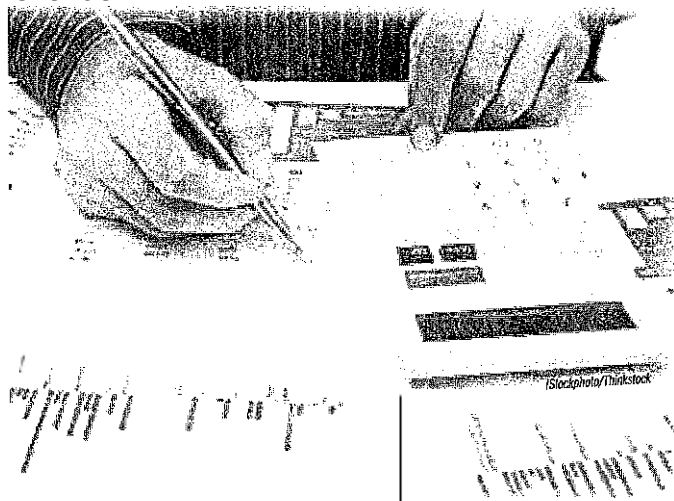
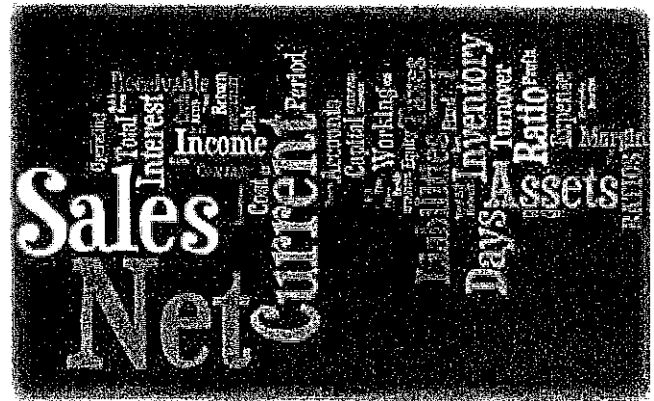


Even though the business now has all the information it needs, there's still more work to do! At this point it's time to transform the final numbers into financial ratios. A **ratio** is created when one number is divided into another. Ratios show the relationship between different numbers and can be compared by category, over time, and to the competition. For example, the gross profit margin ratio shows how efficiently a business uses materials and labor in the production process (compared to last year, to the competition, or to expectations). It is calculated by dividing gross profit by total revenue. A high gross profit margin indicates that a business is making a reasonable profit on sales. A low margin means that the business may need to look at better controlling expenses and lowering operating costs.

There are over 100 different ratios that can be created from a business's financial statements. Read on to find out the different ways ratios calculated from the income statement are used in business decision making.

**Comparing categories.** By themselves, the elements of an income statement are simply categories\_and totals. A business needs to be able to see how the categories are affecting each other and the bottom line. Is the business spending too much on operating expenses? Are sales keeping up with expenses? Is the business earning more profit than it is spending for the cost of goods sold? The answers to these questions are critical for the business's stability and financial success.

Let's look at what a business can learn from comparing the categories of operating expenses and revenue. If operating expenses increase 20% in one year and revenue stays the same, the business knows that it is still making the same amount of money but spending more to get there. Now, the business needs to devise strategies to either decrease operating expenses or increase revenue.



**Comparing categories over time.** A business not only needs to know its financial circumstances for one year, but also over a longer period of time. What if a business wants to know how much it spent on expenses last year compared to this year? Or, what if it wants to know if profit has been improving over the last five years? To determine this, a business needs to be able to compare numbers from income statements of different years.

Suppose there seems to be a steady increase in revenue, but the business wants to know *exactly* what the sales growth has been over time. By comparing sales numbers from two different income statements, the business can calculate sales growth. The sales growth ratio is used to determine any rise (as well as loss) in sales over time. Monitoring sales growth is critical-a business needs to track sales over time so it

Comparing numbers from income statements of different years can be helpful in many different situations. For example, a business might want to know how much it spent on expenses last year compared to this year. Or, it may want to know if profit has been improving over the last five years.

can see how sales are affecting other areas of the business. For example, if the overall costs from the business are on the rise, then the business needs to watch for a related increase in total sales. If sales don't increase over time, the business knows that its revenue is not keeping up with its costs.

relation to those of the competition. Is the business improving or deteriorating? Is it generating enough sales to obtain an acceptable profit? How effectively is the business managing operating expenses? Is the business producing a product for more or less cost than its competitors? By comparing numbers from its income statement with those of its competitors, a business can find out if it is operating as profitably as it should be.



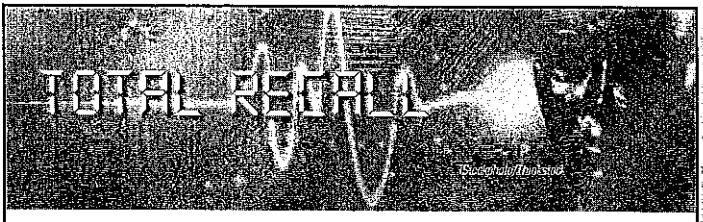
Let's say that a local business realizes it is making the same net profit as its leading competitor by spending 10 percent more for the cost of goods sold. The business can then begin looking for ways to cut back on production costs so that it can become as efficient as its competitors. With a competitive analysis, the business has a better understanding of what goods or services it should be offering, how to market them more effectively, and how best to manage costs of operations and sale of goods.

### Whose job is it, anyway?

Who analyzes a business's income statement? Usually, it's the people who are responsible for the financial status of the business and other people who are interested in the business's profit. Let's take a look at the different people who keep their eye on that bottom line.

Top executives and managers. Top executives and managers look at ratios to monitor operations and determine whether their company is running efficiently. They regarding how well it is doing and where its weaknesses are. Over also use the income statement to monitor yearly profit activity. If the business starts to lose profit, its ability to used in business decision making. Businesses use them to compare survive, grow, and expand is impacted.

Monitoring profit activity also means deciding what to do with earned profit. The income statement enables top executives and managers, executives and managers to know exactly how much profit creditors, and investors.



**Creditors.** Creditors utilize information generated from the income statement to review a business's financial status. That's because creditors are responsible for deciding if a business is granted a loan or a cash advance. When a business applies for a loan, it provides information on pay loan balance. Creditors use this information to help assess the business's creditworthiness and the risk of extending credit. In essence, it provides the proof of the business's financial security and prosperity.

**Investors.** Investors, who have partial ownership of a business, use the income statement to monitor profit levels. These investors may have money invested directly in the business, or they may be stockholders. Stocks are shares of ownership in a business. The value of the stock depends on how much profit the business has been able

to make over time and the potential of the business to continue making a profit. Ratios

- How are financial ratios associated with income statements?
- How are income statements used in business decision making?
- Who analyzes income statements?

calculated from the income statement (such as earnings per share) allow investors to monitor how much profit the business is making and assure them that they are getting a good return on their investment.

Information from the income statement is important not only to current investors but also to potential investors. They want to be sure that the business is in good financial standing, of course! Before potential investors put their money into a business or buy any stock, they investigate whether the business expects to make a profit and how large the business expects that profit to be.

# Make It

# Pay!

Income statements aren't just for businesses-you can make one for yourself, too! Think about all of the money you bring in. Do you get an allowance or have a job? Then, think about how much money you spend. Do you pay for lunch, your cellphone bill, or gas for your car? What do you think your income statement would look like? Are you making a profit or suffering a loss? How can this information help you budget for the future?



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## UP CLOSE AND PERSONAL

**Directions:** Income statements are critical for a business's success. This activity will allow you to get up close and personal with a real income statement. Access the Internet or go to your local library or media center to obtain a real business's income statement. Answer the following questions. When you have finished, discuss your responses with your instructor.

1. What is the name of the business you chose?
2. What type of business is it?
3. What was the business's revenue?
4. What was the business's cost of goods sold/cost of sales?  
List some specific examples, if possible.
5. What was the business's gross profit margin?
6. Use the gross profit margin formula {revenue - cost of goods sold} to see if you come up with the same number.
7. What were some of the business's operating costs? List at least three examples.
8. What was the business's net profit?
9. In your opinion, is the business's net profit a successful increase for the year?
10. List ideas for investing the business's earned profit.

Initially, this may seem an overwhelming task for the students operating the School Store, but it is an important part of running a business.

Typically states require a Retail Sales Tax License. Sales taxes are collected on all sales. To ensure that no mistakes are made in sales tax calculation, students working the School Store can easily create a sales tax chart. The collected taxes are remitted to the state on a monthly, quarterly, or yearly basis using a tax reporting form supplied by the state.

## **Inventory - Profit and lost Statement**

In any operation concerning the sale of merchandise, it is desirable to know the amount of profit that is made. A more graphic way to express it is:

**ASSETS- LIABILITIES= NETWORTH (PROFIT)**

**OR**

**STOCK ON HAND+ CASH IN BANK - BILLS OWED = NET WORTH (PROFIT)**

The merchandise in any inventory represents not pencils, erasers, and rulers, but money. The question is: How much money?

Once inventory taking has started, no selling should be done until it is completed. All that is needed are several people - the more the better - who can count. They can be, but need not be, the store personnel. (Use the suggested inventory sheet found in Appendix G). The people counting move from item to item noting the quantity of each item. Each person then writes the physical count of each item they were assigned on the inventory sheet. Items should be counted again by at least one other person as an accuracy check.

At the end of the physical count there will be a complete list of all items in the inventory plus the total quantity of each item.

The inventory now needs to be priced at cost. The cost is the wholesale price that the school pays for each item. This figure should be obtained from the vendor's latest invoices or from an item cost book made up from the vendor's invoices. Do not use a vendor's catalog as prices change and you may get an incorrect cost.

To figure the inventory, multiply the quantity times the unit cost for each inventory item and you will get the wholesale cost for each. Then run a grand total. This is the total wholesale cost (and value) of that particular inventory.

### **Profit and Loss**

To do a proper Profit/Loss Statement a definite starting point and stopping point is necessary. Two inventories are needed. One is called an opening inventory and the second is the closing inventory. A suggestion - the period of time between the two should be no less than three or four months unless a tremendous amount of merchandise is sold. (See Appendix J for a Profit/Loss Statement.)



## Appendix}

### School Store Profit/Loss Statement

Income from Sales ..... \_\_\_\_\_

(This is the total of cash receipts)

#### Cost of Goods Sold:

Opening Merchandise Inventory. .... \_\_\_\_\_

Plus Purchases ..... \_\_\_\_\_

Total Merchandise Available

For Sale ..... \_\_\_\_\_

Less:

Closing Merchandise

Inventory ..... \_\_\_\_\_

= Cost of Goods Sold ..... \_\_\_\_\_

Gross Profit on Sales ..... \_\_\_\_\_

(Income from Sales - Cost of Goods Sold)

# Count the Cash

Cash Flow Statements

The in's and out's  
of cash

What's the forecast?

Keep your balance



So What



Cash In,

Cash Out

Cash-it's what makes the world go around. Businesses, just like you, need cash to survive. In fact, making sure they have enough cash to operate is one of businesses' most important financial activities. It involves managing the cash flow: the movement of funds into and out of a business.

A couple of weeks ago, Naomi borrowed \$20 from her friend Sidney. She promised to pay Sidney back by the end of the month-today-'with money that she expected to earn by babysitting her cousins during her aunt's business trip. Unfortunately, the aunt's trip was cut short, so Naomi didn't babysit as much as she had hoped. Now, she only has \$14, which is not enough to pay off her debt. In other words, her cash flow is out of balance. She owes more money than she has.

Sometimes, businesses find themselves in the same situation. Sales revenue may go down even when expenses do not, making it difficult to pay all of the bills coming due. To avoid this problem, businesses monitor their cash flow--using cash flow statements.

Oh, it's important!

Despite their many differences, businesses and individuals have at least one thing in common: They all need cash to survive.

# Objectives

Why is this flow of funds so important? Because it determines the amount of cash the business has to work with at any given time. Businesses that run low on cash may

face serious problems. They may not be able to cover their expenses. They may not be able to pay their employees. They may even fail.

And, even businesses that make a profit may experience cash-flow problems, depending on the sources of cash flowing in.

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Describe the nature and importance of cash flow.

Unfortunately, some sources of cash are more reliable and steady than others.

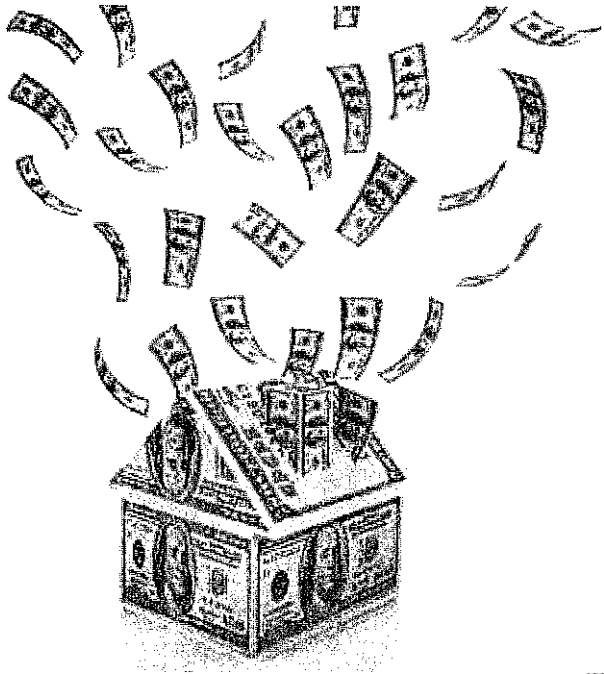
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Describe the components of a cash flow statement.

### Money, Money Everywhere

Simply put, it takes money to make money. Money must flow into a business for it to make a profit. Let's examine sources of cash that flow *into* a business.





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/r/ninks/ock

**0** Cash flows in and out of most businesses on a continuous basis.

rs usually  
in financing  
onal savings to  
go into business. In other words, money must  
flow into a business before it can even exist.  
This initial flow of money is used for start-up  
costs, including equipment purchases,  
supplies, inventory, rent, and business  
licenses.

**Sale of products.** Once established, sales are the primary source of cash flowing into the business. For example, a music store receives payments from the sale of instruments, equipment, and supplies. It also receives money for services such as lessons and repairs.

**Loans.** Businesses often obtain loans from banks or investors. A thriving business may use loan money to expand its operations. On the other hand, an ailing business might use borrowed money simply to survive.

**Interest.** Some businesses receive cash in the form of interest-money payments for the use of borrowed money. Interest is usually obtained in one of two ways. First, some businesses charge their customers interest in exchange for the ability to purchase products on credit. Second, some businesses invest funds in interest-bearing accounts such as savings accounts so that they can receive payments for the use of their money.

**Sale of assets.** Assets are anything of value that a business owns. In some cases, businesses have assets that they no longer need. Selling these assets brings in cash. For example, a business owns land but decides to move. It sells the land, which is an asset, and obtains cash.

## It's a Two-Way Street

You might think that with all of this cash flowing in, businesses would have all of the money they need. However, what flows in also flows out to pay expenses. Let's look at some of the sources of cash that flow *out* of a business.

**Operating expenses.** Operating expenses, which are all of the expenses involved in running the business, are often one of the largest sources of money flowing out of a business. What are some of these expenses?

One of the most important is *payroll*. Businesses must pay employees for their labor. Many businesses also pay for employee benefits such as health insurance, paid vacation and sick time, and retirement savings. For some businesses, payroll is their largest expense.

Another important operating expense is *rent*. Usually, when a business rents property, it is for a specific period of time for a certain amount of money. For instance, an accounting firm might agree to pay \$3,500 a month to rent an office for one year. Or, a small advertising firm might agree to rent four computers for \$200 per month.

Black Friday is the day that many retailers begin to make a profit for the year and go from being in the red to the black.





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## Objective



iStockphoto/fllrrk.Sloek

**Q** Operating expenses such as utility costs are often one of the largest sources of money flowing out of a business.

**Cost of goods.** This is a major expense for businesses that buy goods for resale. As an example, imagine the amount of money a shoe store spends on inventory. The store needs many types of shoes in a wide assortment of colors and sizes. And, it needs to buy more shoes on a regular basis to replace the ones that are sold.

Also, consider the manufacturers of those shoes. They have money tied up in the cost of the goods, or raw materials, needed to produce shoes. Raw materials include leather, plastic, dye, glue, etc..The

A business must also pay *utility costs*, another operating expense. Utility costs are charges for the use of electrical, gas, and water services. In addition, businesses must pay for telephone and Internet services.

What about supplies? Businesses cannot operate without supplies, which are industrial goods that are constantly being purchased and used up in the operation of a business. For example, most businesses need paper, pens, paper clips, staples, etc. Specialized businesses may need unique supplies such as napkins, towels, or plastic bags. In some cases, the cost of supplies is a major operating expense.

Some types of businesses also pay *shipping and delivery expenses*, including the cost of packing boxes, tape, and labels. Shipping also might include postage, transportation, or delivery charges.

Most businesses know that more customers mean more sales. Therefore, they spend money on advertisements intended to make the public aware of their products. Some advertising fees result in a great deal of money flowing out of the business. For example, a business that airs a commercial during a Super Bowl game might spend several million dollars.

Finally, businesses pay fees to insurance companies in exchange for financial protection against such things as fire, theft, employee injuries, and lawsuits. Unfortunately, insurance premiums are often costly, depending on the type of business, its size, and where it is located.

Although many businesses have a lot of operating expenses, there are other sources of cash that flow out of the business. Some of these can be high, also.

manufacturers buy these materials constantly to keep production going.

**Assets.** To obtain assets, business owners must spend money. This results in cash flowing out of a business. Some examples of business assets include land, buildings, vehicles, and equipment Can you think of others?

**Owner equity.** Like employees, business owners need money to live on. Therefore, they take money out of the business to pay themselves. For instance, the owner of a beauty salon might withdraw \$4,000 per month from the business to pay personal expenses such as his/her mortgage payment, utilities, food, etc.

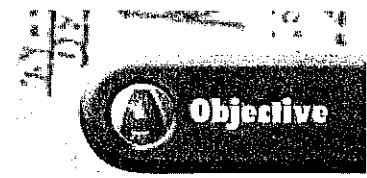


() Businesses that buy goods for resale, including retailers and wholesalers, use much of their cash to purchase inventory. This expense is known as cost of goods.

**Loan payments.** Loans are a source of cash flowing into and out of a business. When businesses borrow money, they usually pay the lender a certain amount of money per month for a period of a year or more. Included in that monthly payment is an interest payment for the use of the borrowed money. Let's say that a pet store borrows \$10,000 from a commercial bank to remodel. To do so, the store agrees to pay back the loan at 6% interest over three years.

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**Count the Cash**



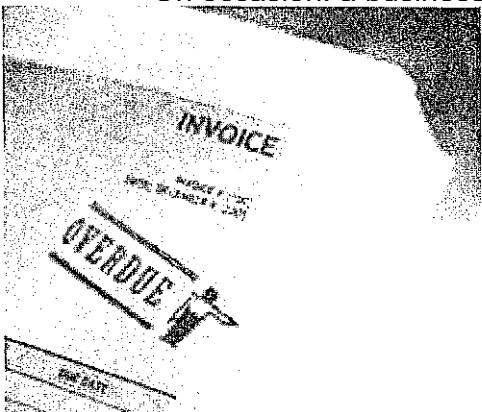
# Objective

**Taxes.** Paying taxes is part of business. There's income tax, property tax, sales tax, payroll tax, etc. Tax money flows out of businesses on a regular basis, such as quarterly or yearly. Forgetting to pay taxes on time can result in a penalty that costs the business even more money.

**Miscellaneous.** Some expenses only occur occasionally-including legal fees, maintenance and repairs, losses due to uncollectible accounts, or emergencies. Nevertheless, these costs may be high. A business being sued by a customer might spend thousands of dollars in attorney and court costs. Or, a business might spend a lot of money obtaining patents, licenses, and permits.

Maintenance and repair services also result in money flowing out of a business. Examples of such expenses include: the cost of repairing a malfunctioning machine, payments made to a carpet cleaning service that cleans the office's rugs twice a year, or the cost of repainting the walls in the office.

On occasion, a business's customers might be unable to pay for goods obtained. When these accounts are not received, the cash they expected costs the business money.



That there will be unexpected emergencies that also cost money. Running out of toner for the copier and a fee for an overnight shipment. Whatever can be a drain on cash flow.

For example, a business to operate even when sales are down. Most businesses, for example, have times when more cash flows in than out. This results in a surplus of cash. Saving or investing the surplus will create a safety net for the slow times. Then, businesses can dip into the surplus to keep the cash flow balanced.

*Stockbyte/Stockbyte/111/nkslock*

() If you were a business, how would you decide when customers' accounts are uncollectible?

# GRAY ZONE



## Count the Cash

Imagine that a small business applies for credit that it plans to use primarily to expand operations. Based on the cash flow statement that it provides to the bank, the business's cash flow is projected to be in balance for the next six months. Personally, though, the owner of the business is less optimistic about the future. He recently learned that one of the business's biggest customers is having financial difficulties. As a result, he speculates that the customer may not be able to repay the business for a shipment that it bought on credit last month. Nevertheless, since this is just speculation on his part, the owner doesn't feel it's necessary to share this information with the bank. His business will still be able to make its loan payments, and the bank is likely to never know about any loss in income that the **business experiences.**

Is it ethical for the business owner to withhold information about this customer from the bank? After all, he doesn't have any definite proof that the customer won't be able to pay its debts. Or, is he obligated to disclose his concerns? Should the business's cash flow statement reflect his less-than-rosy vision of the future?





## Objective A

Some types of businesses, especially seasonal businesses, rely on a cash surplus more than other businesses. A camp ground with an RV park is a good example. Campgrounds typically earn the bulk of their income during spring, summer, and fall. Unfortunately, campgrounds still have bills to pay, including loan payments, insurance, and taxes, during the off-months. Without an adequate surplus of cash, these businesses might not be able to pay all of their bills year round.

### Summary

Managing cash flow is an important financial activity. To be successful, more money must flow into a business than flows out of it. Sources of cash include start-up money, sale of products, loans, interest, and sale of assets. With an adequate cash flow, businesses can pay their expenses and continue to operate. Cash typically flows out of a business to pay operating expenses, cost of goods, assets, owner equity, loan payments, taxes, and miscellaneous other expenses.



## TOTAL RECALL

1. What happens to businesses if they fail to monitor their cash flow?
2. Explain five sources of cash flowing into a business.
3. Explain *seven* reasons that cash flows out of a business.
4. Describe types of operating expenses.
5. Explain why businesses often keep a cash surplus



## Objective B

# Put It on Paper

How do businesses keep track of cash flow? They prepare cash flow statements. This statement is a business's best guess, or estimate, as to when, where, and how much money will flow into and out of the business.

## When?

**When?** Knowing when money will flow in and out is important because it warns businesses when they will be low on cash.

Preparing a cash flow statement helps a business identify the high points, so it can be ready to handle the low points. It also allows a business to identify the specific months in which certain sources of cash will be collected. By doing so, a business can plan when to pay bills. For example, many retailers earn most of their cash during the holiday shopping season in November and December. They use this cash to keep them going until the next year.

**Where?** Knowing where the money will come from is also important. Consider retailers again. They know most of their cash will be the result of selling goods to customers. This is usually a safe source because customers often use credit cards that guarantee payment. They also pay with debit cards and cash so retailers get their money right away. However, some businesses sell to other businesses on credit. Then, they need to make sure those businesses pay back their loans as soon as possible.

**How much?** This is probably the most important piece of information that a cash flow

statement provides. Businesses need to know whether they will have enough cash coming in to meet monthly obligations. When businesses discover that they will not have enough money, they can do such things as plan a sale to generate more income or tighten their credit policy.

Financial statements can be used to show that the business is creditworthy. When businesses find that they will be spending too much money, they can reduce expenses by moving to cheaper offices, laying off employees, finding cheaper suppliers, etc.

employees, finding cheaper suppliers, etc.

### Finding the Information

How do businesses find the information to include in cash flow statements? That can be a problem for new businesses because they do not have financial data from previous years. As a result, they often rely on figures obtained through research. Their estimates help them to determine the amount of cash needed to survive until they begin to make a profit.

**Objective**

Businesses use information from past financial statements to determine how much cash came out of the business. They often review statements to determine how much cash came out of the business. Then, they combine this information with figures related to industry trends. Industry trends are the direction in which a particular industry is moving. For example, maybe the residential sales industry is expecting sales to decrease due to a weak, shrinking economy. As a result, individual homebuilders might estimate that their sales will decrease as well.

**Writing it Down**

Businesses do more than just gather financial information. They organize it into the cash flow statement and then analyze it. The format of a cash flow statement is pretty basic. Running along the left edge of the statement is a wide column, divided into seven parts: beginning cash balance, cash receipts, total cash receipts, total cash available, cash payments, total cash paid out, and ending cash balance. Next is a series of vertical columns which indicate each month of the tax year. A cash flow statement looks something like this:

**Cash Flow**

- Cash Payments
- Total Cash Paid Out
- Ending Cash Balance

When a business prepares a cash flow statement, it considers its own particular situation. It considers how much cash it has on hand, the sources of its income, and the expenses it needs to pay. Then, it takes the information and places it under the appropriate category on the statement. Let's examine the parts of a cash flow statement in more detail.

**Beginning cash balance.** This is the amount of money a business has available at the beginning of each month. For a new business, this amount includes all of the monies obtained from sources such as loans, personal savings, and investors. For an existing business, it includes how much cash is on hand and in the bank. The beginning cash balance is the same as the amount listed as the previous month's ending balance.

**Cash receipts.** These are the specific sources of money flowing into the business (e.g., cash from the sale of goods and services, loans, the sale of assets, and interest income). Only the cash that the business actually collects is listed under cash receipts. If a business has cash sales of \$4,000 and credit sales of \$3,000 during the month, only the \$4,000 can be recorded. The \$3,000 in credit sales is cash that the business will receive in the future and is referred to as accounts receivable. The business doesn't record the credit sales until the cash is received. Otherwise, the business appears to have more money on hand than it actually does.

**Total cash receipts.** This amount is determined by adding all of the sources of income that the business lists under cash receipts. For example, a business that generates cash by selling products, earning interest on investments, and taking out loans

**Profit & Loss Statement**

(Period ending December 31, 20XX)

Sales	\$350,000
Cost of goods/Cost of sales	\$175,000
Gross profit	\$175,000
Operating expenses	\$25,000
Operating profit	\$150,000
Interest expense	\$32,000
Pre-tax profit	\$118,000
Income-tax expense	\$52,500
Net income	\$65,500

	J	F	M	A
1. Beginning Cash				
2. Cash Receipts				
a. Sales				
b. Interest				
c. Sales of Assets				
3. Total Cash				
4. Total Cash				
5. Cash Payments				
a. Cost of Goods				
1. Inventory				
2. Raw				
b. Fixed Expenses				
1. Rent				
2. Payroll				
c. Variable				
1. Advertising				

would add all of those amounts to calculate total cash receipts.

**Total cash available.** A business determines the amount of cash it will have available to spend each month by adding its total cash receipts to its beginning cash balance. If a business's beginning cash balance equals \$2,500 and its total cash receipts equal \$4,000, its total cash available would be \$6,500.

**Cash payments.** Cash payments refer to the sources of cash flowing out of the business. They can be broken down into three parts: cost of goods, fixed expenses, and variable expenses.

**Count the Cash**

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and Curriculum Center®

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Inventory purchases and raw materials are listed under Cost of Goods. Both costs are money flowing out of a business to produce or sell goods to customers. The expenses listed under Fixed Expenses and Variable Expenses depend on whether they change along with changes in sales volume. Fixed expenses stay the same regardless of a business's amount of sales. This category includes costs such as payroll and rent that a business must pay even if its sales are zero for the month. However, the variable expenses change when sales levels change. For instance, an increase in sales might mean an increase in the cost of shipping products to customers.

**Total cash paid out.** A business determines its total cash paid out by adding up all of its cash payments. It adds the total cost of goods, fixed expenses, and variable expenses.

**Ending cash balance.** This is the amount of cash that a business has left at the end of the month. A business calculates this amount by subtracting the total cash paid out from the total cash available.

### What All This Means

After completing the cash flow statement, a business can easily calculate its anticipated monthly cash flow. Cash flow is calculated by subtracting total cash paid out from total cash receipts. The formula looks like this:

$$\text{Total Cash Receipts} - \text{Total Cash Paid Out} = \text{Cash Flow}$$

Cash flow information is vital to the business's survival. In fact, the cash flow statement is an indicator of a business's financial condition. A negative cash flow indicates that the business will need to borrow funds or withdraw cash from a bank account to continue operations. A positive cash flow means that the business is solvent and has enough money on hand to meet its monthly obligations. Businesses with extra cash are able to invest that money in the business to grow and expand. This usually generates more sales, more cash, and more profit. The result is a successful, prosperous business that has the cash to continue growing and cash reserves to protect it from the ups and downs of the marketplace.

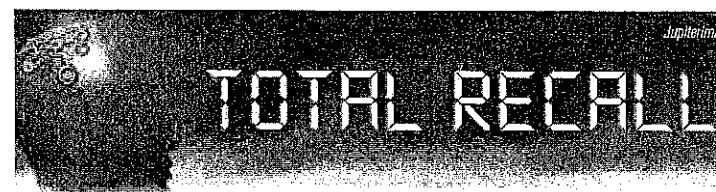
### Summary

A cash flow statement provides an estimate as to when, where, and how much money will flow into and out of a business. It is divided into seven basic parts: beginning cash balance, cash receipts, total cash receipts, total cash available, cash payments, total cash paid out, and ending cash balance. Cash flow is calculated by subtracting the total cash paid out from the total cash receipts.

# 1 M i : k . t - c l ' 1 P a y !

You may not be running a business, but you have cash flow to manage. You probably have a part-time job or some other source of income. You also have expenses, and you may be trying to save money to buy a car or to help pay for college. To do this successfully, you can manage your cash the same way businesses do.

First, make a mental tally of your income for a typical month. Include only the cash you are certain to receive. Then, add up all of the expenses that



1. Explain how a cash flow statement helps a business to determine

when, where, and how much money will flow into and out of the business.

businesses find the information to include in cash flow statements?

2. How do new and existing you usually pay during a month. Is your income more than your expenses? Hopefully, your answer is "yes." If not, you have two options-either reduce your expenses, or find a new way to

- a. Beginning cash balance
- b. Cash receipts
- c. Total cash receipts
- d. Total cash available

3. Describe each of the following components of a cash flow statement:

- e. Cash payments
- f. Total cash paid out
- g. Ending cash balance

bring in more income.

4. What does a positive cash flow mean to a business?

## CALCULATING CASH FLOW

**Directions:** Calculate the business's monthly cash flow, and write your answers in the spaces provided. Then, complete the questions at the bottom of the page. When you are finished, ask your instructor for a copy of the answer guide.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>1. Beginning Cash Balance</b>	8,300	600	4,300	9,000	-11,800	-13,525	-13,000	10,800	7,400	2,650	-1,275	2,400
<b>2. Cash Receipts</b>												
A. Cash Sales	2,000	5,000	5,500	7,000	8,000	8,650	9,000	9,800	11,000	9,000	10,525	15,275
B. Receivables	0	300	1,000	1,500	2,000	2,500	3,500	3,800	2,000	1,775	3,000	3,250
C. Sale of Assets	0	0	0	0	0	0	0	0	1,000	0	0	850
<b>3. Total Cash Receipts</b>	2,000	5,300	6,500	8,500	10,000	11,150	12,500	13,600	14,000	10,775	13,525	19,375
<b>4. Total Cash Available</b>	10,300	5,900	2,200	-500	-1,800	-2,375	-500	2,800	6,600	-8,125	12,250	21,775
<b>5. Cash Payments</b>												
A. Cost of Goods Sold												
B. Advertising	600	800	900	950	1,000	400	900			900	950	1,000
C. Supplies	400	300	200	500	600	650	100	800	850	200	100	200
<b>6. Total Cash Paid Out</b>	9,700	10,200	11,200	11,300	11,725	10,625	10,300	10,200	9,250	9,400	9,850	10,400
<b>7. Ending Cash Balance</b>	600	-4,300	-9,000	-11,800	-13,525	-13,000	-10,800	-7,400	-2,650	-1,275	2,400	11,375

During which months will more money flow out of the business than flow in? What does this suggest?

During which months will more money flow into the business than flow out? What does this suggest?





## CALCULATING CASH FLOW-ANSWER GUIDE

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1. Beginning Cash Balance	8,300	600	-4,300	-9,000	-11,800	-13,525	-13,000	-10,800	-7,400	-2,650	2,400	7,400
2. Cash Receipts	2,000	5,000	5,500	7,000	8,000	8,650	9,000	9,800	11,000	9,000	10,525	15,275
A. Cash Sales	2,000	5,000	5,500	7,000	8,000	8,650	9,000	9,800	11,000	9,000	10,525	15,275
B. Receivables	0	300	1,000	1,500	2,000	2,500	3,500	3,800	2,000	1,775	3,000	3,250
3. Total Cash Receipts	2,000	5,300	6,500	8,500	10,000	11,150	12,500	13,600	14,000	10,775	13,525	19,375
4. Total Cash Available	10,300	15,900	2,200	-500	-1,800	-2,375	-500	2,800	6,600	-8,125	12,250	21,775
5. Cash Payments	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
1. Advertising	600	800	900	950	1,000	400	900	500	700	900	950	1,000
2. Supplies	400	300	200	500	600	650	100	800	850	200	100	200
6. Total Cash Paid Out	9,700	10,200	11,200	11,300	11,725	10,625	10,300	10,200	9,250	9,400	9,850	10,400
7. Ending Cash Balance	600	-4,300	-9,000	-11,800	-13,525	-13,000	-10,800	-7,400	-2,650	-1,275	2,400	11,375
Cash Flow	-7,700	-4,900	-4,700	-2,800	-1,725	525	2,200	3,400	4,750	1,375	3,675	8,975

1. Rent	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
2. Payroll	3,000	3,000	3,000	3,000		3,000	3,000	3,000	3,000	3,000	3,000	3,000
3. Depreciation	0	0	0	0	0	0	0	0	0	0	0	0
4. Interest	0	0	0	0	0	0	0	0	0	0	0	0
5. Dividends	0	0	0	0	0	0	0	0	0	0	0	0
6. Total Cash Paid Out	9,700	10,200	11,200	11,300	11,725	10,625	10,300	10,200	9,250	9,400	9,850	10,400
7. Ending Cash Balance	600	-4,300	-9,000	-11,800	-13,525	-13,000	-10,800	-7,400	-2,650	-1,275	2,400	11,375
Cash Flow	-7,700	-4,900	-4,700	-2,800	-1,725	525	2,200	3,400	4,750	1,375	3,675	8,975

During which months will more money flow out of the business than flow in? What does this suggest?

*More money will flow out of the business than flow in from January through May. This suggests that the business will need to borrow funds from a bank or an investor or withdraw cash from a bank account in order to continue operations.*

During which months will more money flow into the business than flow out? What does this suggest?

*More money will flow into the business than flow out from June through December. This suggests that the business will have enough money to meet its monthly obligations.*



# Accounting

Accounting for the School Store can be a very simple thing if desired. As in any business, one needs to know income and expenses. One should start with a known petty cash amount each day, and subtract that from the daily total to get the daily total receipts.

There are four ways to handle income:

1. Many schools just use a cash box. The obvious problem is that there is no real control.
2. Some schools use a cash box in conjunction with a stock list. The clerks, or one person appointed to do it, make a mark after each item as that particular item is sold. Then, at the end of the day, an attempt is made to balance the money in the cash box with the marks on the list. Experience has shown that this method does not always work as the school store is busy. When sales clerks get busy, they may mark a wrong item, or fail to make any mark at all. Consequently, the marks and the cash box do not balance. Supervising teachers /advisers should stress the importance of accuracy to sales clerks with this method is used.
3. Many schools use a cash register. This is obviously the best method, as it records transactions on a tape. The money on the tape must equal the money in the drawer. It is an excellent control. The obvious disadvantage of the cash register is its cost, although they can be purchased for as little as \$250.
4. The last suggestion, and one seldom thought of, is the use of a calculator with a tape in conjunction with the cash box. At the end of the selling period, the tape total should be checked against the total of the cash box. The totals should agree.

Now to accounting! In the simplest form, it is nothing more than a loose-leaf binder divided into two sections. The first section could be entitled "Receipts/Expenses." A suggested column layout for this section is below:

Date	Receipts	Expenses	Balance	Invoice	Date	Amount
10/6/00	15.00		15.00			
10/7/00	10.00		25.00			
10/8/00	20.00		45.00	#9615	10/8/00	20.00
10/9/00	10.00		55.00			
10/10/00	Inv 9615	20.00	35.00			

There are a number of varieties to this basic system. In the event that the store is financed by school funds, that amount should be entered in the "Receipts" column at the beginning and the source of the funds noted.

In many school systems, regulations require receipts to be turned into the office on a daily basis. In any case, whatever the requirements, funds turned over to anyone else by the school store supervising teacher/adviser should be accounted for by a receipt for those funds. The receipt should be kept in the records of the supervising teacher/adviser.

1. Inventory	2,700	3,000	3,800	3,900	4,000	3,700	3,500	3,200	2,100	2,300	2,500	2,700
<b>Purchases</b>		0										
<b>2. Raw Materials</b>	1,500	1,600	1,800	1,450	1,625	1,375	1,300	1,200	1,100	1,500	1,800	2,000
<b>B. Fixed Expenses</b>												
1. Rent	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500

3,000 | °C 13:000,, 3,000 3,000 3,000 3,000

**5. Cash Payments**

A. Cost of Goods



1. Inventory Purchases	2,700	3,000	3,800	3,900	4,000	3,700	3,500	3,200	2,100	2,300	2,500	2,700
------------------------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------

B.

			1,450	1,625	1,375	1,300	1,200	1,100	1,500	1,800	2,000
--	--	--	-------	-------	-------	-------	-------	-------	-------	-------	-------

The other section of the loose-leaf binder could be entitled "Purchases/Invoices". Incoming merchandise must be covered by an invoice which lists the item and the cost per unit. Some, but not all, list the suggested retail price of the items. The following is a sample section of such an invoice.

<b>Ck</b>	<b>Quantity</b>	<b>Retail Price</b>	<b>Stock</b>	<b>Description</b>	<b>Price</b>
-----------	-----------------	---------------------	--------------	--------------------	--------------

Some companies sell prepaid or delivered which means there is no delivery charge. Others sell F.O.B. ship ping point which means that there is a delivery charge and you pay for it. For example, if the merchandise cost is \$100 in Detroit and the shipping charges are \$10, it means that the merchandise actually costs \$110 or 10 percent more than it would cost you in Detroit. Many customers ignore or forget shipping costs. They should not, as shipping is expensive. The only other aspect of school store accounting is an optional one - the stock record. Listed below is an example of a stock record.

### **School Store Stock Record**

ITEM \_\_\_\_\_ STOCK NUMBER \_\_\_\_\_

<b>Date</b>	<b>Amt. On Hand</b>	<b>Amt. Ordered</b>	<b>Wholesale Cost</b>	<b>Retail Price</b>
-------------	---------------------	---------------------	-----------------------	---------------------

Stock records are nothing more than an individual record, a page for each item, showing such things as cost price, retail price, and quantities ordered and sold. There is a decided advantage to them. Stock records show a written record of the movement of a particular item. These records show how long the item has been in stock and how well the item moves.

Keeping stock records will help to avoid "Dead Stock." It will help when looking up cost prices while figuring inventory.

Commercial inventory cards may be available through office supply stores. Stock records can also be set up on a computer.

### **Collecting Sales Taxes**

Sales tax laws vary greatly across the country and it will be your responsibility to follow all state laws concerning the collection of sales tax. If you are running a School Store, your customers are the end consumer, and as such, you should be collecting state sales taxes and then remitting these collections to the state.



# Ordering<sup>o</sup>1.ecking

The School Store order clerk or purchasing agent should know what he or she is ordering.

If the item is something like memo pads, spiral composition notebooks, marker sets and carries a stock number or it is something bought out of a catalog and has a stock number, use it. Use of stock numbers and item descriptions greatly reduce the problem of incorrectly ordered merchandise.

A photocopy should always be made of an order. Sometimes it helps to have another person review the order. Stress to students to always remember to get the supervising teacher/adviser's permission before placing the final order.

Incorrectly ordered merchandise causes unnecessary costs to both the supplier and the school store purchasing agent or order clerk.

When a shipment arrives, it should be properly checked off. Far too many retailers assume that the order is correct and put the merchandise on the shelf without checking. It does not matter how much one trusts the supplier, it is proper business procedure to check off the order and there is a proper way to do it. Do not take the items out of the boxes and put them on the shelves, checking as you go. The proper way is to take them out of the box, check them off, and put them in an area cleared for that purpose. Do not put the stock on the shelves until the order is checked off and found to be correct. This way if the order does not agree with the packing slip, it can be rechecked. Once the items are placed on the shelves and get mixed in with other stock, it is too late.

In fairness to the supplier, any mistakes should be reported at once. Some companies do not allow claims made after ten days.





Total Other.ExperiS.§S - attach receipts  
Ending Cash=; (starting cash + totalsales - other expenses)

**20** r a y m o n d \* g e d d e s \* & \* c o . r a y m o n d \* g e d d e s \* & \* c o .



# AppendixH

## School Store Deposit Slip

Date, \_\_\_\_\_

Student Banker Names:

Other Deposits Made This  
week: Amount

\_\_\_\_\_ \$ \_\_\_\_\_

\_\_\_\_\_ \$ \_\_\_\_\_

Adviser Approval

\_\_\_\_\_ \$ \_\_\_\_\_

\_\_\_\_\_ \$ \_\_\_\_\_

Office Verification

Current Cash for Deposit: List  
checks singly:

Amount \$ \_\_\_\_\_

Amount \$ \_\_\_\_\_

Amount \$ \_\_\_\_\_

Currency:

\$20 bills \$ \_\_\_\_\_

\$10 bills \$ \_\_\_\_\_

\$5 bills \$ \_\_\_\_\_

\$1 bills \$ \_\_\_\_\_

Coins:

Half dollars \$ \_\_\_\_\_

Quarters \$ \_\_\_\_\_

Dimes \$ \_\_\_\_\_

### Directions for Deposit Slip:

1, Write in date,

2, Write in names of student  
bankers 3, List other deposits  
made this week 4, List each  
check received

5, Total each type of bill separately  
and list total amount on the line,

6, Total each type of coin separately and  
list total amount on the line,

7, Total checks, bills, and coins, Place  
total on

*Total For  
Deposit line,*

8. Get Advisor's approval

9, Take money and deposit slip to  
office financial secretary,

Nickels S \_\_\_\_\_

Pennies S \_\_\_\_\_

Total for Deposit S \_\_\_\_\_

# Appendix I

## School Store Daily Worksheet

Date. \_\_\_\_\_

### Steps to be completed BEFORE working in the store

1. List team members working today.
2. Count cash in the cashbox. Enter total here. \_\_\_\_\_
3. Enter beginning information on the tally sheet.
4. Make sure all items are easily located and available.

### Steps to be completed WHILE working:

1. Enter an item description for each new item sold. Enter a tally mark in the tally column for that item.
2. Double check dollar total, amount given, and change amount.

### Steps to be completed AFTER working **in** the store:

1. Total up tally sheet.
2. Count cash in the cashbox. Enter total here \_\_\_\_\_
3. Put all store supplies away neatly.
4. Turn all money and forms into your adviser.  
Adviser approval. \_\_\_\_ \_

# The Price Is Right

## Nature of Pricing

### Pick a Price,

A

Jay and his friend Paolo bought new snow boards this year. Jay paid \$400, while Paolo spent only \$80. Why were the prices so drastically different? First, they bought two different brands. Jay's is a premium Burton board, and Paolo's is an off-brand. Second, they bought at two different times of the year. Jay purchased just before winter, but Paolo waited for discounts after the snowboarding season was over. Third, they bought at different places. Paolo bought his board at a local store, but Jay special-ordered his online and had it shipped.

As you can see, pricing products isn't always a straightforward task for marketers. It is, however, a very important one. If you plan to pursue a career in business or marketing, you must be thoroughly familiar with the function of pricing and its effect on the marketing mix. Read on to learn more!

### Any Price

#### What is pricing?

**Pricing** is a marketing function that involves the determination of an exchange price at which the buyer and seller perceive optimum value for a good or service. Effective pricing is important for customer satisfaction and for the continued success of a business. Pricing isn't as simple as just placing a tag on an item that tells customers how much they owe. Let's explore the definition

a little further:

*Determining an exchange price.* When a good or service is sold, the buyers and sellers have agreed on a value for the product. That initial value is usually stated as a monetary amount, such as \$39.99. At this point, the buyer has decided that he is willing and able to pay that amount of money to obtain the product, while the seller has decided that he will accept that amount as payment. This amount of money is known as the **exchange price**. Before sellers can set this exchange price, they must consider a number of factors.

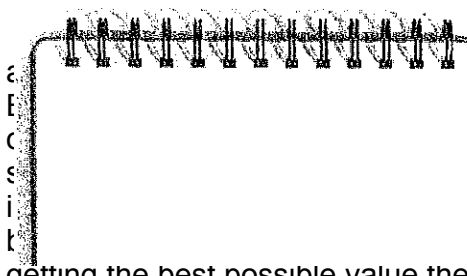
*Perceiving optimum value.* Buyers and sellers must feel that they are receiving the

most, or optimum, value from the product. When you buy something, you want to make sure that it is the best purchase you can make for your money. After all, when you spend your money on one product, you will no longer have it available to buy something else. Likewise, sellers want to feel that they are selling their products at the best price—the highest price that will still attract the most buyers. The price that the seller sets will affect the number of sales and the amount of income that the company will make.

## Objectives

**A** Describe the pricing function.

**"?"** Explain the role of pricing in marketing.



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w prices, while  
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ups. Both  
that they are

getting the best possible value they can. If this  
doesn't happen, several things might occur:

- Customers will spend their money elsewhere, either on a similar product (if one is available) or on an entirely different product.
- A business's sales will decline. The business will be forced to discontinue offering the product or to change its prices.

Effective pricing, therefore, is important for both customer satisfaction and the continued success of the business.

### Characlarislics of effeclive pricing

No single factor makes an effective price. Marketers must keep a number of characteristics in mind when setting effective prices. These include being realistic, flexible, and competitive.

*Realistic prices.* Believe it or not, prices can be set too low! Many businesses have found that if their prices are not what customers expect to pay, even if that price is lower than expected, customers will not buy. When these businesses increased their prices, their sales actually increased as well. Why would this happen? Customers associate price with quality-if the price is high, the quality is high; if the price is low, the quality is low. Wouldn't you be skeptical if you found a brand new laptop that only cost \$15? So, businesses must set prices that are realistic to customers-neither too high nor too low.

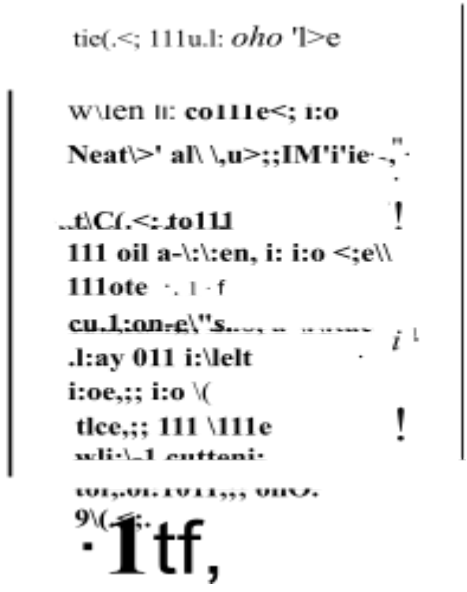
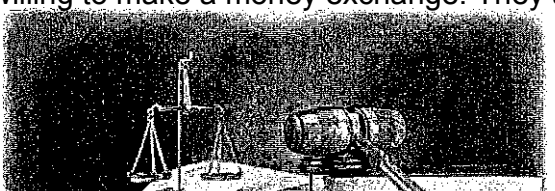
*Flexible prices.* Marketers must understand that the prices they set are written on paper-not in stone. Because pricing is a tug-of-war and a constant quest for balance, businesses must be willing to adjust their prices as necessary. These adjustments may be increases or decreases, depending on the circumstances the business faces. For example, during bad economic times, customers are quite cautious about how they spend their money. To attract these customers, businesses may need to lower prices. However, when economic conditions are good, businesses might increase prices because customers are less cautious with their spending.

*Competitive prices.* Would you pay \$4.00 for a can of Pepsi? Under normal circumstances, probably not. You would know that you could get the same product for a much lower price at another store. When a similar product is offered by competitors, a business needs to be aware of the prices others are charging. If not, the business will probably lose customers because its prices are not competitive.

### Pricing goods and services

Quickly, think of five things that have prices attached to them. What did you come up with? Did you name only physical goods, such as cars, houses, or clothes? Actually, prices are attached to anything of value for which we are willing to make a money exchange. They are associated with such things as:

- A loan from a bank (interest)
- The work that you do (wages/salary)
- A lawyer's services (legal fees)





- Membership in a professional organization (dues)
- An airline or bus ticket (fare)
- A movie or theater ticket (admission)
- Service charge for room service
- Tuition
- Rent

All of these are prices. They are just known by different names.

.t.. Physical goods aren't the only things that have prices attached to them, Prices are also attached to things like a lawyer's services.

But, what is actually being priced? In the case of a car, it's not just the car itself. The price includes the car and all of the associated services transportation and delivery charges, credit, etc. This makes pricing more difficult because marketers must look beyond the cost of the immediate product to consider its associated services.

### Who sets prices?

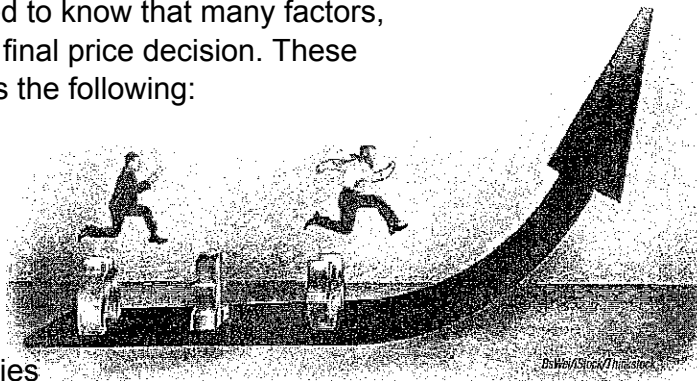
Depending on the size of the business, many people may be involved in establishing prices. In a smaller business, the person most often responsible for setting prices is the manager or owner. This person will check competitors' prices and use the company's own records to establish prices for the goods and services the business offers.

In larger companies, an entire department (part of marketing) is usually responsible for setting prices for the company. The department may use more sophisticated means to determine prices for the company's products. It may analyze market research, conduct customer surveys, study competitors' prices, and analyze current and past sales records and trends to help with pricing decisions.

### Factors that affect prices

When working with prices, you'll need to know that many factors, both internal and external, affect the final price decision. These include important influences, such as the following:

- Costs
- Supply and demand
- Economic conditions
- Competition
- Government regulations
- Channel members
- Company objectives and strategies



**A Competition is just one of many factors that can affect the final price decision.**

### Summary

Pricing is a marketing function that involves the determination of an exchange price at which the buyer and seller perceive optimum value for a good or service. Effective pricing is important for customer satisfaction and for the continued success of a business. Pricing is like a tug-of-war between buyers and sellers. Effective prices are realistic, flexible, and competitive. Prices go by many different names, including fees, dues, and admission. Many factors affect the final price decision, such as costs, economic conditions, and company objectives and strategies.



1. What is pricing?
2. Why is pricing important?
3. What are the characteristics of effective pricing?
4. Who sets prices?
5. What factors affect prices?

## THE GRAY ZONE

You're no doubt familiar with Amazon.com-perhaps you've even purchased something from the online retailer recently! Amazon's often unbelievably low prices are one of the biggest reasons for its success, but those prices are also the cause of controversy. In fact, some people have accused Amazon of predatory pricing, the practice of selling a product at a very low price in an attempt to drive competitors out of the market. This practice is illegal in the United States and many other countries.

Amazon and its defenders maintain that the company hasn't done anything wrong. They claim that in a private enterprise system, businesses should be allowed to price their products as low as they want to, regardless of how their actions impact the competition.

Read the following article, "Publishers and Booksellers See a 'Predatory' Amazon," by Lynn Neary to learn more:

<http://www.npr.org/2012/01/23/145468105/publishers-and-booksellers-see-a-predatory-amazon>.

What do you think? Are Amazon's practices wrong, or is the company simply being competitive?

## How Price Affects the Marketing Mix <sup>B</sup>



Pricing plays a key role in the **marketing mix** (product, price, place, and promotion). The elements of the marketing mix are interdependent because a change in one will affect the others. Let's look at how pricing affects the other "Ps."

You can learn what the marketing mix is by watching this video, "A New Look at the Four Ps of Marketing," by Firepole Marketing: <https://www.youtube.com/watch?v=JlirzTdaey4>.

### Product

Product decisions involve determining what goods, services, or ideas to produce or sell that will satisfy customers' needs and wants. Pricing affects product decisions in the following ways:

*Research.* Pricing affects the type of research conducted, the length of the research project, and the amount of money spent on research.

Research costs money. If a company wants to introduce a new, low-priced laundry detergent, it cannot afford to spend millions of dollars on research. Instead, the company will probably choose a less expensive method of research and may spend only three to six months conducting it.

*Materials used in production.* Which costs more—a silver ring or a platinum ring? The quality of materials used in production is reflected in the product's price. Companies, therefore, must decide what materials to use in the production of their products. If they want to charge lower prices, they may not be able to use more expensive materials. Can you think of more examples of similar products with prices that vary due to the materials used?

*Profit decisions.* Just because a good or service looks great on paper, it doesn't mean that the good or service will ever hit the market. Companies must first determine if there is a market for the product and if there will be sufficient demand for it. Before introducing a new product, a company must first determine if it will be profitable. Companies must ask the following questions:

- Can we make a profit by selling this product?
- Can we achieve the return on investment we want?
- Can we set our prices high enough to answer the first two questions with a YES?

*Customer decisions.* Different companies seek to attract different types of customers. Low prices attract customers who are looking for bargains, while high prices attract customers looking for prestige and high quality. For example, Porsche doesn't price its cars to appeal to people on a budget—the company wants to attract customers who are seeking luxury. A company's pricing strategies will determine the type of customers its products attract.

*Company image.* What type of image does a company want to project? Pricing will help determine that image. Stores that have low prices are thought of as discount stores. On the other hand, stores with very high prices usually are perceived as having more prestigious name brands and higher quality products. Think of the discount grocery chain Aldi, known for its low prices, versus the higher priced grocery chain Whole Foods Market. How are these companies perceived differently? Can you think of any stores like this in your area?

## **Promotion**

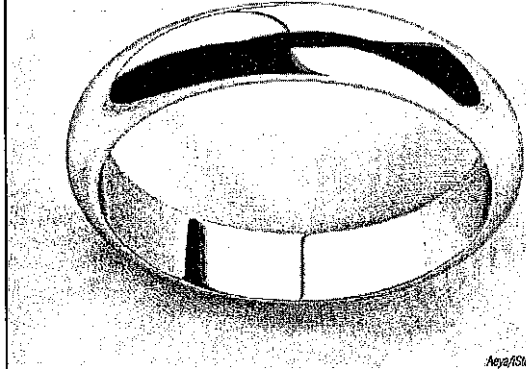
Promotion involves the various types of communications that marketers use to inform, persuade, or remind customers of their products. Pricing affects promotion decisions in the following ways:

*Choice of medium.* Products with very low profit margins are usually promoted in lower priced

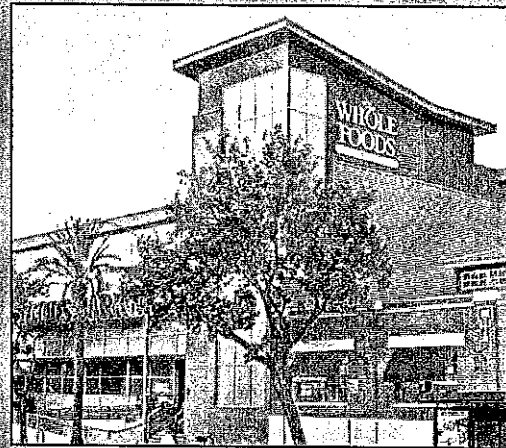
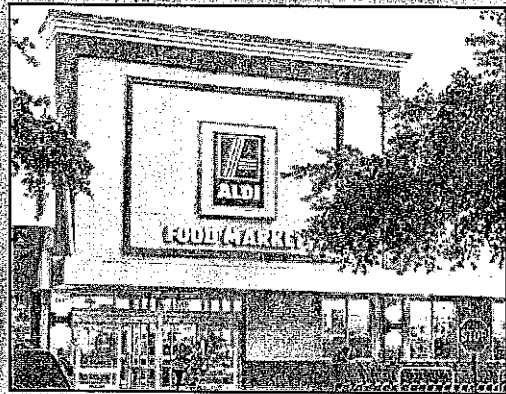
media. Companies that have low profit margins and/or small promotional budgets often promote themselves largely on social media, which usually costs very little. Products that have high profit margins are usually promoted in a combination of media, including radio, television, newspapers, and magazines. Also, the bigger the advertisement, the higher its cost. A one-page ad in your local newspaper will cost more than a two column or a V,i-page ad. A 10-second television commercial costs less than a 30- or 60-second commercial.

A The quality of materials used in production is reflected in a product's price. Which costs more—silver ring or a platinum ring?

B



Ago4Stock/Thinkstock



B

*The amount of money spent.* Most companies have promotional budgets. The amount of money spent on an advertising campaign is built into the cost of the product. The higher the promotional budget for a good or service, the higher the price of the good or service for customers.

*Time allocated to the promotion.* Since the cost of promotion is built into the cost of the product, goods and services tend to cost more when they are promoted over a long period of time. Products that are promoted through displays, television, and radio over a six-month period will probably be priced higher than products that are promoted for only one month.

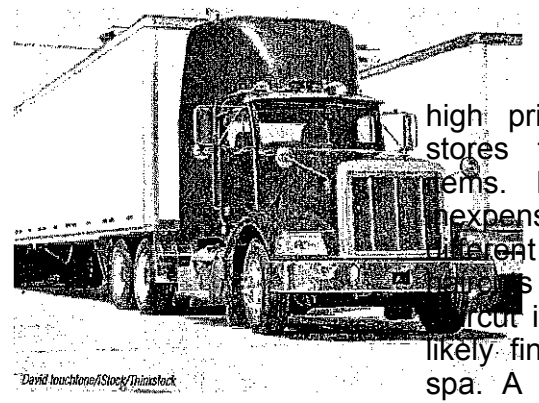
### Place

Place involves shipping, handling, and storing products and determining when and where they will be available. Pricing affects place decisions in the following ways:

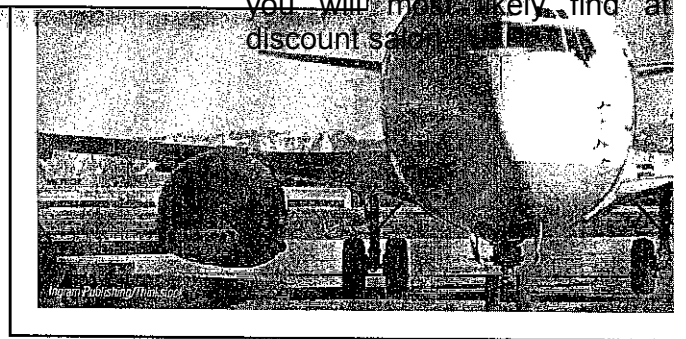
*Choice of transportation channels.* There are a variety of ways that companies can ship their products to their final destinations.

Trucks, planes, trains, and ships are all used to transport products across town, across the country, and across the globe. The cost of each type of transportation varies. Companies will choose the method that fits within their budget. Again, remember that the cost of the transportation will be built into the price of the product. For example, trucking is less expensive than flying, so an item transported by truck may be less expensive than one transported by plane (think about the cost of goods in remote areas such as Hawaii). Marketers must also consider time when it comes to distribution channels-one channel may be cheaper but might take longer for products to get to their destinations. This factor will have an impact on pricing decisions.

*Where the product is offered.* A product's price affects where it is sold. Goods and services with



David Louchev/Stock/Thinkstock



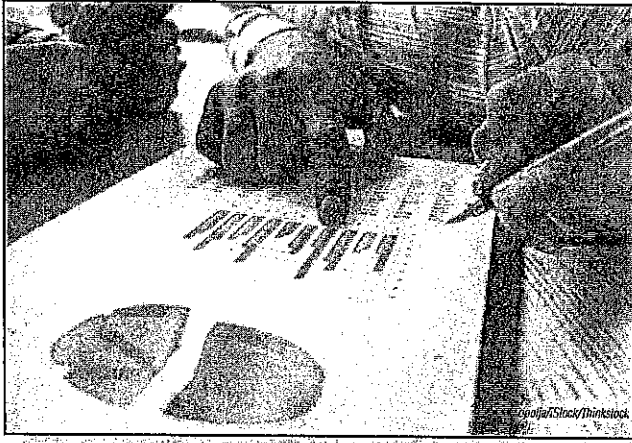
David Louchev/Stock/Thinkstock

high prices will be carried by stores that sell higher priced items. If a product is priced inexpensively, it will sell at a different type of store. Take haircuts for example. A \$100 haircut is a service you will most likely find at a fine salon or day spa. A \$10 haircut is a service you will most likely find at a discount store.



.A. There are a variety of ways that companies can ship their products. The cost of each type of transporta

tion varies-for example, trucking is less expensive than flying,



.6.. Pricing objectives are the guiding influences in how marketers go about making pricing decisions. Companies can have a number of different pricing objectives.

## Pricing objectives

Each company wants or needs something unique from its pricing strategies. These **pricing objectives** or goals are the guiding influences in how marketers go about making pricing decisions. There are a number of different types of pricing objectives that companies have. They may relate to profitability-making as much profit as possible or simply covering costs. They may relate to sales-selling as many units as possible or gaining a certain market share. Objectives may also relate to the competi tion-keeping prices competitive is very important in many industries, such as the airline industry. Lastly, pricing objectives may relate to image or prestige. Companies may set prices that will help them maintain a certain image in customers' minds think about luxury cars or jewelry. Companies may use any combination of these pricing objectives when setting prices for goods or services.

### Summary

Pricing plays a key role in the marketing mix (product, price, place, and promotion). The elements of the marketing mix are interdependent because a change in one will affect the others. Pricing affects product decisions in terms of research, materials used in production, profit decisions, customer decisions, and company image. It affects promotion decisions in terms of choice of medium, amount of money spent, and time allocated to promotion. It affects place decisions in terms of choice of transportation channels and where products are offered. Companies keep a variety of pricing objectives in mind when making pricing decisions. These goals greatly influence final price decisions.

1. How does pricing affect product decisions?
2. How does pricing affect promotion decisions?
3. How does pricing affect place decisions?
4. Describe pricing objectives.



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# Make It Pay!

**How** much did you pay for your most recent pair of jeans? How do you think the final purchase price was set? What factors contributed to the amount you paid?

Consider:

- The prices of competing brands
- The prices of competing stores
- How the jeans have been promoted
- The availability of the jeans in your area
- The type of store at which you purchased them

# Make Cents



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# The Power of Price

Amount a seller charges for a good or a service is selling price. People often think of selling price as the dollar figure shown on a price tag. However, there are many other kinds of selling prices, such as:

- Membership dues • College tuition • Legal fees
- Insurance premiums • Bus fare



When you think of how different all these kinds of prices are, you can easily see that sellers can't pull prices out of thin air. Each business must go through its own process for pricing its product(s). And, as you've probably observed, selling prices don't remain the same. The selling prices of almost everything fluctuate.

### **Components of selling price**

Some people think that a business gets to keep all the money that a customer pays for a product. This isn't true. From the selling price, the business must

- Pay all the costs of the product. Businesses incur costs when they make or buy products to sell. They must get back the money they have spent.

Make Conts

- Pay all of its operating expenses. All businesses have operating expenses such as rent, utilities, and payroll. They must use part of the income from their selling prices to pay these expenses.
- Obtain a profit for the business. A business must make a profit to have funds to invest in its future.

### Importance of selling price

Selling price helps customers to compare products when making buying decisions. Most customers feel that price indicates quality, and they use selling price as a guide in selecting the products they buy. This is especially important when the customer must choose from a variety of similar products. Selling price also helps customers to decide how to allocate their money. Since very few people can buy everything they would like to have, selling price helps them to decide which items they can afford and which ones are beyond



their means.

For businesses, selling price is important because it determines the amount of income from sales each business receives. The business's success or failure may be determined by the amount of income it earns. Businesses should include enough **mark-up** in their selling prices to pay their current expenses and to provide for future growth. Mark-up is the difference between the cost of a product and its selling price. Selling price is also a tool that businesses can use in achieving their goals.

**0** Selling price helps customers to decide which products they can buy.

### Definition

Selling price is the amount a seller charges for a good or a service. It must allow a business to pay all the costs of the product, pay operating expenses, and obtain a profit. Customers rely on selling price to compare products and to decide how to allocate their money. Businesses rely on selling price to determine income from sales and to achieve company goals.

1. What is selling price?
2. What are the three components of selling price (the three things it must do)?
3. Why is selling price important to customers?
4. Why is selling price important to sellers?

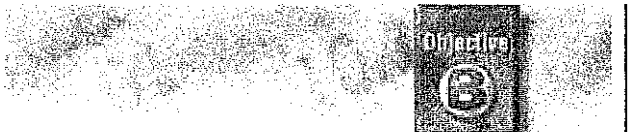


# Price It Right

A firm's pricing objectives should be compatible with its marketing objectives. In other words, the business must know where it wants to go before it can choose selling prices that will help it to get there. Sometimes, a business must use a combination of pricing objectives to reach its goals. In all cases, the business should set its marketing objectives first, and then select pricing objectives that seem most likely to help it meet its marketing objectives.

Make Cents

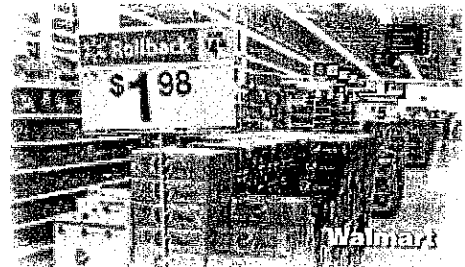
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Choosing pricing objectives isn't a one-time job. As circumstances inside and outside the business change, or the business changes its goals, pricing objectives may also need to be changed.

### Sales-oriented pricing

The purpose of sales-oriented pricing objectives is to increase the total amount of income from sales. There are two ways a business can do this. One way is to charge low prices in an effort to increase sales volume. The business will have more total income because it sells more products. The alternative is for the business to charge high prices in an effort to increase the dollar value of its sales. This means the business will have more total income even if it doesn't sell more products because it will make more money on the products it does sell.



Some specific objectives a business might achieve by using sales-oriented pricing include

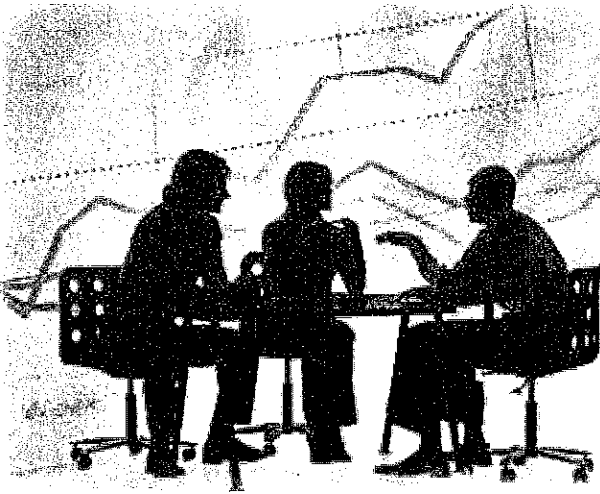
*Creating an image for the business.* The selling prices a business chooses create its image. Prices might be used to give the business a discount (Wal-Mart) or an exclusive (BMW) image.



*Being more competitive.* There are different ways selling price can be used as a competitive tool. One way is to match competitors' prices. This often happens in industries where products are quite similar and customers are very familiar with the market price (e.g. Pepsi vs. Coke).

Some marketers choose to price above the competition. This works when customers see the product as more valuable than other, similar products. An experienced attorney with a reputation for winning cases can charge higher fees than an attorney who just graduated from law school, for instance. To make the higher prices acceptable to customers, marketers may have to offer extra benefits, such as convenient location or longer hours.

The third alternative is to price below the competition. To do this and still make a profit, the business has to keep tight control over its costs. This can be very hard to do. Companies that undercut competitors' prices also run the risk that customers will perceive their product(s) as being of lower value.



**O** Many businesses use selling price to obtain, maintain.. or increase their market share.

*Obtaining, maintaining, or increasing market share.* Many businesses consider the size of their market share as a measure of success. Marketers may use selling price to obtain a share of the market, to enlarge the share they already have, or to maintain that share. Some new companies set low prices to get as much of the market as possible right from the start. Established companies may lower prices to enlarge their market share. Other companies want to maintain the market share they have. To do this, they keep selling prices stable by not changing them very often. All of these companies feel that they will benefit over time because the customers who are attracted by their prices will become regular customers.

## Profit-oriented pricing

**Profit-oriented pricing objectives** focus on creating profits for the business. Some businesses choose prices that will result in the greatest possible amount of profit, but most businesses simply want to recover their costs and earn a reasonable amount of profit. Since market conditions are always changing, it is difficult for businesses to predict just what prices will be the most profitable over time.

Some of the objectives a business might achieve through profit-oriented pricing include:

*Surviving.* A business that is in financial trouble may use pricing for profit simply to survive. It needs the profit from its selling prices to stay afloat until the situation improves.

*Maximizing profits.* The objective of some firms is to make the most possible immediate profit. This is called profit **maximization**. Most firms using this kind of pricing have short-term profit goals. They are more interested in their current profits than in increasing profits over time. Some businesses that try to make maximum profits are not in financial trouble, but they want to improve their **cash flow**, the amount of money coming into and going out of the business. In other cases, the company may need to make maximum profits because of the nature of its products. Producers and sellers of children's toys know they must make as much profit as possible on each new product before it loses its popularity.

*Earning a return on investment.* A certain amount of capital investment is necessary to start and operate any kind of business. All businesses need to earn income, or return, from that investment. Some companies base the amount of profit they want to earn on the amount of their capital investment. This profit goal is often expressed as a specific percentage. The business sets prices that it hopes will provide enough profit to give the firm that percentage of return. For example, a business with a \$500,000 capital investment would need to make a profit of \$100,000 on its sales to have a 20 percent return on investment.

*Earning a return on sales.* Some firms base the amount of profit they want to earn on their sales. This is called target return because the company uses a percentage of profit on its sales as a target or goal. Target return, or return on sales, is often used by companies that don't want to be accused of unfair trade practices or of earning too much profit. The government allows utility companies to earn enough profit to pay dividends to their stockholders and have some capital left to invest back into the business. Most utility companies try to set prices that will allow them to serve the public at the best rates and still earn an acceptable return on sales.

## Summary

Choosing pricing objectives is an important job. These objectives should be compatible with a firm's overall marketing objectives. Sales-oriented pricing objectives might help a business create an image; be more competitive; or obtain, maintain, or increase market share. Profit-oriented pricing objectives might help a business survive, maximize profits, earn a return on investment, or earn a return on sales.

1. What are sales-oriented pricing objectives?
2. What goals might a business achieve by using sales-oriented pricing objectives?
3. What are profit-oriented pricing objectives?
4. What goals might a business achieve by using profit-oriented pricing objectives?

## The Gray Zone

Jamie has four tickets to next weekend's concert. She is taking her friend, Isaac, and planning to sell the other two tickets. The concert is sold out, and lots of students at Jamie's school are dying to attend. Jamie paid \$50 each for the tickets, but she thinks she can sell them for \$100 each, or maybe even more. When one classmate offers her \$75 each for the tickets, she tells him that another classmate has promised \$85 each. The price continues to climb.

Some people might think that Jamie is treating her peers unfairly by asking for more money than she originally paid for the tickets. Others would say that she is just getting market price-and if someone is willing to pay that much for the tickets, then it's a fair deal. What do you think? Are Jamie's actions ethical or unethical?



# Pick a Price

Factors affecting selling price vary from business to business. Common factors include:

## Costs

Knowing the total costs of a product is very important in setting selling prices because the business needs to recover those costs. If it doesn't, the business will eventually go broke. Total **costs** are made up of two kinds of costs—fixed and variable.

**Fixed costs.** **Fixed costs** are costs that are not affected by changes in sales volume. They remain the same no matter how many products you sell. Fixed costs include such expenses as machinery, mortgage, and insurance.

**Variable costs.** **Variable costs** are costs that change according to changes in sales volume. When sales increase, variable costs increase, and when sales decrease, variable costs decrease. Variable costs include expenses such as utilities, wages, and transportation.

## Supply and Demand

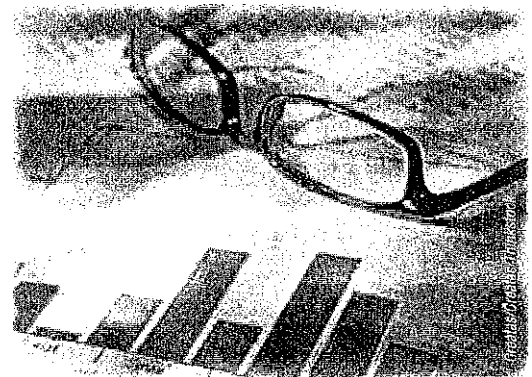
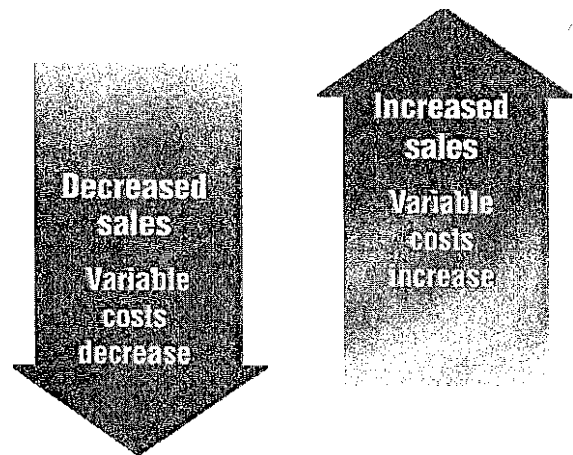
Marketers must have adequate information about the demand for their products when they are engaged in pricing. Some of this information can be obtained by monitoring current business and economic conditions, trying to predict how those conditions will change, and estimating the way those changes will affect the demand for their products.

Supply and demand are determined not only by what people want but by what they can afford to buy. When consumer demand for a product increases, producers make more of it, the supply increases, and the selling price goes down. If a company makes a new video game that becomes popular, demand for the game increases, and the company makes more of it. As the supply increases, the number of buyers may decrease, and sellers will have to reduce the price of the game to get it off the shelves. On the other hand, if the producer is not able to increase production, and the supply of the game does not increase, the price may go up. Customers may be willing to pay the higher price to obtain the game. However, if the selling price goes too high, customers may stop buying, and demand will drop.

## Economic Conditions

The national economy is always changing. Ups and downs in economic activity are known as **business cycles**. Marketers monitor business cycles and try to predict whether business conditions will get better or worse. This helps them to adjust their pricing according to the changes in the economy.

In times of economic growth, both individuals and businesses increase their spending, which increases demand. When demand is higher than producers can meet, prices go up. As economic growth slows down, demand begins to fall because consumers cut back on



spending. Businesses reduce their prices to survive until demand increases, and the cycles begin to repeat themselves.

0 Marketers adjust their pricing according to changes

## Competition

in the economy.

Most marketers watch their competition carefully and pay particular attention to competitors' pricing. They know that customers compare prices to get the best buys. Businesses must be ready to adjust their prices if necessary to remain competitive or to become more competitive.

The kind of market in which the business operates determines what kind of pricing will help the business to be more competitive. Each one affects pricing in a different way:

*Pure competition.* In a **pure competitive market**, there are a great many buyers and sellers of nearly identical products, and marketers have very little control over pricing. More competition exists in this kind of market than in any other. Most products are sold at market price—the actual price that prevails in a market

at any particular moment. **Market price** is controlled by supply and demand. Sellers can't raise their prices above the market price because buyers can obtain all they want of the product at the lower, market price. Sellers also can't lower the price to increase demand because buyers are already buying as much as they want of the product.

*Monopolistic competition.* In a monopolistic competitive **market**, there are many buyers and sellers, but there is a range of prices rather than one market price. Demand for products may be elastic or inelastic. Companies make their products different from each other in terms of quality, service, channel members

product they needed elsewhere. The monopolies such as utility companies that exist today are either owned or controlled by the government.

### Government re911llllliio111

There are both state and federal laws that affect pricing. The major purposes of government regulation of pricing are to promote competition and to prevent monopolies. Some of the pricing areas regulated by law are:

*Price fixing.* The government prohibits **price fixing**, agreeing on a price or price range for a product. Even though the businesses might choose a fair price, the practice is forbidden because it limits competition.

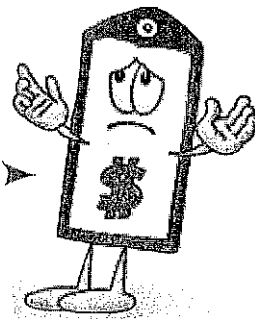
*Price discrimination.* Businesses are not allowed to charge different prices to similar customers in similar situations if doing so would damage competition. These laws were passed to protect small businesses in their competition with larger businesses.

Without these laws, a drug wholesaler selling to two drugstores might charge the large drugstore much lower prices than it would

Company objectives and strategies

Supply and demand

its difference from other products. There are both big firms and small businesses competing in this kind of market.



Cosrs >-- Comperifio/1 >--

economic collidirio11s ),,-

charge the smaller drugstore because the large drugstore buys in larger quantities. This would put the smaller store at a competitive disadvantage.

Price  
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The



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prevent any

kind  
of customer deception.  
Businesses may not

*Oligopoly.* In an **oligopolistic market**, there are relatively few sellers, and the industry leader usually determines prices. Prices are fairly stable because not too many new firms can afford to enter the market. If the industry leader raises or lowers prices, the other firms usually follow suit. Sellers watch each other's pricing because they know they will lose customers if the competition lowers prices. Competition is more likely to be based on style or brand than on price.

*Monopoly.* In a **pure monopoly**, there is only one seller or provider of a product, and no substitutes are readily available. Pure monopolies have been almost eliminated by the federal government because monopolies control the pricing of their products. This is unfair to customers who would have to pay whatever price was charged because they could not get the

advertise a product at a "reduced" price unless the product was sold for a reasonable length of time at a higher price. Businesses may not claim their prices are lower than competitors' prices unless they can prove these things are true. They may not use **bait-and switch** advertising-promoting a low-priced item to attract customers to whom they then try to sell a higher priced item.

*Unit pricing.* Some states have laws requiring businesses to use unit pricing. Unit pricing shows the price per unit (ounce, pound, etc.) along with the total price of the item. Unit pricing is an added expense for the business because of the time required to calculate unit prices, print labels, and post prices. However, unit pricing makes it much easier for consumers to compare the value of products.

LAP-PI-Q03-SP



## Channel members

Each member of the channel of distribution, from producer to retailer, affects pricing because all channel members try to make a profit on the products they sell. Channel members who perform certain duties in the process of selling products expect producers to provide them with such support as sales and service training, sales promotions, or cooperative advertising. Producers must consider the cost of the supports they are expected to provide when they price their products. If they price the products too low to be able to provide this kind of assistance, channel members may buy from another producer. If they add too much to their prices to cover support activities, the price may be too high to encourage sales.

When manufacturers and producers raise their prices, these increases are usually passed through the channel to customers. In some cases, channel members absorb part of the increase rather than pass all of it on to customers because they fear the higher price will reduce their sales.

## Collisions objectives and strategies

No two companies have the same set of objectives and strategies, but there are several common factors that affect pricing, including:

*Product mix.* The number of products that a company chooses to sell is an important factor. A company with a large product mix does not have to rely on any one unit for its income. Such a company can even price its products to be competitive with each other. However, in a company with a small product mix, the price of each product has more effect on the firm's total income.

*Product life cycle.* In the **introductory stage**, products are usually priced higher to enable the business to recover its investment in the new product. During the **growth** stage, prices usually must be reduced to promote sales and to compete with copycat products that have entered the market. Since production costs have been recovered, the producer can afford to reduce prices at this point. During the **maturity** stage, the effort is on stabilizing prices to maintain a share of the market. As the product enters **obsolescence**, sellers reduce prices to get rid of it.

*Target market.* The business's target market

affects its pricing because customers in different markets view prices differently. In most cases, price is a more important factor for high-ticket items that aren't bought frequently. Most marketers feel it is a good strategy to price according to the way their customers view the product. Customers' judgment of the value received for the price may determine whether or not they buy the product. However, even within the same market, not all customers see price from the same point of view. Some customers see low price as an indicator of low quality, while others see low price as a bargain.

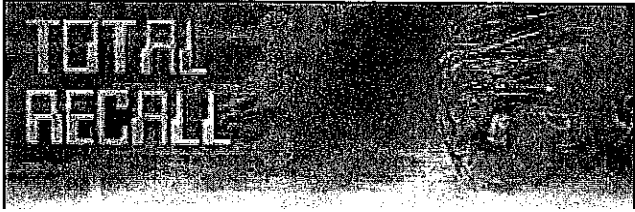
Or, some customers see high price as an indicator of high quality, while others see it as a poor value for the price. Some products have a price range in which they can be priced to make them acceptable to customers. Marketers need to determine what price range will be accepted in their markets.

# Ma:'

## Strategy

Factors affecting selling price vary from business to business, but the basics are costs, supply and demand, economic conditions, competition, government regulation, channel members, and company objectives and strategies.

Think of a purchase you've made within the past week. How much did you pay for it? How do you think the selling price was influenced by costs? By supply and demand? By economic conditions? By competition? By government regulation? Do you think you paid a fair price for the product? Why or why not?



- How do costs affect selling price?
- How does supply and demand affect selling price?
- How do economic conditions affect selling price?
- How does competition affect selling price?
- How does government regulation affect selling price?
- How do channel members affect selling price?
- How do company objectives and strategies affect selling price?

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(614) 486-1819

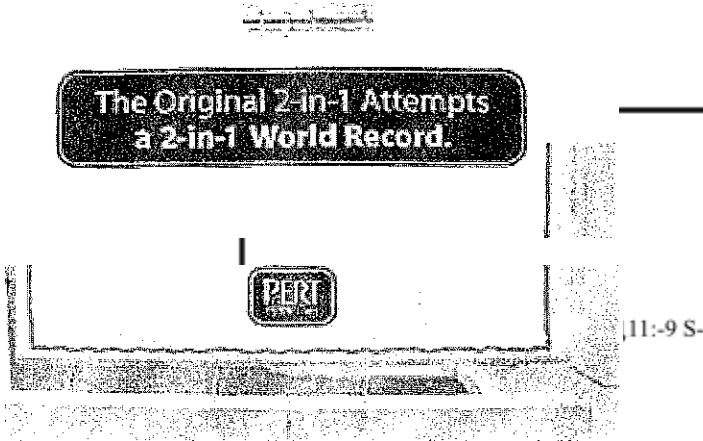
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Leadership, Attitude, Performance ...making learning pay!

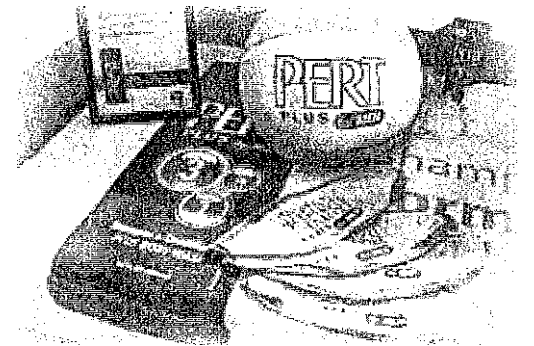
Promotion LAP-2 Performance Indicator PR-001

# Razzle Dazzle

Nature of Promotion



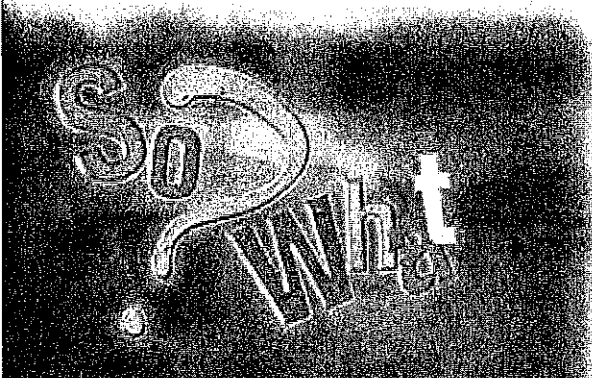
3 reasons to  
communicate Get  
your message across  
The product's voice





## Promotion;

# An Important Player in Marketing



Goose any product you've purchased within the past several months. What made you want to buy it? How did you hear about it? How did you know where it was available and how much it was going to cost? To let you know about this product, its marketers used promotion. Promotion is a marketing function needed to communicate information about goods, services, images, and/or ideas to achieve a desired outcome. It is the element of the marketing mix that encourages customers to buy or to have certain views or opinions.

Promotion can also be described as marketing

It's a new application you designed for the iPhone, and you hope that every iPhone owner will want to download it. So, you've got the product, and now you need your potential customers to know about it! You also need them to know what the product will do for them, where they can purchase it, and how much it costs. You let your target audience know these things when you *promote* your product. Promotion is essential to the success of any product or company. Good promotion can get your product (literally!) into the hands of millions

of customers. The purpose of the message is to tell customers about certain goods, services, or ideas and persuade them to buy or to form an opinion. The customer gives feedback to the business by buying, or not buying, the good or service being promoted; or accepting, or not accepting, the promotional point of view or image. Can you think of some promotions that have caught your attention? What about some that have not been as persuasive?

### Objective

s

ct Explain the role of promotion in marketing.

**Bi** De.scri.be types of

promotional

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*Apple® is promoting numerous types of applications that appeal to the teenage market.*

iPhone3G  
15,000 apps. And counting.

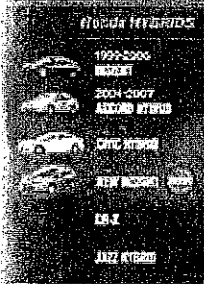
**For the under-20s crowd, cool is all about the technology.**

*At a recent "What Teens Want" conference in Manhattan, advertisers sought insights into a tech-savvy and globally connected generation*

Objective



ex Shape



WORDS of Hybrid

When you lose your temper

challenge



Blue to Green

**HONDA**  
The Power of Dreams

Businesses that sell services, such as hair salons, day-care centers, and medical and dental offices, also use promotion. They inform target audiences about the benefits of their services to convince customers to buy from them rather than from competitors. Think about it-how many different places in your town can you go to get your hair cut? What factors contribute to your choice of one business over another?

Other companies and organizations promote images or ideas rather than specific products. For example, the National Cattle men's Beef Association uses advertising to promote the image of beef as a healthy, popular food. Some companies use promotion to maintain a prestigious corporate image, such as General Electric

with its "imagination at work" promotion. Other companies use promotion to improve a tarnished image. Many fast-food restaurants have attempted to establish healthier images for themselves after being accused of contributing to the country's obesity problem.

Government agencies and special interest groups use promotion to communicate ideas as well. You will often see advertisements or public service announcements regarding seat-belt use, drunk driving, pollution, etc. During an election campaign, you will see many promotional messages supporting or detracting from certain candidates.

Objective



**Promotional messages should be relevant and of interest to the people who receive them.**

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*U* use, appropriate for a variety of creative  
pursuits, and affordable. They  
want cus tomers to  
automatically consider their  
type

of laptop as the best choice. They create  
many persuasive promotions to achieve this  
goal.

*Relevant.* Promotional messages  
should be relevant to the target audience.  
Businesses must develop their promo  
tions so that they will be of interest to the  
people who receive them. If a company  
wants to sell MP3 players, it should make  
sure that its message appeals to  
potential customers who love their music  
collections.

*Appropriate.* The way that the  
promotional message is communicated  
should be appropriate for the product,  
image, or idea. Some forms of  
communication are better suited for use  
with certain products and their markets  
than others. Reebok, for example,  
wouldn't try to sell its shoes and other  
athletic gear by limiting promotion to a  
local area. The company develops  
national and international promo tions to  
reach as many potential customers as  
possible. A local clothing boutique, on the  
other hand, would plan its promotion on a  
much smaller scale.

*Factual.* Any message that a business communicates should be done so honestly and  
truthfully. It can be creatively presented, but it must be based on facts. The message should  
not mislead the consumer who receives the communication. Honda is known for its long-lasting  
vehicles, so it might use that strength as the foundation for a promotion, but it would be  
dishonest for the company to promote its cars as running for 300,000 miles with no problems!

*Repetitive.* The communication conveyed in promotions should be repeated over and over.  
Many customers would not remember the message if they heard it only once. Even the most  
memorable messages need to be repeated. Repetitive messages create sustained interest in  
products or ideas. Although everyone has heard of Pepsi, the company continues to promote  
its products in a variety of different ways to make sure that customers don't forget.

*Coordinated.* There are many different ways that companies or organizations can convey  
promotional messages. They may use advertising, or offer coupons, or have a feature article written



about them in a magazine, etc. To achieve success, these promotional messages should be coordinated and in sync with each other. Each method should support the objectives the company is trying to achieve by engaging in promotion.

## Promotion benefits

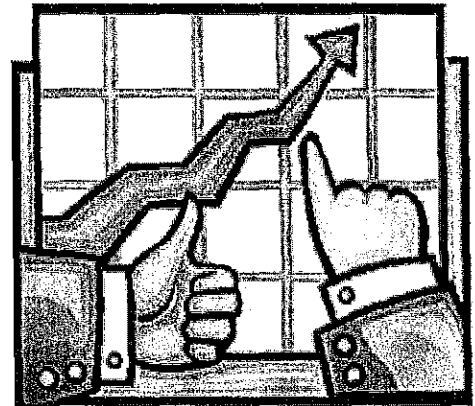
Everyone benefits from promotion, not just companies and organizations with something to sell, but customers and the economy as well. Let's look at some of these benefits:

**Increased sales.** The most obvious way that businesses benefit from the use of promotion is through increased sales. They use promotion to "spread the word" to customers that they offer certain products, hopefully convincing those customers to buy. If a business is managing its operations effectively, increased sales should lead to increased profits.

**Strategic position.** As a result of promotion, businesses and organizations are perceived in certain ways by customers. Sales-oriented companies may use promotion to position themselves as more customer-friendly and harder working than their

competitors. Political candidates often use promotion to position themselves as champions of certain causes, such as improved health care or lower taxes. Organizations advertise their positions on issues by using slogans such as "Buy American" and "Save the Whales."

**Increased customer loyalty.** Another benefit of promotional activities is often increased customer loyalty to certain products or businesses. Businesses spend billions of dollars on promotion to create specific company images. Customers identify with these images and see themselves in the roles or lifestyles shown in the promotions. For example, American Eagle Outfitters and Hollister project an image of style and fashion. Some customers will buy clothes only from specific stores that project the "right" kind of image. Other customers are loyal to certain discount stores, such as Wal-Mart or Target, because of the image of quality products at reasonable prices.



### **Increased product/company awareness.**

Promotion also helps customers to learn that products exist and where they are available. After seeing a promotion for the Nintendo Wii, for example, customers may not immediately buy the gaming system. However, they will be aware that the Wii exists, and they will know where they can buy one. Then, the next time customers are in the market to buy a gaming system, they may remember the Wii promotion and choose Nintendo.

### **Better informed, more satisfied customers.**

Customers are better informed when businesses promote product benefits, features, and prices. Informed customers are

in a better position to choose between or among products and make buying decisions that will best satisfy their needs. Can you think of a time when promotion has helped you make a better buying decision?



**Increased employment opportunities.** Promotion benefits the economy by providing job opportunities. Millions of people are employed in the field of promotion. Many companies hire staff and maintain their own in-house promotional departments. Others hire the services of professional public relations and advertising agencies. Promotion also encourages demand. When demand for a product increases, businesses must be able to produce the product in the desired quantities. Therefore, promotion helps to create a need for mass production which in turn creates a need for more jobs.

**Increased media support.** Promotion helps to pay for mass media-television, radio, newspapers, magazines, Internet, etc. With out promotional dollars from advertisers, mass media would probably pass along their costs to the media users-that means all of us!

### Adelling it 1111 up

There are many different methods of promotion that companies can use. While some are free or nearly free, such as issuing a press release about a new or improved product, many are costly. Advertising fees, costs for sales promotions and contests, salaries for promotional and sales staffs-they can add up. When marketers plan promotions, they know there are costs associated with each task involved. Considering these costs ahead of time helps marketers to create reasonable promotional budgets for each promotional effort.

### St.111111m11ry

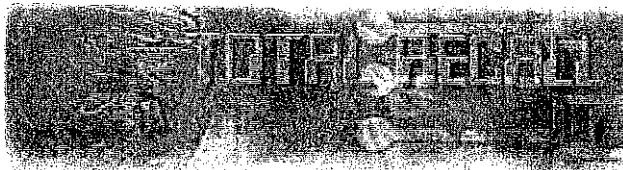
Promotion is a marketing function needed to communicate information about goods, services, images, and/or ideas to achieve a desired

outcome. It is a marketing communication that involves sending a marketing message to a target audience. Any organization that has something to sell uses promotion at one time or another. Effective promotions are persuasive, relevant, appropriate, factual, repetitive, and coordinated. Promotion benefits companies, customers, and the economy by creating increased sales; strong position; increased customer loyalty; increased product/company awareness; better informed, more satisfied customers; increased employment opportunities; and increased media support.

**Promotion benefits the economy  
by providing job opportunities.**



**Millions of people are employed  
in the field of promotion.**



**the Gray Zone**

1. What is promotion?
2. Who uses promotion?
3. What are the characteristics of effective promotion?
4. What are the benefits of promotion?

Individuals such as political candidates use promotion to convince the public to agree with them or to vote for them. Sometimes, along with positive promotions about themselves, political candidates or parties include negative advertisements about their opponents in their promotional campaigns. These promotions aren't illegal, but are they ethical? What do you think?

# A Closer Look: What Promotion Does

What's?

Organizations have three major objectives when using promotion to influence customers. These objectives are to inform, to persuade, and/or to remind. Let's see what this is all about.

## Promotional Informers

Many companies use promotion to communicate important information about their products. Informing customers is especially important when

Razzle Dazzle

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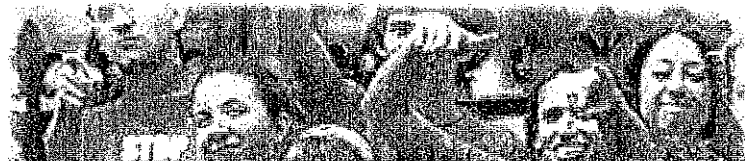
such as CD and DVD players, laptops, and cell phones. Promotions may also be used with older products that have new uses. A classic example of this is baking soda. After years of use for baking, its makers found a new use for it as a deodorizer for refrigerators and created new informational promotions to sell it as such.

Promotions that inform customers may also educate them on how to use products to their fullest advantage. For example, food manufacturers often provide customers with useful information such as recipes included in their print advertisements to explain the many ways that their food products can be used to prepare meals. They may also provide information about the natural or healthy qualities of their foods.

Companies that manufacture car stereos, computers, and toys also use promotion to inform buyers about their products. Makers of these products often tell buyers about special features such as operating methods and money-back guarantees if their products fail to perform as promised. You might find a software company pointing out how easy its games are to use and how the games are compatible with many different gaming systems. The company would also inform customers about the price of the products and which stores will carry them.

In general, the more complex a product is, the more detailed and informational promotion needs to be to educate customers. When customers want to purchase a complex product such as a digital camera or a new car, they want as much information as possible. In this case, companies aim to answer as many of a customer's potential questions as possible with its promotions.

Other organizations use promotion to pass on information about ideas and images. Environmental groups, such as Greenpeace, are well-known for gaining support for their specific causes by making information available to the public. Political parties rely heavily on promotion to explain their viewpoints to voters during election years. Can you recall TV commercials for people running for president, senator, or governor? Even local school



districts use promotion to inform residents about the need to increase taxes to fund education.

## Promotion perspectives

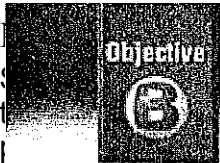
Businesses and organizations also use promotion to persuade customers to buy a product or to have certain views or opinions.

Persuasive promotions are designed to stimulate some sort of action in customers. They are often used while a product is growing

in popularity and competing with many similar products. Companies must persuade customers to purchase *their* products over all the other available choices. Right now, you may have many different choices for SAT prep courses and study materials. Each company is appealing to your desires to succeed on the test and to earn college scholarships. The company or product you ultimately choose must convince you that it offers high success rates and great value for the price.

Companies often use tools such as coupons, free samples, rebates, and contests as part of their persuasive promotions. These incentives may provide the boost a customer needs to choose one product over another. Can you think of a time such an incentive persuaded you to buy?

Some companies periodically make changes in their products or images and promote those changes hoping that they will have a persuasive effect on customers. Many advertisements emphasize that the products are "new and improved," contain "extra strength," are "vitamin enriched," or "environmentally friendly." Other promotions stress a new image for the company itself. For example, several fuel companies have begun promotions explaining their quests to find "clean energy" and conserve natural resources. These promotions are aimed at persuading customers to have positive opinions of these companies.



company or organization rather than trying to sell an individual product. Examples of promotions that remind include a popular restaurant giving customers matchbooks bearing the company logo and address or an established insurance company such as State Farm reminding its customers that, "like a good neighbor," it is always there for them. Reminder promotions seek to reinforce a favorable company image that is already present in customers' minds.

FARM IS THERE.®

Keep in mind that these three promotional objectives do not always exist separately. Promotions may aim to achieve one, two, or all three of the objectives at once. When marketers coordinate their promotional objectives, methods, and budgets, they can achieve success for both the product and the company.

40 MILLION DRIVERS

P R HERE



It's no accident that more drivers go with us and stay



## Summliry

Companies and organizations have three main promotional objectives. These are to inform, to persuade, and to remind. Promotions may aim to achieve one, two, or all three of these objectives.

1. How does promotion inform?
2. How does promotion persuade?
3. How does promotion remind?

# Make It Pay!

Choose one promotion you've seen in the past week. Was it for a company or for a specific product?

Did you find it relevant and appropriate?

Was the

promotion meant to inform, to persuade, or to remind? How did it affect you as a consumer?

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## WHAT'S THE OBJECTIVE?

**Directions:** For each example below, determine whether the promotional message is meant to inform, to persuade, or to remind. More than one promotional objective may apply to each message. Write your answers in the spaces provided. When you have finished, ask your instructor for a copy of the answer guide.

1. "This new technology allows you to start your car from inside the house!"
2. "Our university offers the *best* nursing education in the state." \_\_\_\_\_
3. A toothbrush with a dentist's name, address, and phone number printed on it
4. "Our store has been offering great bargains for 75 years!" \_\_\_\_\_
5. "Buy one, get one free!" \_\_\_\_\_
6. "Aspirin is not just for headaches anymore! Take one daily to keep your heart healthy."
7. A recipe submitted to a magazine by a food manufacturer \_\_\_\_\_
8. "Play the lottery to benefit our state's schools!" \_\_\_\_\_
9. "Thanks for your business! By joining our frequent shopper's club, you will earn discounts and free products!" \_\_\_\_\_
10. "Our new line of sundresses is available exclusively at Kohl's department stores."

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## WHAT'S THE OBJECTIVE?-ANSWER GUIDE

1. "This new technology allows you to start your car from inside the house!" **To inform**
2. "Our university offers the best nursing education in the state." **To inform, to persuade**
3. A toothbrush with a dentist's name, address, and phone number printed on it **To remind**
4. "Our store has been offering great bargains for 75 years!" **To remind, to persuade**
5. "Buy one, get one free!" **To persuade, to inform**
6. "Aspirin is not just for headaches anymore! Take one daily to keep your heart healthy." **To inform, to persuade, to remind**
7. A recipe submitted to a magazine by a food manufacturer **To inform, to persuade**
8. "Play the lottery to benefit our state's schools!" **To persuade**
9. "Thanks for your business! By joining our frequent shopper's club, you will earn discounts and free products!" **To remind, to persuade, to inform**
10. "Our new line of sundresses is available exclusively at Kohl's department stores." **To inform**

# Leadership, Attitude, Performance

g learning pay

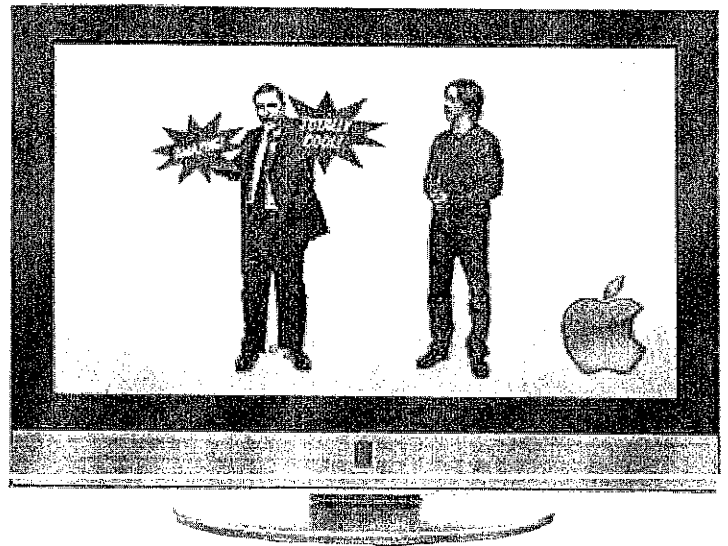
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## Ad-quipping Your Business

Types of Advertising Media

Find What's Right for You  
Cut Through the Clutter  
Make Your Message Heard

So What



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## Objectives

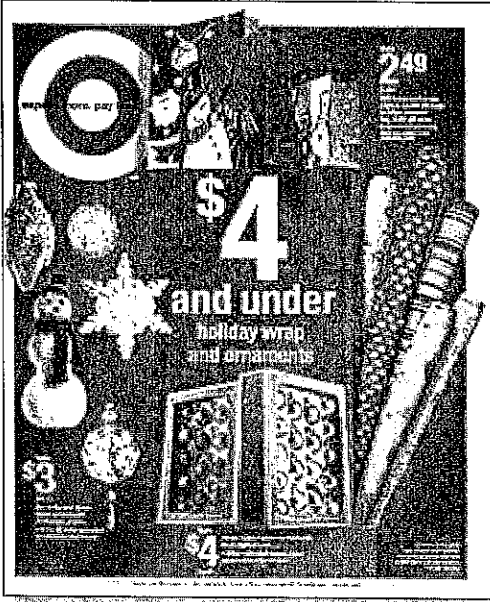
/j Describe types of advertising media.

Smart advertisers select the **advertising media** that best suits their needs. Think of advertising media as channels of communication-information travels through them to consumers. Consumers might discover the "must-have" item for summer through their favorite web sites or the latest Mac computer via television. Make sense? Great! Now, let's take a look at several types of advertising media.

## **P bElearions**

**Publications** are materials that are printed on a regular basis. Newspapers and magazines are good examples.

**Newspapers.** Newspapers are a great way to get in touch with customers, since they reach a large audience. When people want to know what's going on around them, they often pick up a newspaper. But, high readership isn't the only plus for newspapers. Just about anyone can place an ad in a newspaper, making this advertising medium popular among businesses.



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subscribes to a daily newspaper. If so, it arrives at your doorstep every day. If you live in a suburb or rural area, you might also receive a weekly **community newspaper**. Imagine the benefits of spreading the word about your business on such a frequent basis!

The Target insert is the second most widely read part of the Sunday newspaper. What's the only section that's more popular? You guessed it—the comics.

• **Their size**

Did you know that newspapers come in different sizes? Most daily newspapers are *broadsheet* size (the size most of us associate with newspapers), but newspapers come in *tabloid* size, too. If you've ever read the *National Enquirer*, then you're familiar with tabloid sized newspapers.

• **What geographic areas they cover**



Two popular national newspapers are *The Wall Street Journal* and *USA Today*, which are circulated across the country. The mix of advertisements in national newspapers varies according to where they are printed. You might find a snowblower ad in a *USA Today* printed in Minneapolis, but not in a *USA Today* printed in Dallas. However, both copies might feature the same full-page computer ad.

Unlike national newspapers, most newspapers focus on a smaller geographic area and are distributed locally. For example, the *Columbus Dispatch* is delivered to people who live in Columbus, Ohio, and its surrounding communities. This geographic area also benefits from several suburban newspapers, such as the *Hilliard Northwest News*. Suburban news papers cover local events such as high school football games and community festivals. This makes them attractive to people in your area and your business's advertising dollars.

- **Whom they are intended to target**

Newspapers usually try to reach a particular **target market** of readers. Your local newspaper probably covers a variety of topics that appeal to a general population. *The Wall Street Journal* focuses on business issues. The Spanish-language newspaper *El Nuevo Herald* is geared toward Hispanics while

*The Atlanta Voice* targets Atlanta's African-American market. There are even **alternative-press newspapers** that serve younger, trendier crowds interested in the arts and entertainment.

**Magazines.** Full-page, glossy magazine ads can make quite an impression with consumers. In addition, magazines appeal to very specific target groups. As a result, magazines are a powerful way to advertise.

Magazines are similar to newspapers in several ways. Like newspapers, magazines are published periodically and distributed in different geographic areas. For instance, *Teen Vogue* is distributed to a national audience. Other magazines, like *Alabama Goiter*, serve a regional area. Still other magazines such as *Candid* (targeted at college-bound teenagers in Austin, Texas) are distributed within a relatively small geographic area.







Another way to classify magazines is according to the audiences they reach:

Some are "just for fun"? Perhaps like *GamePro*? These are all magazines that people read for personal entertainment. Some magazines often target a very specific audience, such as those about celebrities, sports, or computer games, for example.

Trade magazines appeal to individuals in all different areas. *Business Week* and *Fortune* are aimed at a general population of workers, while trade magazines are aimed at specific areas of business or occupations. *Brandweek*, *Independent Agent*, and *HR Magazine* are examples of trade magazines.



### Broadcast Media

Television and radio are the two **broadcast media**. They are considered "time" media, as opposed to "space" media, because their advertisements last only as long as they are on the air.

**Television.** By now, you've likely spent one or more years of your life watching television. You may even know some commercials by heart. The experience of color, sound, and action makes them easy to remember and quite believable. As a result, television is the most influential, best-selling type of advertising media.

Making the decision to advertise on TV isn't easy. There are a vast number of channels to choose from, each with its own type of audience and cost. Network TV advertising (think ABC, CBS, NBC, Fox, etc.) can reach a very broad audience, but it can also be extremely expensive. Advertising on cable and satellite TV, on the other hand, allows you to target a more specific audience, and it's less expensive than network TV. If you need an even cheaper method to get your ads on the air, consider local TV advertising. Because it is relatively inexpensive and targets a small, highly specific audience, local TV advertising is popular among small businesses.



If money isn't an issue, you have several other options. You might consider an infomercial, which is essentially a 30-minute commercial instead of a 30-second one. You might advertise your products on a home shopping network such as QVC. You could sponsor a specific television program, much like the *Hallmark Hall of Fame* presentations, or you could even create your own television channel, again following in the footsteps of Hallmark.

**Radio.** Another effective (and affordable) way to reach your target market is through radio advertising. Because each radio station specializes in a certain type of music or talk format, it's

possible to target a very specific group of consumers in your area. Simply select a radio station with listeners who fit your market demographics, and choose the time slot that makes the most sense to you, financially and otherwise.

Keep in mind that the world of radio is changing, though. Some radio networks now reach consumers across the country. ABC Radio Networks, for example, broadcasts Radio Disney and ESPN Radio nationwide. In addition, many traditionally local radio stations now broadcast their programming over the Internet as well as over the radio waves, which means that they can reach a much broader audience. So, if you want to reach out to consumers beyond your local area, consider radio stations that broadcast nationwide.

## **Direct Medi**

Many potential customers now have two mailboxes-one outside their home at the curb and another on a computer network some where. The basic difference between the mailboxes is whether they receive printed or electronic **direct mail**.

**Printed mail.** How many sales letters, catalogs, flyers, and postcards do you receive each day? Many small businesses have found that printed mail is good for advertising. It's relatively inexpensive, but you run the risk of someone throwing your ad away with the junk mail. The trick is sending your printed mail to the right people. You wouldn't want to send advertisements for your home improvement company to apartment dwellers, for example. Instead, you'd want to get your direct mail into the hands of homeowners.

**Electronic mail.** Electronic mail is delivered over computer networks to an e-mail address. Electronic-mail advertising is popular among businesses because it's quick, easy, and inexpensive. Just as with printed mail, though, recipients may not want the mail that

you send them. Your e-mail could land in a **spam** folder or, worse yet, be deleted. To avoid this fate, ask your customers to sign up to receive your electronic newsletters and advertisements. That way, you know that you have permission to send e-mails to them, and you know that they want to hear from you. This form of direct mail is sometimes referred to as **opt-in e-mail marketing**.



### Tise 'Web

The number of people on the Web continues to grow. As a result, the Web has become the fastest growing media outlet. On the Web, you can target a very specific audience, and you can track user response (find out who is responding to your ads online). The Web also helps you to build brand awareness and extend advertising reach beyond your local market. To advertise online, you can create a company web site where consumers could learn about your business, find your contact information and locations, and place orders online. You also might place business ads on other people's web sites or on a **portal** such as Google or AOL-popular starting points for surfing the Web. By clicking on your online ad, people would be directed to your web site, where they might become your latest customers.

### Out-of-Home Media

Several forms of **out-of-home media** exist to reach people when they are away from home. **Poster panels, or billboards**, are panels or boards to which advertising posters are adhered. A variation on billboards is a sign painted on the side of a building, often in downtown business districts. Such advertisements are large scale-several stories tall-and designed for long-term use. Visit New York City, and you'll see plenty of them. While you're there, check out the large, elaborate electrical signs (a.k.a. **spectaculars**). Every bus and bus shelter is covered with **transit posters**, and the subway and office buildings are filled with **indoor bill boards**. You'll also find **human directionals**, people wearing or holding signs to advertise a business or product, and the sky may be littered with advertising on blimps, hot air balloons, and other airborne displays. New York City isn't just the city that never sleeps; it's the city that never stops advertising!



### Odlier Media<<!!

Think of "other" media as a catch-all term to include anything that has not been discussed previously. It consists of:

- **Specialty media**

Specialty media remind people about your business. An item must pass three criteria to qualify as specialty media: 1) It must have the business's name or logo on it; 2) It must be a useful item such as a pen or baseball cap; and 3) It must be given away.

- **Directory advertising**

Directory advertising informs people about how to contact a particular business, often with a

telephone number, street address, or Web address. Some directories such as the *Yellow Pages* target a specific geographic area, while other directories target a specific group of people such as students at a university or college.

- **Movie theater advertising**

It seems like there are 20 minutes of cell phone, computer game, and soft drink advertising before every movie nowadays. Movie theater advertising-on and off the screen-is increasing in popularity. So, if you want to see the movie, you'll also see the on screen advertising and the posters, stand-ups, and other advertisements in the lobby.



### • Product placement

It's no coincidence that James Bond always flies British Airways or that Bruce Wayne drives a Lamorghini. Those product manufacturers have paid millions of dollars for the right to use their brands as movie props. They hope that viewers will become just as loyal to their products as James Bond and Bruce Wayne. Keep your eyes open because the number of brands popping up in movies, on TV, and even in computer games (both online and offline) is only going to increase in the future.

### • Telemarketing

Many people think of telemarketing as calling prospective customers on the telephone, but telemarketing also includes providing a number for people to call. Many companies purchase 800-numbers so that customers can call toll free, and most companies choose numbers that are easy for people to remember.

### • DVD and CD-ROM advertising

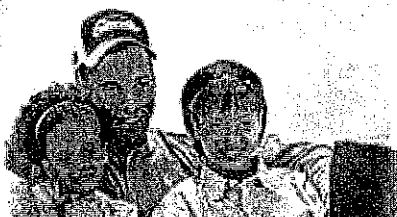
One company that uses DVD advertising successfully is Disney. Upon request, customers can receive a free DVD that introduces them to the Disney theme parks and resort hotels. The hope is that customers will be so awestruck that they will call or go online immediately to purchase their Disney vacation package. CD-ROMs can be used similarly. Customers receive free computer software introducing them to a particular program or Internet service in the hopes that they will purchase the real thing.

### Summary

Advertising media are channels of communication used by businesses to reach consumers with promotional messages. There are six general categories of advertising media: publications, broadcast media, direct mail, the Web, out-of-home media, and other media.

1. What are advertising media?
2. Describe four ways in which newspapers vary.
3. Describe how magazines are classified.
4. How does network TV advertising differ from cable, satellite, and local TV advertising?
5. What are three options for advertising on radio?
6. Describe a challenge in using direct mail advertising.
7. What are four ways in which advertising on the Web can help you?
8. Give three examples of out-of-home media.
9. Describe these six types of "other" media.

## The Gray Zone



- ? Practically every year, the Super Bowl football game attracts more viewers than any other show on television. As an example, in 2008, a record 97.5 million people tuned in to watch Super Bowl XLII between the New York Giants and the New England Patriots. In fact, that particular Super Bowl earned a place as the second most-viewed television show ever.

With viewership numbers like that, many companies jump at the chance to advertise their businesses during the Super Bowl. Each 30-second time slot during a Super Bowl game can cost as much as \$3- to \$4-million to purchase, but some corporations-including Apple, Coca-Cola, and Nationwide Insurance-don't seem to mind. That type of expense is worth it to them, if it means exposure to the largest audience of the year. So, here's a question for you to ponder: In difficult economic times, is it ethical for a company to pay \$3 million for a 30-second time slot during the Super Bowl at the same time that the company is laying off workers and cutting their benefits?

**Ad-quipping Your Business**

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# Help Me, Hurt Me

Some new technology seems to hit the market daily. Technology that was once a fantasy is now a reality, and more new technology is around the corner. These advances in technology help *and* hinder advertisers. On one hand, new media outlets are emerging for advertisers' use, but on the other hand, new technology is helping consumers to avoid traditional advertising media.



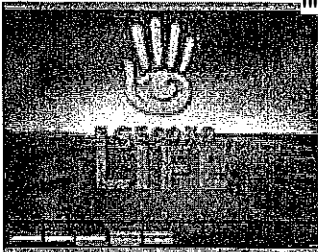
## A New Way to Te1Ek

One form of technology that advertisers are learning to use is **short messaging service (SMS)**. SMS allows people (including advertisers) to send text messages over cell phones. Although still in the early stages in the U.S., text-message advertising is growing in popularity worldwide. It is an inexpensive, easy way to target a specific audience. Advertisers obtain the cell-phone numbers

of people who might be interested in using their products and, *voila!*-those consumers receive text-message advertisements for the businesses' upcoming events, updates, and specials.

This new advertising medium has its drawbacks, however. Unsolicited commercial text messages are a good way to anger consumers, since recipients may have to pay for each message they receive. In addition, some disreputable people have become good at

**smishing**, similar to online phishing for information. Would-be thieves pose as banks and send text messages requesting victims' account numbers and passwords. To combat unwanted text messages and smishing, the federal government passed a law in 2005 to make sending unsolicited text messages illegal. So, if you want to send text messages to consumers, make sure that those individuals opt-in for your ads, first.



## Especially 10 Another World

Another advertising medium predicted to grow in the near future is virtual worlds, such as Second Life. With over 14 million Second Life users worldwide, what business wouldn't want to make contact with this huge market?

Advertisers have several options in Second Life. They may put up posters in Second Life malls, rent out advertising space at special Second Life businesses, or even create an avatar for the company. The Nestle Nesquik Bunny, for example, has been to Second Life to advertise its products. The Bunny handed out bottles of Nesquik Drink and encouraged Second Life users to visit Nestle's web site!

## Are You Trying to Avoid Us?

While some new technology helps ad



vertisers to reach consumers, other technology helps consumers stay away. Do-Not-Call registries, online pop-up ad blockers, spam e-mail filters, and podcasts allow consumers to go about their day without the bother of advertising.

Now, you might ask, why aren't DVRs (digital video recorders) on that list? After all, your DVR lets you fast-forward through the commercials. That's true, but those commercials may have influence on you even at fast speed. Don't you watch the screen pretty closely while fast-forwarding? You don't want to go too far and miss any of your show, right? You probably could even identify some brand names in the ads based on what you saw in fast-forward, couldn't you? Maybe DVRs aren't the death of television advertising, after all. Even at fast speed, commercials can still reach their target audience.

**NATIONAL  
DO NOT CALL  
REGISTRY**

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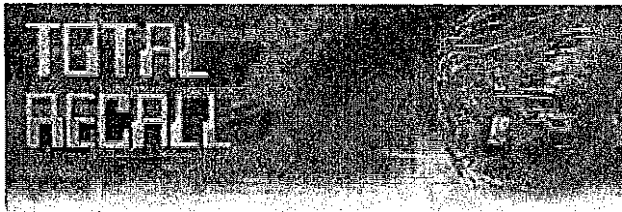


## Well, Did You Ever?

Due to the many new ways to avoid advertising, many companies are pushing the envelope to get consumers' attention. Ever hear of **human billboards**? Several companies hire individuals to wear tattoos-temporary or permanent-that advertise their companies and products. Advertisements have appeared on foreheads, bald heads, arms, chests, and even pregnant bellies in recent years.

### Summary

Recent advances in technology have the potential to both help and hurt advertisers. Text messaging and online game advertising are two new ways to reach consumers, but other technology helps consumers to keep advertisers away. Some companies have begun advertising in very unconventional ways to reach their target markets.



In 2005, a Nebraska man, Andrew Fischer, auctioned off his forehead on eBay for temporary tattoo advertising. SnoreStop, a leading brand of anti-snore products, paid \$37,375 to advertise on Andrew's forehead for 30 days. That's using your head!

If that wasn't strange enough, a few companies have also purchased the right to name people's unborn children. In rare cases, adults have even been paid to change their names legally to that of the paying company. And, there are companies that purchase weird and unusual items on eBay, simply to make headlines] To what lengths would your business go to advertise?

1. Explain two advertising media that are the result of technological advances.
2. What are three forms of technology that help consumers to avoid advertising?
3. How can fast-forwarded commercials influence viewers?
4. What are human billboards?

M·a·k·&r·lt·P

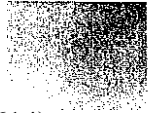
ay·

posed to on a  
regular  
basis? Make

about your product(s)? Also, which advertising  
media would best catch and hold your  
potential customers' attention? Why?

a mental list of the type(s) of advertising  
media to which you are most likely to pay  
attention. Why do you think that these  
advertising media are especially effective  
in reaching you?

Now, focus on your business for a  
while. Think carefully about your  
product(s) and market. What types of  
advertising media would be most useful  
in getting the word out



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## DIRECTIONS TO THE INSTRUCTOR (cont'd)

As each item is correctly answered, mark it off the chart. The game is over when all items have been crossed off or a previously determined amount of time has expired. The team with the most money at the end of the game wins.

The questions and answers are found on pages 34-35.

2. **Preparation:** Duplicate six copies of the *Thrills and Water Spills Case Study* handout on page 36.

**Process:** Divide the class into six groups. Assign each group one of the following types of advertising media: publications, broadcast media, direct mail, the Web, out-of-home media, and "other" media.

Pass out one copy of the handout *Thrills and Water Spills Case Study* to each group. Explain that group members should read the case study on the handout and then answer the questions based on their knowledge of their assigned advertising media.

Ask a representative from each group to share the group's findings in an oral presentation to the class. Sample responses are as follows:

1. **Publications:** To attract vacationers, Triton Lodge could advertise in the classified section of national newspapers or in the Travel/Leisure section of the weekend editions of newspapers outside of the area. When advertising in local newspapers, Triton Lodge must keep in mind that local citizens do not need a place to stay. However, they might want to read about daily admission rates to the water park only. As far as magazines are concerned, AAA would be a good start. Triton Lodge should not advertise in business magazines.

**Broadcast media:** To reach its target market of families, Triton Lodge should advertise during family-oriented programming. If budget were no object, Radio Disney would be a good idea as well as the Disney channel on television. It might also want to consider television programs on the Discover Channel featuring the world's best vacation spots. During the summer months, it could advertise on local radio channels when vacationers are driving to the nearby thrill-ride park.

**Direct mail:** Triton Lodge could send sales letters, postcards, and brochures to previous guests, informing them about the new water park. It might also purchase a mailing list from a travel agency and then send direct mail to people on the list. Triton Lodge could develop an electronic newsletter featuring topics about local restaurants, thrill-ride park admission rates and rides, benefits of vacationing, and so forth. It could then send it out to newsletter subscribers, along with information about Triton Lodge's new water park.

**The Web:** If it hasn't already, Triton Lodge should definitely consider creating its own web site with an online reservations system. That way, the web site could advertise Triton Lodge's new water park and sell rooms at the same time. It could also advertise on travel web sites such as Orbitz.com and Travelocity.com.



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## DIRECTIONS TO THE INSTRUCTOR (cont'd)

**Out-of-home media:** Triton Lodge could fly a banner over the thrill-ride park advertising its new water park. It could also put up a billboard along the highway that people travel to get to the area. It might position an electrical sign near the lodge in which a big splash occurs when a child jumps in some water. Advertising on buses in nearby cities might grab the attention of families looking for a weekend getaway.

**"Other" media:** Specialty items might include a calendar that features photos of the lodge and new water park and an insulated carrier for pop cans featuring the Triton Lodge logo. Advertising in the *Yellow Pages* is a definite must because people might need to call to get directions to the lodge. If there is a movie theater in the area, then placing a giant ad would be a good idea to attract vacationers as well as local residents. If money isn't an issue, paying to have the lodge and water park written into the storyline of a popular family- or child-oriented TV show would be a great product placement. Triton Lodge should include its toll-free reservation number on all its literature, and perhaps even call previous guests and invite them back to the hotel. Triton Lodge could create a DVD of guests having a great time at its facility, and then it could give it to travel agents to pass out to clients.

2. Triton Lodge could send email updates out to text-message subscribers to keep customers informed about special events and specials at the lodge and water park. It could also design and hang up posters in virtual worlds like Second Life. The lodge could hire someone to be a human billboard for the water park. Someone who has regular contact with families would be a good choice.



## MEDIA MATCH-UP


**Directions:** Match the advertising examples in the left-hand column with the appropriate type of advertising media in the right-hand column. When you are finished, ask your teacher for a copy of the answer guide.

- |       |  |                              |
|-------|--|------------------------------|
| _____ | 1. Nationwide Insurance ad painted on the side of a downtown office building                           | a. The Web                   |
| _____ | 2. Ad promoting popcorn that is aired prior to the matinee showing of a feature film                   | b. Printed direct mail       |
| _____ | 3. Newsletter sent to johnsmith@aol.com from the Super Soccer Store                                    | c. Telemarketing             |
| _____ | 4. Upcoming events sent to mobile number 555-121-3434  | d. Out-of-home media         |
| _____ | 5. Famous actor eating Doritos in a blockbuster movie hit  | e. Magazine                  |
| _____ | 6. Man advertising the Toyota Matrix on his forehead   | f. Electronic direct mail    |
| _____ | 7. Software ad played after inserting a disk into the computer   | g. Specialty media           |
| _____ | 8. Energizer Bunny interacting with other Second Life users  | h. Movie theater advertising |
| _____ | 9. Model wearing Revlon lipstick in the January issue of <i>Teen People</i>                            | i. Radio                     |
| _____ | 10. Toll-free telephone number to order monogrammed towels from Lands' End                             | j. Text-message advertising  |
| _____ | 11. Clothing catalog delivered to 3857 Aipek Lane  | k. Newspaper                 |
| _____ | 12. Black-and-white ad featured in the daily morning edition "Click Here to Learn More" rectangular ad | l. Virtual worlds            |
| _____ | 13. Honda dealer's contact information listed in the <i>Yellow Pages</i>                               | m. Human billboard           |
| _____ | 14. Jet-ski ad broadcast to commuters during the morning rush hour                                     | n. Product placement         |
| _____ |  | o. Television                |
| _____ |  | p. Directory advertising     |
| _____ |  | q. CD-ROM advertising        |

\_\_\_ 16. Million-dollar ad aired during the Super Bowl

\_\_\_ 17. Free Xerox coffee mug

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## MEDIA MATCH-UP-ANSWER GUIDE

- d   1. Nationwide Insurance ad painted on the side of a downtown office building
- h   2. Ad promoting popcorn that is aired prior to the matinee showing of a feature film
- f   3. Newsletter sent to johnsmith@aol.com from the Super Soccer Store
4. Upcoming events sent to mobile number 555-121-3434
- n   5. Famous actor eating Doritos in a blockbuster movie hit
- m   6. Man advertising the Toyota Matrix on his forehead
- q   7. Software ad played after inserting a disk into the computer
8. Energizer Bunny interacting with other Second Life users
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- l. Virtual worlds
- m. Human billboard
- n. Product placement
- o. Television
- p. Directory advertising
- q. CD-ROM advertising

- \_\_\_ 15. Jet-ski ad broadcast to commuters during the morning rush hour
- 0
- \_\_\_ 16. Million-dollar ad aired during the Super Bowl
- \_\_\_g\_ 17. Free Xerox coffee mug

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## IT'S YOUR CHOICE

**Directions:** Select a local business with which you are familiar, and use your knowledge of advertising media to make an appropriate suggestion for each category of advertising media identified below. If necessary, conduct Internet or other research to help you answer the questions. When you are finished, discuss your responses with the instructor.

Name of business: \_\_\_\_\_

Product(s) it sells: \_\_\_\_\_

1. Name of print publication you would recommend advertising in: \_\_\_\_\_  
Is it a newspaper or magazine?  
What geographic area does it cover? Whom does the newspaper target?
2. Television program you would recommend advertising during: \_\_\_\_\_  
Is the program broadcast on a network, cable, satellite, or local channel?  
Whom does the television program target?
3. Name of the radio station you would recommend advertising on: \_\_\_\_\_  
\_ Is the station a national or local radio station?  
What type of programming does it play? Whom does the radio station target?
4. Type of direct mail that you would recommend sending: \_\_\_\_\_  
What action(s) might increase the business's response rate?  
Whom should the business target?
5. Web site that you would recommend advertising on: \_\_\_\_\_  
Whom does the web site target?
6. Type of out-of-home media you would recommend:  
\_\_\_\_\_  
Why?
7. Type of "other" media you would recommend:  
\_\_\_\_\_  
Why?
8. New trend in advertising media that you would recommend: \_\_\_\_\_  
Why?



# OTHER ACTIVITIES

...making learning pay

Marketing LAP 4 Performance Indicator: MK-00

# Have It Your Way!

Nature of Marketing



A matching game  
Everywhere you go  
Put others first

# Marketi

Have you ever bought something because you knew the price couldn't be beat? Given feedback on a food sample at the grocery store? Searched for a certain brand of jeans?

Then you've been impacted by marketing.

Marketing is

all around you-everywhere you go. Whether you're at school, at the mall, or even at the doctor's office, you

encounter some form of marketing.

In fact, if you've ever created student-council election posters, sold candy to raise funds for your sports team, or priced garage sale items, you've actually been involved in marketing people and products to others. So, considering that you're surrounded by marketing and have been involved in it personally, isn't it high time to find out what marketing's all about?

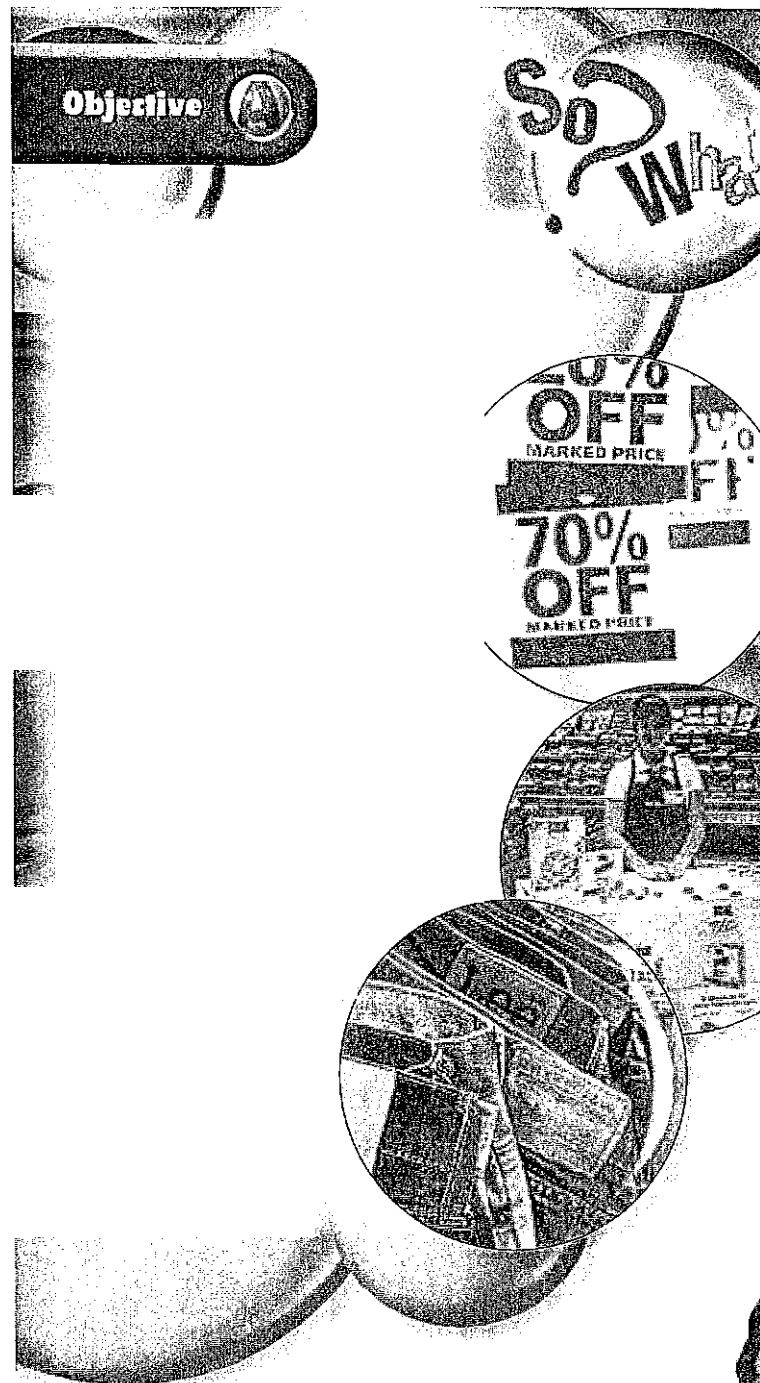
## Objectives

1. Explain the nature of marketing.

2. Explain the nature of the marketing concept.

3. Explain how marketing affects our society.

# ng: Tile



ever again. **It** happens to us all

**Producer**

**Customers**

Like a gifted matchmaker who helps two people to become a couple, **marketing** matches up producers with the customers who want to buy their products. It finds out what customers are looking for, shares this information with producers, and helps these producers to connect with their customers in the right way, at the right time, in the right place. In more technical terms, marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. It can have a significant impact on a business's long-term profitability; help customers to live better, easier lives; and improve communication and relationships throughout the world.



**Product  
Price  
Promotion**

Some people describe marketing in terms of the four P's: product, price, promotion, and place.



1, and evaluate the plan's marketing is essential for

**Finding out about customers.** Marketers are responsible for finding out who their customers are and what their customers need. Knowing this information enables marketers to take action. To acquire these insights and identify the products that would satisfy their customers, marketers conduct in-depth, detailed research.

Offering the products customers want. After finding out who customers are and what they want, marketers share what they've learned with others in the company. People in operations would need to design and/or create the product, if it's new, while people in finance would determine whether it's a wise financial decision to offer the product. If so, marketers take the

new product for a "test drive" to find out whether what has been customers or whether changes still need to be made before the product is mass produced. In this way, marketers offers the products that customers want.

Some companies buy goods from manufacturers to resell to customers. Retail stores need to make sure that their stores have the latest colors and the right amounts to satisfy customer demand.

**Determining how much to charge for the products.** Another way to determine how much to charge for their products, marketers must consider customer perception of value as well as the business's objectives. For most businesses, the number-one goal is profit. So, the challenge for marketers is identify products that customers and sellers both see as giving them the best value. In other words, products must be priced low enough for customers to want to buy them, yet high enough that sellers can make a profit.



**Communicating with customers.** To capture their customers' attention and generate demand for their goods and services, marketers conduct several activities, including advertising, personal selling, publicity, and sales promotion. Each activity

involves contact with the customer, whether in person or not. You're exposed to advertising whenever you watch a television commercial, click on a pop-up ad, or read a billboard. When your little sister asks you to buy Girl Scout cookies, you're the target of personal selling. Likewise, if you've ever participated in a charity event sponsored by a local business or taken part in a contest to win free concert tickets, you've seen publicity and sales promotion in action.

**Putting products where they need to be.** What point would there be in finding out what customers want, developing products customers want, determining how much to charge, and communicating with customers if the customers don't have access to the products that

they want to buy? Therefore, putting the product in the customer's hands is foremost in the marketer's mind. Marketers determine where customers are most likely to purchase the products that they want and then make sure that their products are available in those locations-whether online or off.

**Have It Your Way!**

Center®•

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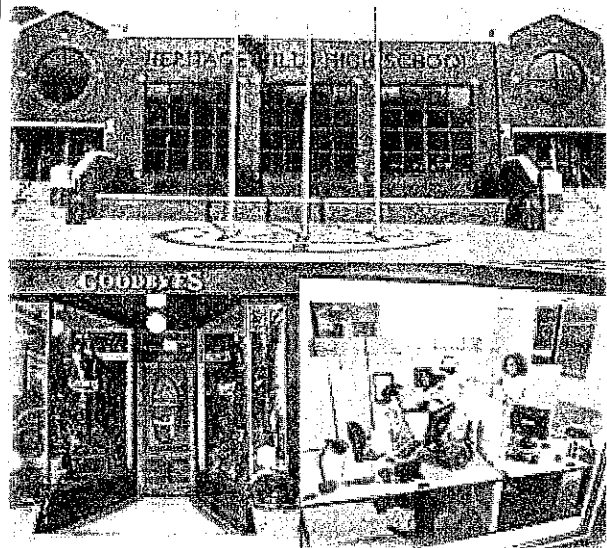


### The Where, Who, 1.11nd What of Ma:rkeffling

**Where does marketing occur?** In everyday places. Marketing occurs wherever customers are present-in all kinds of businesses. Marketing can be done online, in an office, in a store, in a school, at home, and in thousands of other locales. Some businesses, in fact, are almost entirely devoted to marketing and its activities. You might be familiar with the following: retail stores, advertising agencies, marketing-research companies, and travel agencies.

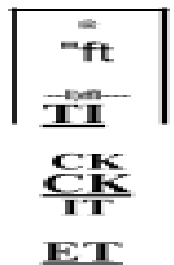
Who takes part in marketing? Everyday people. Marketers are those individuals and businesses who connect goods and services to the people who buy them. Car repair shops, hospitals, and web search engines are a few examples. Even not-for-profit organizations, such as charities, are marketers, too. If you've interviewed for an after-school job or filled out a college application, you've marketed your own abilities to someone else. In reality, almost everyone has marketed *something* at some time in some way!

**What is marketed?** Practically anything and everything. Items that are marketed are broadly grouped into categories such as goods (durable and nondurable), services, organizations, events, places, ideas, and people. You may not realize that you see both durable and nondurable goods on a daily basis. Durable goods are tangible items that last a long time, such as mp3 players, automobiles, and laptop computers. In contrast, items such as fruit smoothies, unleaded gasoline, and lipstick are nondurable goods, which means that they are typically consumed within a short period of time.



Services-intangible activities that are performed by other people for money-are also easy to find. Examples include haircuts, dental treatments, and cell phone service. And, if you've ever mowed someone's lawn or walked someone's dog, you've provided a service, too.

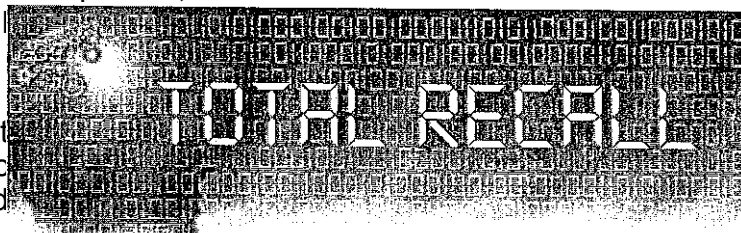
The rest of the categories of marketed items are a bit less obvious. Organizations such as Operation Smile, which provides free surgeries to repair cleft lips, cleft palates, and other facial deformities, and the American Society for the Prevention of Cruelty to Animals (ASPCA) market themselves on a regular basis. Events as small as a county fair or as large as the Olympics are also marketed. The state of California uses the slogan "Find Yourself



Here" to attract tourists from around the world. An example of idea-marketing is the government-sponsored "Click It or Ticket" campaign, which encourages young people to buckle up. And, who hasn't heard of basketball superstar LeBron James? He even

#### Marketing

Marketing, which links producers with customers who want to buy their products, involves a wide range of interrelated



carry out the who customers g the products ow much to

charge for the products, communicating with customers, and putting products where they need to be. Almost anything—goods, services, organizations, events, places, ideas, and people—can be marketed, in almost any situation, by almost anybody.

1. What is marketing?
2. Explain the activities that make up the marketing process.
3. Where does marketing occur?
4. Who takes part in marketing?
5. What is marketed?

# You want It? You Go<sup>+</sup> It!

## Objective

ane  
Smith buys,  
You've got to see  
things  
Through Jane Smith's eyes."

This old saying expresses the **marketing concept**. The marketing concept is a philosophy of conducting business that is based on the belief that all business activities should be aimed toward satisfying customer wants and needs while achieving company goals. Businesses that embrace the marketing concept consider the customer's point of view first-before making any marketing decisions. In short, to be successful, a business should focus its actions on fulfilling its customers' needs and wants.

### 'What We Believe In

The marketing concept consists of three basic elements: customer orientation, company commitment, and company goals. Let's look at each of these elements in more depth.

**Customer orientation: Do it their way.** When a salesperson shows up at your door asking you to sign up for fiber-optic Internet service or purchase new windows, s/he is counting on persuading you that you need those goods or services, regardless of whether you want them or not. In contrast, when a firm first surveys people to find out what *they* are looking for and then produces those products to their wishes, the firm is practicing the marketing concept idea of customer orientation. Simply put, customer orientation means doing it the customer's way.

while wear

-;; ing fitted sweatpants with the sandwich's name emblazoned across their backsides. Since the target market for the new sandwich is young men aged 18-25, the company felt that one of the best ways to grab its target market's attention was to advertise its newest product on the women's rear ends. Did the company make the right choice? Do you approve of its marketing campaign? Or, was it demeaning to women?

female college students to promote the

company's newest

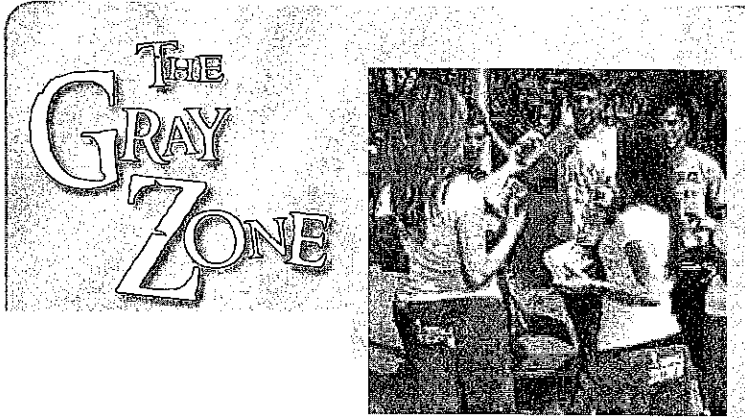
!· chicken sandwich. In exchange for \$500, the young women

:1:c agreed to pass out coupons for the new sandwich



**Company commitment: *Do it better.***

If a firm's marketer is the only one using the market-



commit to doing things right for its customers. Company leaders must see the value of the marketing concept, and they should take actions to encourage its acceptance throughout the firm.

**Objective** 

This may mean setting

company could focus  
feature or competitive  
customers to buy its  
competitor's similar  
company commit me  
everyone in the firm i


**Company goals:**  
*mind.* Though many  
to make a profit, some  
other aspects of their  
a wider audience is th  
awareness of a partic  
*Doing it with succes*  
incorporat ing the ma  
maintaining a commi  
goals, whatever they



Round

**Summary**

The marketing conce  
conducting business  
belief that all busines  
aimed toward satisfy  
and needs while  
achieving company goals. Using the  
concept successfully means doing it the  
customer's way, doing it better, and doing  
it with success in mind.

**Objective** 

Marketing

Makes

the world Go

1. What is the marketing concept?

Now that you have a better understanding of the concept of marketing, you hopefully have a greater appreciation of the role that it plays in our economy. It helps businesses to be profitable, and it helps us

to obtain the goods and services that we need and want. In fact, marketing fits into every facet of our lives, on both a global scale and right in our own neighborhoods.

In our world. In an overall sense, marketing makes the world go round. Day after day, people buy and sell goods and services so that they can feed their families, increase their business profits, or further their causes. The marketing activities that make the process work are closely tied to the global and economic activities our world faces. For example, when a war takes place somewhere in the world, or when trade temporarily stops between two nations, producers and customers may be disconnected from each other. Similarly, if people in one part of the world need a product, producers throughout the rest of the world will know about it if marketers are effectively researching and finding creative solutions. Staying connected is important, wherever you are.

2. How does customer orientation play a part in the marketing concept?

3. What is the role of company commitment in the marketing concept?

4. What role do company goals play in the marketing concept?





In our community. Every day, you come across marketing activities that can influence your decisions. Driving through town, you pass an auto parts store, a fast-food restaurant, and a yard sale sign. When you discover that you're out of shampoo, you go to the local drugstore or supermarket. Or, when you walk past a bakery and smell freshly-made cookies, you suddenly get hungry for a snack. You, too, are affected by marketing's daily presence.

### What Marketing Does for Us

Thanks to marketing, satisfying the wants and needs of customers is the priority for most businesses. As a result, we as individual consumers and the public in general benefit. Some of the most important ways in which marketing benefits society include:

- Makes our lives better. Marketing encourages competition among businesses. Consequently, businesses consistently search for ways to make their products better and cheaper than their competitors'. In an effort to get ahead, these businesses conduct research, look for ways to improve their products, and focus on innovation. The result? Many new and improved products at lower prices. Due to marketers' hard work, we have one of the highest standards of living in the world.



**The next time that you go to the grocery store, take a look at where your fruits and vegetables were grown. Depending on where you live and shop, you might see produce that was grown in your local area, in other parts of the country, or even in other parts of the world. Thank a marketer if you enjoy eating Michigan blueberries, Florida oranges, California grapes, or Mexican avocados!**



- Provides a variety of goods and services. Because businesses in our society must compete to attract customers, they offer a variety of goods or services in many styles, models, colors, and sizes. As an example, consider your cell phone. It probably comes in a variety of colors, possibly with different features. In addition, the manufacturer produces other cell phone models. This is done to attract as many customers as possible.

- **Encourages trade between nations.** Resources needed to produce their products are extremely valuable to marketers. Therefore, it doesn't take them long to pinpoint where a certain resource can be found in abundance. If our nation lacks that resource, we can usually trade something to get it. Since different countries contain different resources, marketing draws countries into

the process  
advantage.

of exchanging to

everyone's

### **What If Marketing Didn't Exist?**

Without marketing, customers and businesses would be greatly affected. Places and people would be disconnected from each other, forcing individuals to fend for themselves.

**Effects on our country.** Without marketing, our nation would have difficulty linking producers with customers. Without customers to purchase their products, businesses would suffer and possibly close. Customers would have to figure out on their own where to get certain goods and services. In addition, they would need to make personal contacts with businesses to learn about products because goods, services, and ideas would not be marketed in any way. Fewer improvements would be made to existing products, and fewer new products would be developed.

**Have It Your Way!**

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### Summary

Marketing plays an important role throughout the world as well as in our own communities. It makes our lives better, provides us with a variety of goods and services, and encourages trade among nations. Without marketing, it would be difficult for producers to connect with customers and vice versa.

Without marketing, even your own daily routines would be markedly different.

**Effects on you.** Without marketing, your own daily routines would be different. You wouldn't own as many personal belongings. You would make rather than buy many of the items that you would own. After all, without marketing, it would be much more difficult to find businesses where you could buy your clothing, food, and other necessities. On top of that, since radios, television networks, and even many web sites earn their money by selling advertising time and/or space, they would not exist to entertain you. Sounds like the old days, doesn't it? Could you sew all of your own clothes, grow your own food, and find ways to entertain yourself without any electronics? It's amazing how much marketing shapes even the little things we do.



1. How do the global and economic activities that our world faces impact marketing activities?
2. Explain three ways in which marketing benefits society.
3. How would our country be affected by the absence of marketing?
4. How would you personally be affected by the absence of marketing?

Take a minute to think about how you

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## GETTING IT DONE

**Directions:** Each of the following items describes something that a marketer would do while conducting one of the activities that make up the marketing process. In the space provided, indicate which of the marketing activities is being illustrated.

### Marketing Activities

- a. Planning how to carry out the marketing process
  - b. Finding out about customers
  - c. Offering the products customers want
  - d. Determining how much to charge for the products
  - e. Communicating with customers
  - f. Putting products where they need to be
- 
1.            Conducting research to identify products that would satisfy customers
  2.            Buying goods from a manufacturer to resell to customers
  3.            Taking a new product for a "test drive"
  4.            Sponsoring a charity event
  5. \_\_\_\_\_ Determining how to coordinate all of the marketing activities
  6.            Identifying a price that buyers and sellers both like
  7. \_\_\_\_      Asking customers what their needs are
  8.            Evaluating the success of marketing activities
  9.            Advertising a new business on the radio
  10.          Determining where customers are likely to purchase a certain product

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## GETTING IT DONE-ANSWER GUIDE

### Marketing Activities

- a. Planning how to carry out the marketing process
- b. Finding out about customers
- c. Offering the products customers want
- d. Determining how much to charge for the products
- e. Communicating with customers
- f. Putting products where they need to be

- 1. **b** Conducting research to identify products that would satisfy customers
- 2. **c** Buying goods from a manufacturer to resell to customers
- 3. **c** Taking a new product for a "test drive"
- 4. **e** Sponsoring a charity event
- 5. **a** Determining how to coordinate all of the marketing activities
- 6. **d** Identifying a price that buyers and sellers both like
- 7. **b** Asking customers what their needs are
- 8. **a** Evaluating the success of marketing activities
- 9. **e** Advertising a new business on the radio
- 10. \_\_\_\_\_ Determining where customers are likely to purchase a certain product



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## THE RIVERSIDE PAINT STORE

Brenda and Ed Schafer went to the Riverside Paint Store to purchase paint to match their new wallpaper. Brenda had seen a newspaper advertisement for the paint store which offered custom mixing of paint to match paint colors with furniture, draperies, or wallpapers. Brenda knew they would require a specially mixed paint because the color needed was unusual and not readily available. Brenda expected to pay about \$10 for the paint.

The Schafers explained to the salesperson that they wanted to purchase one quart of specially mixed paint to match their wallpaper. The salesperson told them that, unfortunately, it was company policy to custom blend paint in gallon quantities only. He explained to them that management believed it was too time-consuming, costly, and inconvenient to custom blend paint in quantities less than a gallon. In other words, the Schafers would have to purchase a \$30 gallon of the paint when only one quart was needed.

Brenda and Ed did not want to buy an entire gallon of paint. They were also upset that the newspaper advertisement did not specify a minimum purchase of a gallon. Realizing that the salesperson was not responsible for the policy, they asked to talk to the manager.

### Questions

1. If you were the Schafers, would you be willing to purchase more paint than you needed just to have the special color? Why or why not?
2. Does the Riverside Paint Store practice the marketing concept? Explain.
3. The Schafers felt that the newspaper advertisement was misleading and planned to discuss their feelings with the manager. They wanted to emphasize the marketing concept to the manager. What suggestions could they have given the manager?
4. Which marketing activities (e.g., planning how to carry out the marketing process, finding out about customers, offering the products customers want, etc.) were described in the scenario?





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## THE RIVERSIDE PAINT STORE-ANSWER GUIDE

1. If you were the Schafers, would you be willing to purchase more paint than you needed just to have the special color? Why or why not?

Answers will vary. However, students are likely to explain that they would not be willing to purchase more paint than they needed. A customer should not have to spend the extra money for paint which is not needed. The Schafers may decide to go to other paint stores to get the smaller quantity of paint rather than spend money for more paint than they need.

2. Does the Riverside Paint Store practice the marketing concept? Explain.

No, the Riverside Paint Store does not practice the marketing concept. If the company did practice this concept, it would have sold the Schafers what they wanted and made every effort to satisfy their needs. The Riverside Paint Store made a policy that was easy for them to follow but difficult for customers to accept.

3. The Schafers felt that the newspaper advertisement was misleading and planned to discuss their feelings with the manager. They wanted to emphasize the marketing concept to the manager. What suggestions could they have given the manager?

The Schafers could have emphasized the marketing concept to the manager by making the following suggestions:

- When advertising the goods and services of the store, print the restrictions that apply, also.
  - The custom mixing of paint is an excellent service to offer but should not have a minimum amount that must be purchased.
  - Base store policies on what customers want and need rather than on what is the most convenient for the company.
  - The store will be able to achieve its goals if it commits itself to customer satisfaction.
  - Remember that the needs and wants of all customers come first.
4. Which marketing activities (e.g., planning how to carry out the marketing process, finding out about customers, offering the products customers want, etc.) were described in the scenario?

Marketing activities that were described include offering the products customers want (specially mixed paint), determining how much to charge (\$30 per gallon of paint), communicating with customers (via a newspaper advertisement), and putting products where they need to be (in the business's store).



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## TOTAL RECALL KEY

### OBJECTIVE A (Page 4 of student LAP)

1. Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
2. Marketing is a process of multiple, interrelated activities. These activities involve planning how to carry out the marketing process, finding out about customers, offering the products customers want, determining how much to charge for the products, communicating with customers, and putting products where they need to be. Planning how to carry out the marketing process is important because all of the pieces of marketing must be coordinated to be successful. Marketers develop plans in an attempt to make sure that these pieces work together. Marketers spend time finding out who their customers are and what their customers need so that they can identify what would satisfy these customers. After finding out who customers are and what they want, marketers share what they've learned with others in the company. People in operations design and/or create the product, while people in finance determine whether it's a wise financial decision to offer the product. The marketers take the new product for a "test drive" to ensure that the company offers the products that customers want. Determining how much to charge for the products involves identifying an exchange price that buyers and sellers both see as giving them the best value. To communicate with their customers, capture their customers' attention, and generate demand for their goods and services, marketers use advertising, personal selling, publicity, and sales promotion. Putting products where they need to be means determining where customers are most likely to purchase the products that they want and then making sure that the products are available in those locations.
3. Marketing takes place in everyday places. It occurs wherever customers are present, in all kinds of businesses.
4. Everyday people take part in marketing. Marketers are those individuals and businesses who connect goods and services to the people who buy them. Almost everyone has marketed something at some time in some way.
5. Almost anything can be marketed. Categories include goods (durable and nondurable), services, organizations, events, places, ideas, and people.



*Leadership, Attitude, Performance ...making*

learning pay!

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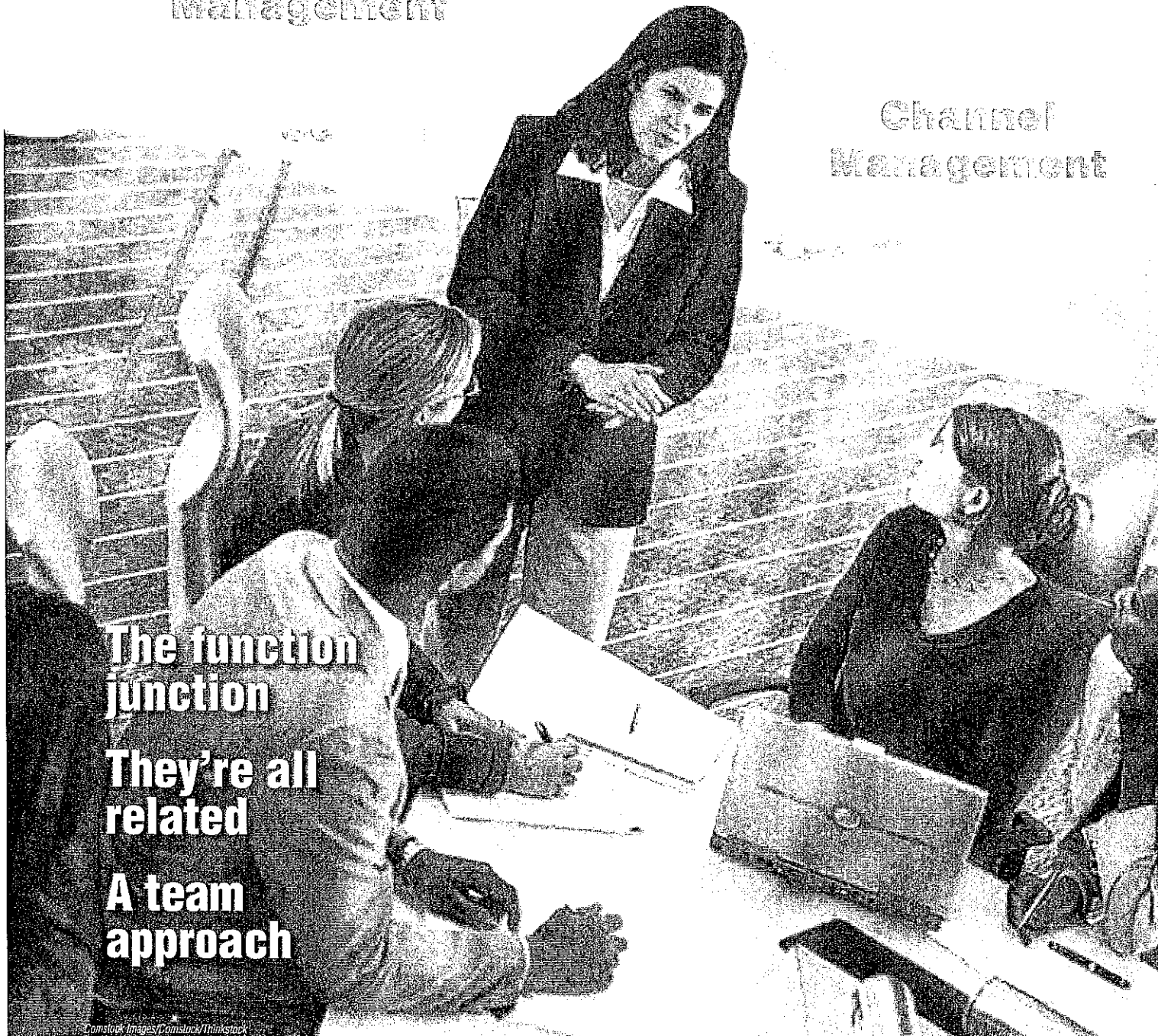
Marketing LAP 1 Performance Indicator: MK:002

# Work the Bid

Product/Service  
Management

Marketing-Information  
Management

Channel  
Management



**The function  
junction**

**They're all  
related**

**A team  
approach**

# Marketing Functions

Prof

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1. 1. e;

Objective

So What?

# Function

ertain products? Is it popular? Because they are because you have to have that? What you buy is often ting by the businesses that e products. Without hnt not buy the latest MP3 st video game. Without uldn't know where to buy they cost. In fact, without hnt not even know about ill!

eteting? Marketing is the utions, and processes for

reating, communicating, delivering, and exchanging offer ings that have value for customers, clients, partners, and society at large. And, for most businesses, the ultimate goal of marketing is to attract you, the target customer, to the business. To achieve this goal, businesses coordinate the six marketing functions, which are interrelated activities that must work together to get goods and services from producers to customers. The six marketing functions are product/service management, marketing-information management, pricing, channel management, promotion, and selling.

significant in common: They are team activities. Each team or group depends on every one of its members to work-and work together-to be successful.

For instance, the football team isn't likely to win its game if its players don't perform their assigned duties as center, quarterback, linebacker, etc. Likewise, the band isn't likely to sound good if the trumpet section

ies

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s

**R--;**t Discuss the importance of each marketing

**\;**t function.



These marketing functions involve activities that focus on understanding customers and making the products they want available to them. All of the six

marketing functions need to work together to make this happen. If any one function is not doing its job, the other functions are affected.

Work the Big Six

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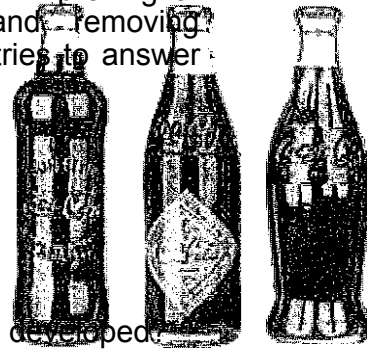
For example, if a business offers products that customers don't want, salespeople will not be able to sell, no matter how hard they work. If a business offers the right products but prices them too high, customers will not buy. If products are not available where customers shop, the business will lose sales to competitors. Can you think of any other examples?

To understand how the marketing functions work together, first let's take a look at each function and the types of activities involved.

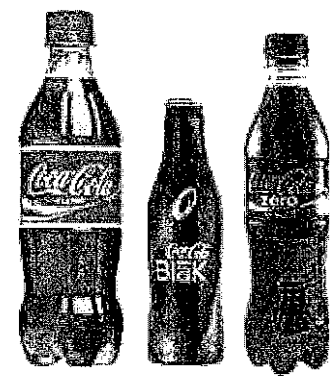
**Product/Service management.** This marketing function is very important because it involves obtaining, developing, maintain

ing, and improving a product or service mix in response to market opportunities. The product manager directs, and controls all phases of a product's life cycle from beginning to end. This includes improving or updating existing products, and removing products from the market. Product managers try to answer questions such as:

The product/service management function plans, rates ideas for new products, processes, and product/service management



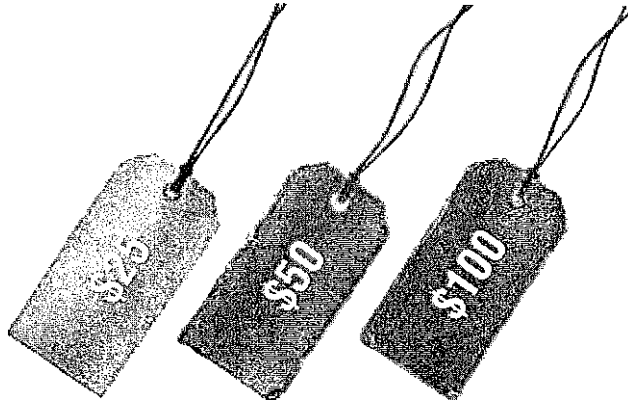
- What product meets our customers' wants and needs?
- What new products should be developed?
- Is the product packaged appropriately?
- Does the product meet the standards of other products in the product line?
- What is the image of the business or the product?



- What image do we want the business or product to have? A The product/service management function is responsible for obtaining, developing, maintaining, and improving a product/service mix in response to market opportunities.

**Marketing-information management.** Businesses need information to make good marketing decisions. That's the function of marketing-information management, which involves gathering, accessing, synthesizing, evaluating, and disseminating information. For the information to be of value, these activities should take place on an ongoing, regular basis. Then, the information must be given to the people who need it. Accurate marketing information can help businesses answer questions such as:

- Who are our customers?
- Where are they located?
- What products do they want?
- Why do they want them?
- When will they buy?



*/Stockphoto/ThinkStack*

A Pricing involves determining and adjusting prices to maximize return and meet customers' perceptions of value.

**Pricing.** The pricing function involves determining and adjusting prices to maximize return and meet customers' perceptions of value. This often involves deciding how much to charge for products so customers will want to buy and businesses will make a profit. For example, should a video game be priced at \$25, \$50, \$100, or more? To answer that question, businesses try to maximize sales by setting the price so that they and their customers get the most value.

Deciding on a product's price is not always easy. Businesses must consider many factors. Some of these factors encourage the business to set high prices. For example, a hot, new computer game that is in short supply might be priced high because the demand is great. On the other hand, some factors encourage businesses to set low prices. These factors might include the prices that competitors are charging, or that the demand for a product is decreasing. Businesses regularly monitor these factors to adjust prices when necessary.

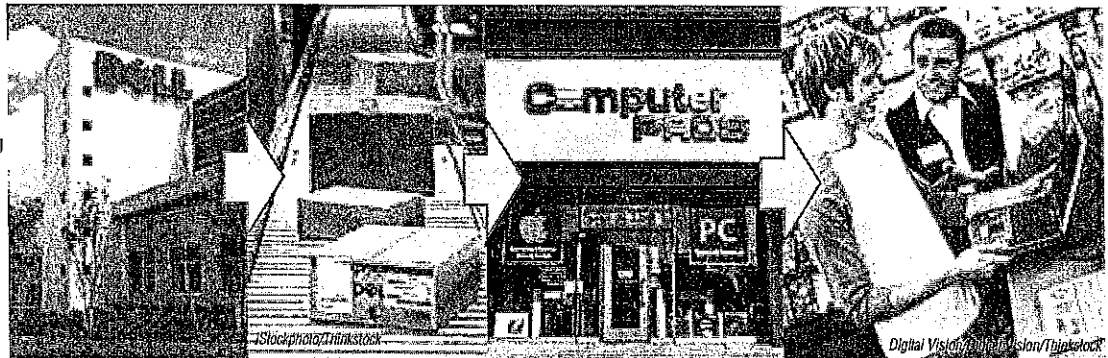
**Work the Big Six**

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The channel management function is responsible for identifying, selecting, monitoring, and evaluating different sales channels.

These sales channels known as channels of distribution-work to put products in the right places at the right times.



**Channel management.** This marketing function is responsible for identifying, selecting, monitoring, and evaluating sales channels, also known as channels of distribution. Each channel of distribution is a path or route that goods and services take from the producer to the ultimate consumer or industrial user. These paths or routes aren't physical, however. Instead, they refer to businesses or people who perform a variety of activities to enable products to be in the right places at the right times. Effective channel management is often a key to a business's success because it puts products in the customers' hands. This function helps businesses answer questions such as:

- Who will offer the products?
- Which channel members are responsible for promoting the products?
- Where will the products be offered?
- How well are channel members performing?



Businesses use a variety of methods to promote their products to customers. The fast food chain Arby's, for instance, uses television ads, newspaper ads, special events, coupons, and billboards to communicate with their customers.

**Promotion.** The purpose of the promotion function is to communicate information about goods, services, images, and/or ideas to achieve a desired outcome. Promotion informs, persuades, or reminds customers about a business and/or its products.

Businesses use a variety of methods to communicate with customers. These may include:

- Advertising-Television, radio, newspaper, magazine, directory, and online ads; direct mail; out-of-home such as billboards and transit ads; and company web sites
- Publicity-News releases, press conferences, personal appearances by celebrities, special events, feature articles, and social media marketing
- Sales promotion-Store displays, samples, contests, coupons, trade shows, product demonstrations, and novelty items

Can you think of other examples of promotional techniques?

**Selling.** The selling function involves determining client needs and wants and responding through planned, personalized communication that influences purchase decisions and enhances future business opportunities. This is the function of actually providing customers with the products they want. It includes selling to retail customers as well as to businesses and

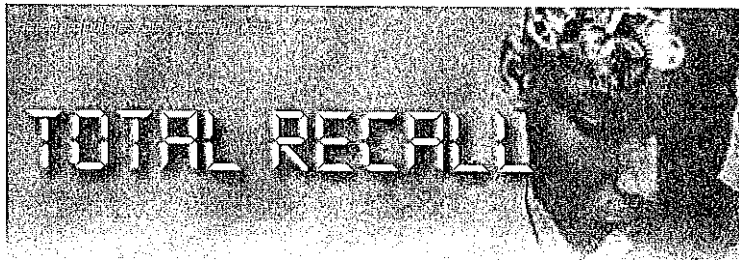
government.

Selling may take place on a personal level-face-to-face-between a salesperson and a customer. In that situation, selling often involves helping customers decide what they want and need, answering questions, and building long-term relationships. The salesperson's goal is to make customers happy so they will return, while making money for the business.

Today, selling also takes place on a nonpersonal level such as through the use of a computer. Businesses that sell online still need to help customers make decisions, provide useful information, and encourage them to remain customers. The marketing function of selling helps businesses do this.

**Summary**

The six marketing functions are product/service management, marketing-information management, pricing, channel management, promotion, and selling. The functions must work together to get products from producers to consumers.



1. What is the general purpose of the marketing functions?
2. What are the six marketing functions?
3. Why must the six marketing functions work together?
4. Describe the purpose of each of the following six marketing functions:
  - a.

management

- b. Market

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e. Promotion  
f. Selling

c. Pricing

## THE GRAY ZONE

Green. Organic. Natural. We see these words all around us, on everything from potato chips to bed sheets. Now, even the makers of goods that have traditionally been known to be harmful to the environment are getting into the act.

Kimberly-Clark, long-time maker of disposable diapers, now sells Huggies Pure and Natural diapers. According to Kimberly-Clark, Pure and Natural diapers contain organic cotton, are hypoallergenic, and include Aloe and Vitamin E for baby's sensitive skin. And, the product's outer packaging features green leaves, green grass, and a very happy baby. Given all this, many environmentally-concerned parents use Pure and Natural diapers, seeing them as a good way to "go green."

But, are these diapers as eco-friendly as we would be led to believe? After all, no matter how "natural" these diapers are, they are still disposable diapers, which means that they will end up in landfills some day. Should Kimberly-Clark make this information clearer to consumers? Does the company have an obligation to provide their customers with the "whole truth," even if it doesn't support the diapers' Pure and Natural brand? What do you think?



# Top Guns

The six marketing functions are the basis of successful marketing. Indeed, each function has a major role to play in carrying out a business's marketing plan and attracting the target customer to the business. Let's take a closer look at the importance of each of the marketing functions.

**Product/Service management.** This is the function that involves deciding on the products that a business will produce or offer. It is important because a business must offer the products that customers want and need to be successful. Some of the activities in this function include devel

oping new products, making adjustments to existing products to extend their life, and phasing out products that are no longer popular and profitable. Product/service management can also involve deciding which products to carry to attract the target customer.

In addition, the product/service management function helps businesses determine the type of image they want customers to have of the business and its products. Once businesses decide on an image, also known as a brand, they use the other marketing functions to support that image. For example, if a business wants a "luxury" image like that of BMW, the pricing function will establish the appropriate price for products and the promotion function will develop appropriate advertising. However, before making product/service management decisions, businesses need information. They rely on the marketing-information management function to provide the necessary data.

**An example of the marketing information management function in action is a customer loyalty card, which a business can use to track what, when, and where the customer purchases.**



**A brand is made up of all the combined impressions and experiences associated with a particular company, good, or service.**

## **Marketing-information management.**

Rather than making guesses, businesses make decisions based on the data gathered, processed, reported, and maintained by the marketing information management function. To gather accurate data, businesses often conduct research to find out as much as possible about customers. This might include sending out questionnaires, taking surveys, observing customers, or hiring a marketing research company. After gathering the data, marketing-information management transforms these data into more understandable marketing information, distributes this information to company decision-makers, and stores the information for future use. The overall goal is to obtain and maintain information that will help forecast, or predict, what will be happening that might affect the business in the future.

In addition, marketing-information management helps businesses to find out if customers are satisfied with their products. Without this information, businesses could only guess at what to



produce or what changes to make. They might produce too much or not enough to meet demand. They might not know what their competitors are selling or why customers are not buying.

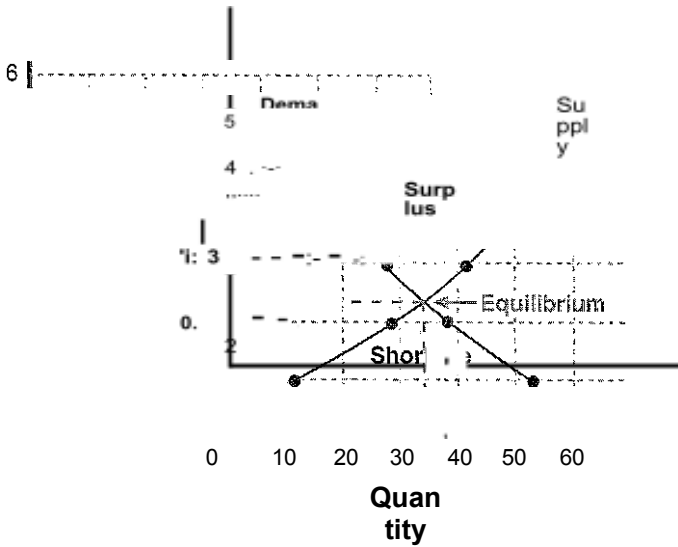
Businesses might lose money because they are not keeping up with the times or selling the right products. Therefore, it's easy to understand why this function is so important.

Pricing. The pricing function is important because it affects how well a product will sell and how much profit the business will make. To be successful, businesses need to set prices that customers are willing to pay. These prices also need to cover costs and include sufficient profit. However, there is a fine line between the right price and the wrong price. For example, a clothing manufacturer makes T-shirts for \$3 and sells them for \$15 to make a \$12 gross profit. To make a larger profit, the manufacturer might simply increase the price, right? Wrong. As the price of an item increases, the demand for it usually decreases. If the manufacturer increases the price too much, it might lose money because customers no longer want to buy at that price.

**Supply and Demand**

**A** What role does channel management play in the availability of fruits and vegetables at your local supermarket?

**Work the Big Six**



**A** As a product's price decreases, the demand for that product typically increases. But, at the same time, the supply of that product goes down. On the other hand, as the product's price increases, producers usually increase the supply, but demand for the product declines.

The pricing Junction also helps businesses decide if they need to adjust prices because of changes in the market. Businesses often research prices and analyze the prices of their competitors. This helps them to decide if they should lower prices because of competition, or raise prices because demand is increasing,

Channel management. What good is a great price if products are not available? That is why the channel management function is so important. This function gets products from producers to customers so they are available when and where customers want to buy. Efficient channel management allows businesses to have their products in the right place at the right time. If this doesn't happen, products cannot be sold,



In addition to selecting channels of distribution for its products, the channel management function is also responsible for determining channel responsibilities and managing channel members. Channel management determines which channel members are responsible (and best suited) for shipping, promoting, and selling the product to customers. At the same time, it must also ensure that each channel of distribution flows smoothly from the producer to the customer. After all, the business can't make a profit if customers don't have access to the products that they want and need.

**Promotion.** Products are available at the right price, but how do customers know about the products? The answer is the promotion function, which has a lot to do with creating demand or increasing demand. Promotions inform customers about new products, improved products, new uses for existing products, and special values on products. For example, a magazine ad for a new computer attracts attention, generates interest, and draws customers to a business. A direct-mail piece that includes a discount coupon encourages customers to take advantage of the savings.

The promotion function also helps to create an image or impression of a business. For example, a business might want to change its image to attract a different or expanded target market. Coordinated

advertising and public relations will get the message across. Effective promotions can do a lot to guarantee a business's success.

**Selling.** If all of the other marketing functions are effective, selling should be easy, right? Not necessarily. The other functions pave the way for successful selling, but the selling function itself is very important because it involves contact with customers. If customers are not satisfied with the sales experience, they often will not buy even if they need the product and the price is right.

Therefore, businesses work to meet customers' needs and sell them the most appropriate product.

All businesses have something to sell, and everyone benefits from selling. The selling function benefits businesses, customers, and society in general. Effective selling helps businesses to create a desire for their products, get their products into customers' hands, and make a profit. Customers benefit from selling by getting help with their buying decisions and learning about new products. Selling also benefits society by creating employment, encouraging economic growth, maintaining the private enterprise system through competition, and raising the standard of living.

Product/Service Management

+

Marketing-Information Management

+

Pricing

+

Channel Management

+

Promotional

+

Selling

## Success

Businesses that effectively carry out the six marketing functions are successful. They are the ones that earn a profit, prosper, and build long-term relationships with satisfied customers.

### Summary

Each marketing function is important. If any function is not performed well, the other functions will not be as effective. When each function is well planned and effectively completed, the result should be satisfied customers and a profitable business.



1. Describe some of the activities that are part of the product/service management function.
2. Explain what might happen if businesses neglect the marketing-information management function.
3. Why is pricing an important marketing function?
4. Why is channel management important for successful marketing?
5. Explain the importance of the marketing function of promotion.
6. How does the selling function benefit businesses, customers, and society?

## Make It Pay!



functions work together as a team to encourage you to make your purchase?

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## NAME THAT FUNCTION!

**Directions:** In the blank, write the marketing function that is illustrated by each statement. When you have finished, ask your instructor for a copy of the answer guide.

1. An article in a newspaper explains that a new business is about to open. \_\_\_\_\_
2. A business analyzes what competitors are charging for products. \_\_\_\_\_
3. A consumer answers survey questions after tasting a new food product. \_\_\_\_\_
4. A manufacturer determines what businesses will offer its products. \_\_\_\_\_
5. A quick-serve restaurant adds pancakes to its breakfast menu. \_\_\_\_\_
6. A salesperson explains to a customer how to operate a DVD player. \_\_\_\_\_
7. A department store marks up cookware by 20 percent over cost. \_\_\_\_\_
8. A retailer provides customers with the products they want. \_\_\_\_\_
9. A business decides to use billboards rather than radio commercials. \_\_\_\_\_
10. A company decides to distribute its products directly to the ultimate consumer. \_\_\_\_\_
11. An electronics store marks down a stereo system by 20 percent. \_\_\_\_\_
12. A sporting goods store decides to carry a line of tennis racquets. \_\_\_\_\_
13. Businesses research what type of products the competition is offering. \_\_\_\_\_
14. A bookstore develops an online catalog and ordering system. \_\_\_\_\_
15. A manufacturer selects businesses to ship, promote, and sell its products. \_\_\_\_\_

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## NAME THAT FUNCTION!-ANSWER GUIDE

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