Course: Fundamentals of Business (5402)

Semester: Autumn, 2020

ASSIGNMENT No. 1

Q.1 A business operates in its economic and political environment. The performance of a business is highly dependent on the overall economic performance of a country. In your opinion, what are specific characteristics of a good economic system that can facilitate businesses in generating higher returns and maximizing profits with considerable prospects for growth?

In recent years, a growing number of business practitioners and theorists have postulated that one way for a company to increase its return is by increasing its market share, and studies appear to have confirmed this relationship. But the authors of this article refuse to accept the blanket inference that "more" is necessarily always going to mean "better." A large market share, they point out, can spell more trouble as well as more profit for a company; a given project promising higher returns than others will surely entail greater risks as well. Given this direct link between profit and risk, it behooves companies to manage their market shares with the same diligence as they would manage any other facet of their businesses. This concept of managing market shares leads to some intriguing possibilities. Although most companies can profit by attempting to increase their market shares, some may conclude that they are at (or possibly beyond) the point at which expected costs and risks outweigh expected gains. The authors suggest various strategies that these companies might consider in attempting to manage their market shares.

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Capturing a dominant share of a market is likely to mean enjoying the highest profits of any of the companies serving that market.[1] It can also mean winning the leadership, power, and glory that go with such dominance.

But high market share can also mean headaches. Companies possessing it are tempting targets for actual and potential competitors, consumer organizations, and government agencies. IBM, Gillette, Eastman Kodak, Procter & Gamble, Xerox, General Motors, Campbell's, Coca-Cola, Kellogg, and Caterpillar are cases in point. Their market shares have been their blessing and their curse—their curse because they must make their decisions and manage their operations with much more care than do their competitors. These companies cannot aggressively seek larger shares because further gains may break the dam and let the waters of antitrust action pour in. In some cases, these companies may even have to give up some share in order to stem the tide.

The company that acquires a very high market share exposes itself to a number of risks that its smaller competitors do not encounter. Competitors, consumers, and governmental authorities are more likely to take certain actions against high-share companies than against small-share ones.

Smaller competitors, for example, can direct certain types of attack against larger organizations, attacks that would not work as well against companies of equal or smaller size. One type of attack has been to file private antitrust suits in an attempt to demonstrate that the larger competitor has violated antitrust laws while amassing its dominant share. In one of these suits, a court recently ordered IBM to pay Telex $259.5 million (this was later reversed by an appeals court). Eastman Kodak, Xerox, Anheuser-Busch, Gillette, and General Foods are currently involved in other private antitrust actions.[2] Another type of attack involves the use of comparative advertising.

Avis, B.F. Goodrich, Seven-Up, and others have found it profitable to mention or picture the products of their large competitors in their ads, and then to suggest the superiority of their own products.

Potential competitors also present problems because they may see the company with the largest share as the only competitor stopping them from capturing a portion of the profits being earned in a particular industry. Clearly, some large multiproduct companies have had considerable success in entering lucrative markets previously dominated by one or a few organizations. Procter & Gamble, for example, has recently entered several markets (potato chips, tampons, deodorant sprays, and toilet paper) with noteworthy results.

Yet another risk is posed by consumer or public-interest organizations. A larger market share usually means greater public visibility; consumer groups may choose the more visible companies as the targets of their complaints, demonstrations, and lawsuits. Campaign GM—the proxy battle to force General Motors to take a number of actions believed to be in the public interest—was conducted against the largest and most visible auto manufacturer. Similarly, SOUP—Students Opposed to Unfair Practices—was originally formed to fight the use of alleged deceptive practices in the advertising of Campbell Soup, the leader in the soup industry. Eastman Kodak, First National City Bank of New York, and DuPont are three other dominant market-share companies that have been singled out by consumer or public-interest organizations. Such attack by a consumer group can, of course, create ill will for the organization, as well as involve it in costly litigation.

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The high market-share company also has to cope with antitrust initiatives taken by the government. The Justice Department and the Federal Trade Commission are placing a renewed emphasis on the "structural" characteristics of markets. Rather than wait for conclusive evidence that the conduct within an industry has been anticompetitive (that is, predatory or collusive), these agencies have taken action primarily because noncompetitive market structures have allegedly existed.

Recent suits have been filed against IBM, Xerox, the eight major oil companies, the four major cereal manufacturers, and ReaLemon; in all of these suits the government has emphasized that these companies' market shares are so large that their competition has virtually disappeared. One might say that these companies are now being penalized for their success. In any case, they are all involved in expensive legal battles, and they all face the prospect of being broken up or required to drastically alter their ways of doing business.

More high market-share companies can expect antitrust suits when the FTC begins to exercise its newly won authority to require line-of-business reporting from major corporations. With such attention focused on their daily operations, multiproduct companies will find it harder to disguise their dominance of a particular market, although they may be able to disguise its profitability through arbitrary allocations of fixed overhead. Congressional pressure to fight inflation through stepped-up enforcement of the existing antitrust laws will also cause severe headaches for many high market-share companies.

There are, however, two qualifications to these risks:

1. The degree of risk depends on how the company has obtained its high market share. To the extent that its success is based on continuous innovation and/or lowering of costs and prices to buyers, consumers and the

government may feel less hostile to the company, and competitors may feel less able to attack it. To the extent that its success is based on using an expiring patent, on bundling services, or on tying up a particular channel of distribution, these parties may be more inclined to attack it.

2. The degree of risk depends on the resources of the other parties. For example, risk from competitors is not very great if they cannot afford to mount counteradvertising campaigns or private antitrust suits. The risk of consumer and government intervention is not very great if the social milieu has changed from one of widespread business criticism to one of more traditional acceptance of business practices.

Unfortunately, there has been little discussion of either the problems of market-share management facing the high market-share company or of the actions it should consider. Much has been written about how a company should go about attaining increases in its market share, but little about what it should do once it has attained a large share. That is the question we shall consider here, but first we shall discuss the way in which a business decides on its optimal market share.

Determining an Optimal Market Share

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Most companies think and plan not only in terms of profit and sales volume but also in terms of market share. They see market-share gains as the key to long-run profitability. The Boston Consulting Group, for example, has proposed that, in product areas characterized by a strong learning curve, companies pursue market share maximization instead of current profit maximization.[3]

Despite this recommendation, we feel that an organization's goal should not be to maximize market share, but rather to attain the optimal market share. A company has attained its optimal market share in a given product/market when a departure in either direction from the share would alter the company's long-run profitability or risk (or both) in an unsatisfactory way. A company finding its current share below the optimal level should plan for market-share gains; a company that is at its optimal market share should fight to maintain it; and a company that has exceeded it should seek to reduce its current share.

How can a company determine where its optimal market share lies? It must go through the following three-step procedure:

1. Estimate the relationship between market share and profitability.
2. Estimate the amount of risk associated with each share level.
3. Determine the point at which an increase in market share can no longer be expected to bring enough profit to compensate for the added risks to which the company would expose itself.

Estimating profitability as a function of market share

Both economic theory and empirical evidence suggest that profitability increases with market share. Consider the case of a company with a fixed plant size. In this case, its sales volume breakeven point is determined by the slopes of the cost and revenue curves. Beyond the breakeven point, the company's profits increase with its sales volume. This may continue until output levels reach a high percentage of capacity and thereby cause direct costs to increase dramatically.

Now consider the company that can expand its plant and market size. Usually this permits economies of scale in production, distribution, and marketing. A larger company can afford better equipment or more automation that lowers unit costs. It can obtain volume discounts in media advertising, purchasing, warehousing, and freight. It can attract the more lucrative customer accounts that want fuller services. And it can gain distributor acceptance and cooperation at a lower cost. Empirical studies bear this out. One of the best and most recent is the Marketing Science Institute's "Profit Impact of Market Strategies" (PIMS) project. This study found that:

"The average ROI for businesses with under 10% market share was about 9%… On the average, a difference of 10 percentage points in market share is accompanied by a difference of about 5 points in pre-tax ROI."[4]

The PIMS study shows that businesses with market shares above 40% earn an average ROI of 30%, or three times that of those with shares under 10%.

However, the PIMS study does not reveal whether profitability eventually turns down at very high market-share levels. The study lumps together all market shares above 40%; therefore, the behavior of ROI in response to still higher market shares is undisclosed. Consequently, a high market-share company must itself analyze whether profitability will fall with further gains in market share. For the following reasons, it could drop dramatically:

- Holdout customers may be loyal to competitors, so the cost of attracting them might exceed their value as new customers.
- The needs of these customers may be unique and not worth the cost of catering to.
- Companies seeking to enlarge their share of market may have to carry extra costs of legal work, public relations, and lobbying to defend their larger market share against criticism and regulation.

When these factors begin to offset further gains in production and distribution efficiency, the optimal market share has been reached.

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Estimating risk

At different levels of market share, a company's risk also changes. Risk is high for low market-share companies, declines as market share increases, and then increases again at very high share levels. Risk is high at low market-share levels because a business is subject to competitive forays by stronger competitors, cannot afford adequate marketing research and promotional spending, and is vulnerable to sudden changes in consumer tastes or spending. Risk starts to fall with increased market share because an organization can engage in more market research, operate better information systems, recruit more experienced marketing personnel, and spend more on marketing. Risk reaches a low point at a high share level and then may begin to increase at higher levels because of the growing probability that the government, consumers, and competitors will single the business out for specific attack.

Finding the optimal level

This third step calls for top management to compare the changes in profitability and risk that it expects in seeking other levels of market share. Starting with its current share, management can analyze:

1. The expected cost of achieving a specified higher level of market share.

2. The expected profitability associated with that market share.
3. The expected increase in risk.

The increase in long-run profitability must compensate for the cost of achieving the higher share and the higher attendant risk. If not, the specified higher market share is not optimal.

Management should also examine a specified lower share level, taking into consideration the cost, profitability, and decrease in risk at each level. If a lower level of risk does not compensate for the reduced profitability (which may or may not exist, since prices may be higher or marketing costs lower and profitability unchanged) and for transitional costs, then the specified lower market share is not optimal. If the company uses this technique for a number of alternative market-share levels and cannot find one that offers a more satisfying balance of profitability and risk, then it is at its optimal level.

Market-Share Management Strategies

Thus far, we have shown how a high market-share company can locate its optimal market share. We shall now discuss the various strategies a company can use either to attain or maintain this optimal share or to shift it to a higher level.

Market-share management strategies fall into four broad categories: (1) share building, (2) share maintenance, (3) share reduction, and (4) risk reduction.

Share building

The majority of companies that analyze their market position conclude that they are operating below their optimal market share. They are not exploiting their plant fully or have not been able to build a plant at the most economical size; they are not quite large enough to achieve promotional and/or distributional economies; and they cannot attract the strongest talent. In sum, they see a higher market share as promising greater profitability without commensurately greater risk—indeed, often as reducing that risk.

Share-building strategies must be designed to meet several considerations—whether (1) the primary market is growing, stable, or declining, (2) the product is homogeneous or highly differentiable, (3) the company's resources are high or low in relation to its competitors' resources, and (4) there are one or several competitors and how effective they are.

The most effective strategy for market-share gain is product innovation. Its weak sister, product imitation, may be appropriate for growth in a growing market, but it will probably not alter existing market shares. Such companies as Xerox, Zenith, Control Data, and Polaroid made their mark because they found a better product. At the same time, innovation is an expensive and risk-laden strategy requiring a careful analysis of market needs and preferences, a large investment, and astute timing.

Market segmentation may also be used to build share. Many dominant companies concentrate on the mass market and neglect or undersatisfy various fringe markets. This mistake is illustrated by the big three American auto makers, who for years sought the majority market, concluding that the small-car market segment was too small to

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be profitable. The vacuum they created was first filled by Volkswagen and then later by other European and Japanese auto companies at a high profit.

A third strategy for building market share is distribution innovation. In this instance, the company finds a way to cover a market more effectively. Timex achieved its growth as a watch manufacturer by entering unconventional outlets like drugstores and discount stores. These outlets then refused to carry additional brands of low-priced watches, leaving Timex king of the mountain. Avon achieved its spectacular growth as a leader in cosmetics by resurrecting the old and neglected channel of door-to-door selling rather than by fighting bloody battles for space in conventional retail outlets.

A final strategy for share building is promotional innovation. Consider Philip Morris's "Marlboro man" or Avis's "We're No. 2, We Try Harder." A clever and distinctive campaign or promotion, once established, is hard to duplicate or offset. At the same time, however, too many organizations emphasize promotional innovation when they should be searching for real product, segment, or distributional innovations. Flashy promotion has a hollow ring when unsupported by improvements in consumer value.

Share maintenance

In evaluating their market positions, some companies will find that they are in fact operating at an optimal share level. The cost or risk of increasing their share would cancel out any gains. On the other hand, a decline in their current share would reduce their profitability. These companies are intent on maintaining market share.

Such organizations find, however, that stabilizing their share is almost as challenging as expanding it. Underdog competitors are constantly chipping away at the stable company's share. They introduce new products, sniff out new segments, try out new forms of distribution, and launch new promotions. One of the most annoying and common forms of attack is price cutting. The high-share company is always wrestling with the question of whether to meet price cuts and maintain its share or give up a little share and maintain its margins. If the high-share company maintains its prices, it loses share. If it loses more than it expects, it may discover that rebuilding costs more than the gains from holding prices.

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In general, the best defense for maintaining market share is a good offense—product innovation, the same strategy that works so well for the underdog. A dominant company must refuse to be content with the way things are. It has to anticipate its own obsolescence by developing new products, customer services, channels of distribution, and cost-cutting processes.

A second line of defense is market fortification. The dominant company plugs market holes to prevent competitors from moving in. This is the essence of the multibrand strategy perfected by P&G. P&G will introduce a number of brands competing with each other; the effect is to tie up scarce distribution space and lock out some of the competition.

A third and less attractive defense for share maintenance is a confrontation strategy. Here the dominant company defends its empire by initiating expensive promotional or price-cutting wars to discipline upstart competitors. It may even resort to harassment—pressuring dealers and suppliers into ignoring upstarts to avoid losing the

dominant company's goodwill. Confrontation may work, but it is undertaken at some risk and contributes less to social welfare than would more innovative responses. Furthermore, such tactics suggest a sene-scence in the dominant organization.

Share reduction

Some companies analyzing the profitability and risk associated with their current market share may come to the conclusion that they have overextended themselves in the overall market or in certain sub-markets. Their large share puts them on the "hot seat" too often or includes too many marginal customers. These factors can lead the company to think about how to reduce its presence in the market.

Share reduction calls for the application of general or selective demarketing principles.[5] Demarketing is the attempt to reduce, temporarily or permanently, the level of customer demand. It may be directed at the market or selected market segments. It calls for reversing the normal direction of marketing moves: raising price, cutting back advertising and promotion, reducing service. It may involve more extreme measures such as reducing product quality or convenience features. In a period of prolonged shortages, these steps may be especially necessary.

Several high market-share companies have apparently used demarketing to reduce their shares to less risky levels. Procter & Gamble, for example, has allowed its share of the shampoo market to slip from around 50% to just above 20% in the past few years—much to the surprise of its competitors. In this period, the company has delayed reformulating its old brands (Prell and Head & Shoulders), has tried to introduce only one new brand (which was withdrawn twice from test markets), and has not attempted to "buy" back its share with heavy spending on advertising and promotion.[6] It seems fair to speculate that Procter & Gamble's passive response to its decline in market share is deliberate; it may be motivated by a desire to avoid antitrust difficulties like those it has encountered with Clorox and, recently, with its detergent products.[7]

An example of a company that has used demarketing more selectively is Kellogg in its delay in entering the natural cereal market. The company may have decided to allow others to dominate this segment of the market to improve its chances of emerging from current antitrust difficulties without too many scars.[8]

In the auto industry, observers have long noted how General Motors, Ford, and Chrysler treat American Motors as a shield against antitrust attack. The big companies have apparently given AMC very little competition over lucrative contracts for government vehicles (postal and military jeeps, military trucks, and so on).[9]

Finally, the demarketing experience of ReaLemon Foods, a subsidiary of Borden, deserves comment. ReaLemon implemented a selective demarketing strategy to avoid antitrust problems, but it reversed its strategy too soon and paid a price. Until 1970, ReaLemon held about 90% of the reconstituted lemon juice market. According to industry sources, ReaLemon at that time began to allow companies on the West Coast and in the Chicago area to make inroads into its share through fear of antitrust attack. By 1972, however, a Chicago competitor, Golden Crown Citrus Corporation, had captured a share that ReaLemon considered too large. ReaLemon retaliated. As a result, the Federal Trade Commission filed a complaint in 1974 charging ReaLemon with predatory pricing and

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sales tactics.[10] The lesson to be learned from ReaLemons experience is that once a high market-share company allows its share to fall, it must be careful if it decides to reverse itself.

It should be said parenthetically that demarketing can be both desirable and undesirable from a social point of view. To the extent that businesses selectively concentrate on those customer segments and product lines where they can market most efficiently and profitably, demarketing can lead to greater effectiveness, variety, and competition. However, where they demarket in ways that discriminate against the weaker or disadvantaged segments—such as when a big supermarket chain closes down its inner-city stores—the results can be unfortunate.

Risk reduction

Companies concluding that their high share is dangerous may want to adopt strategies reducing the risk rather than strategies reducing the share. We have stated that the optimal market share is a function of both profitability and risk, and that any success in reducing the risk surrounding a high share is tantamount to optimizing that share.

Companies can consider a number of measures to reduce the insecurity surrounding their high market share, including (1) public relations, (2) competitive pacification, (3) dependence, (4) legislation, (5) diversification, and (6) social responsiveness.

Public relations

It is becoming common for companies in dominant positions to spend large sums of money on advertising and other public relations efforts to improve their images. In many cases, such companies hope their efforts will undercut public support for legislative, government agency, or consumer group actions that would hurt their interests.

Public relations strategies are used with good cause to publicize genuine efforts that serve the public interest. But they are also used to cover up weak or nonexistent attempts—the case of a public utility that spent $50,000 to clean up the environment and $400,000 to publicize the action comes to mind. When a company spends more on good words than good deeds, it is giving its critics ammunition.

Organizations have also used public relations and advertising to publicize their position on a controversial issue. Major oil companies took out expensive newspaper ads during the oil and gas shortages to defend their high profits—arguing that they were needed either to finance future energy growth or to make up for depressed profits in the past. These ads probably did not convince a single skeptic and, if anything, made the public angrier at the thriftlessness of full-page spreads defending oil profits. Some critics have called this “ecopornography” and have complained that these ads reduce government tax revenues, since corporations, unlike private citizens, can treat the cost of political messages as a legitimate business expense.

Competitive pacification

The high-share company may attempt to reduce the risks associated with its position by cultivating better relations with its competitors. There are numerous ways in which this can be done. Organizations may help find supplies of raw materials, or even sell the material outright. They may conduct advertising campaigns that promote the

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product category rather than their specific brands. They may refrain from reacting strongly to the strategy changes of their rivals. They may supply valuable research data and other assistance to smaller competitors through trade association activities. They may provide price umbrellas. And they may hold back the rate of new product introduction. (Of course, the company that chooses to use competitive pacification strategies must be careful to avoid behaving in what could be considered a collusive manner.)

Pacified smaller competitors exist in many industries. General Motors and Ford have apparently recognized that it is in their best interests to keep Chrysler and American Motors friendly. Similarly, the smaller cereal companies are on good terms with giant Kellogg.

Because competitive pacification strategies permit weak competitors to survive and even to prosper, they provide a public service by giving consumers a wider variety of products to choose from. However, to the extent that these strategies lead to a misallocation of resources and higher prices, they may do a disservice to the American public. It should be remembered that consumers can also benefit from counteradvertising, antitrust suits, and other aggressive actions initiated by these same unpacified smaller competitors.

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Dependence & legislation

Dependency strategies forge a link between the high market-share company and the government. By making government institutions and officials dependent on it for various products (particularly defense-related commodities), for help in keeping unemployment down, or for political campaign funds, a company can acquire considerable power over policy makers and lessen its chances of being the target of government legislation and lawsuits.

Both the Justice Department and the Federal Trade Commission have been the butt of dependency strategies. In a chapter entitled "The Politics of Antitrust," the authors of The Closed Enterprise System (a Ralph Nader venture) cite numerous cases in which the Justice Department has been subjected to and has sometimes succumbed to pressures by elected officials to curtail antitrust actions.[11] The most noteworthy example, of course, is the ITT case. Similarly, the supposedly independent FTC has not found itself totally immune from pressures by elected officials, since Congress appropriates its budgets and the President appoints its commissioners. Many elected officials are willing to exert pressure on these and other enforcement agencies because they fear that they will lose campaign funds and other forms of political support, defense supplies, and employment opportunities for their constituencies if large, powerful companies are successfully prosecuted under antitrust or other laws.

It is unfortunate that our antitrust laws have encouraged the use of dependency strategies. The laws were originally designed to prevent this type of behavior. However, it is just as true that the procedures developed over the years for enforcing these laws have allowed dependency strategies some success. This success has resulted in a reduction of the political influence of individual citizens and a lessening of competition in many economic sectors.

Closely related to dependency strategies are legislative ones. A high market-share company can attempt to convince Congress to pass legislation giving it special treatment under the law. For example, labor unions, professional athletic leagues, banks, and newspapers have all received special treatment under the antitrust laws.

Special legal treatment has also been offered to many companies in the form of subsidies, tax loopholes, and tariff reductions. Thus successful use of legislative strategies can practically eliminate a company's risk of being the target of an antitrust attack and/or help stabilize earnings at high levels.

It is difficult to say a priori whether a company's use of legislative strategies will or will not benefit society. The organization that lobbies for an antitrust exemption, special tariff treatment, or tax loopholes is acting in its own interest. Yet this does not mean that its interest will not ultimately coincide with that of the public. The biggest objection to the use of legislative strategies by high market-share companies is that it involves asking for special treatment rather than equality under the law, and it shelters the company or industry from the fresh winds of competition.

Diversification

By diversifying successfully into markets that are different from the one it dominates, a company can ensure that a steady stream of profits will continue even after something as drastic as an antitrust divestiture has occurred.

Many high market-share companies have done just this. For example, the Brookings Institution's classic examination of the pricing practices of 20 major corporations (including General Motors, General Electric, General Foods, and U.S. Steel) revealed that antitrust concerns seemed to motivate several high-share companies to diversify. The report states:

"A broader impact of the antitrust laws may be their effect on market-share policy. Many of the companies interviewed expressed a preference for making their way into new markets, wherein their share would be a minor fraction, to dominating the market in the established product."[12]

In addition, fear of competition in established markets can lead companies to diversify. A more recent example of a high-share company that has diversified extensively is Gillette. It has expanded from shaving-related products to deodorants, pens, shampoos, hairdryers, and other product categories.

The adoption of diversification strategies by dominant organizations normally has positive social benefits. Their movement into new industries tends to create healthy competition throughout the entire economy.[13]

Social responsiveness

The most constructive way for a high market-share company to reduce its risk is to demonstrate a responsiveness to emerging consumer and social needs. Certain companies have gained the trust of the buying public because of their continuous efforts to respond to such social needs—one thinks immediately of Sears, Zenith, and Whirlpool. Trust is not the result of a sustained and clever public relations campaign, but rather of the satisfaction that customers and the public receive in dealing with a company.

A high market-share company that has successfully won the public trust is Giant Foods, a major food chain in the Washington, D.C., area.[14] Giant Foods interpreted the various consumer criticisms of the late 1960s not as presenting unwelcome problems but as offering useful new opportunities. So it took the initiative and introduced such consumer-oriented programs as unit pricing, open dating, and some nutritional labeling. It also carried an extensive supply of less expensive private labels to enable consumers to hold down their costs. It publicized

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money-saving food buys and supported the meat boycott to bring down consumer costs. And it appointed Esther Peterson, former White House special assistant for consumer affairs, as a consumer affairs advisor. All of these steps made it a consumer champion and won it many friends and patrons.

Nonetheless, evidence is still needed to prove that a company assuming the role of consumer champion, with all the expense this entails, is compensated in terms of either market share or lower risk. It seems to be a part that only one company in each industry can play meaningfully, since others are typed as weak imitators. However, in an age of such formidable social problems as high prices, environmentalism, shortages, antibusiness sentiment, and changing life-styles, these problems should be regarded as disguised opportunities for the companies that have the courage and imagination to perceive them.

Filling Societal Needs

Because it is exposed to a large and unique set of risks, the high market-share company is confronted with difficult problems. It cannot seek an ever larger market share as freely as its smaller competitors. Instead, it must carefully analyze the relationship of its current share to its optimal market share, and it must plan how to make these two shares coincide.

More often than not, the high market-share organization will find that it must use share-reduction or risk-reduction strategies to align these two shares. Unfortunately, the use of many share- and risk-reduction strategies can have undesirable social consequences. Demarketing strategies of a highly discriminatory nature, certain public relations strategies, competitive pacification strategies, dependency strategies, and legislative strategies can all produce outcomes that are not in the best long-term interests of major portions of society. Therefore, the high market-share company should give serious consideration to those strategies that not only fill its coffers but also respond to consumer and social needs.

Q.2 What is a public limited company? Explain its key features.

A public limited company is a voluntary association of members that are incorporated and, therefore has a separate legal existence and the liability of whose members is limited.

Public limited companies are listed on the stock exchange where it's share/stocks are traded publicly.

Its main features are;

1. The company has separate legal existence apart from its members who compose it.
2. Its formation, working and it's winding up all its activities are strictly governed by rules, laws, and regulations.
3. A company must have a minimum of seven members but there is no limit as regards the maximum number.
4. The company collects Its capital by the sale of its shares and those who buy the shares are called the members. The amount so collected is called the share capital.
5. The shares of a company are freely transferable and that too without the prior consent of other shareholders or subsequent notice to the company.

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6. The liability of a member of a company is limited to the face value of the shares he owns. Once he has paid the whole of the face value, he has no obligation to contribute anything to pay off the creditors of the company.
7. The shareholders of a company do not have the right to participate in the day-to-day management of the business of a company. This ensures the separation of ownership from management. The power of decision making in a company is vested in the Board of Directors, and all policy decisions are taken at the Board level by the majority rule. This ensures the unity of direction in management.

Advantages of Public Limited Company

A public limited company is a form of business organization that operates as a separate legal entity from its owners. It is formed and owned by shareholders.

Shares of a public limited company are listed and traded at a stock exchange market freely. Shareholders of a public limited company are limited to potentially lose only the amount they have paid for the shares they own.

So, some advantages of a public limited company are;

Led by Board of Directors

Public limited companies are headed by a board of directors. The composition of the board of directors is set out in the company's articles of association.

Normally it comprises a minimum number of two members and a maximum of 12.

These are elected from the shareholders by the shareholders during the annual general meeting. They act as the representatives of the shareholders in the management of the company.

Limited Liability

Shareholder liability for the losses of the company is limited to their share contribution only. This is what makes it a separate legal entity from its shareholders.

The business can be sued on its own and not involve its shareholders. The company does not belong to any person since one person can own only a part of it.

Number of Members

A public limited company has a minimum number of seven shareholders or members and a limitless number of members. It can have as many shareholders as its share capital can accommodate.

Transferable shares

Shares of a public limited company are bought and sold in a stock exchange market. They are freely transferable between its members and people trading in the stock exchange.

Life Span

A public limited company is not affected by the death of one of its shareholders, but her shares are transferred to the next of kin and the company continues to run its business as usual.

In the case of a director's death, an election is held to replace the deceased director.

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Financial Privacy

Public limited companies are strictly regulated and are required by law to publish their **complete financial statements annually**.

This ensures that they reveal their true financial position to their owners and potential investors so that they can determine the true worth of its shares.

Large Capital

Public limited companies enjoy an increased ability to raise capital since they can issue shares to the public through the stock market.

They can also raise additional capital by Issuing debentures and bonds through the same market from the public.

Debentures and bonds are unsecured debts Issued to a company on the strength of its integrity and financial performance.

Disadvantages of a Public Limited Company

A Public Limited Company (PLC) means, first, that the firm is parceled out into shares and sold "publicly" on any or the entire globe's stock exchanges.

Secondly, it means that those who invest in the firm are protected from extreme loss if the company fails.

This is called "limited liability." This means that if one invests in a firm that fails, only that investment money can be claimed by the firm's creditors.

More abstractly, "limited" means that only the existing assets of the firm can be seized for the payment of a debt.

So, some disadvantages of a public limited company are;

High Costs

A Public Limited Company is normally a complex thing to start. The firm banker (or "underwriter") then offers the initial shares to the public (and keeps a substantial commission).

Often, the costs of setting up a public firm and Initial Public Offering (IPO) can run into hundreds of thousands of dollars.

Public Books

The term "public" here is to be taken literally. Once a firm goes public, the firm is open to public inspection. The financial books and records of the firm are open to anyone, allowing the competition to see precisely how much profit or loss the firm is experiencing.

Greedy Shareholders

Those who buy shares have no particular interest in the firm except in that it makes a quick buck.

Most companies, however, have an interest in laying out a longterm growth plan that takes patience and planning It is not often many shareholders see it this way.

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Takeover

Since the company is now "public," anyone can buy up shares, and there is no limit as to how many shares one can buy.

Under certain circumstances, hostile investors might buy up a large amount of stock, giving them a strong voice on the board of dimeters.

In this case, a firm that was built up by one group (or poison) can now be taken over by others since the firm has gone public

Power

Going "public" means a certain lack of control by the founders of the firm. In some cases, the firm can be controlled by a board of directors who do not necessarily have the time for hands-on business management.

Therefore, ownership can be separated from control. If this is the case, then those who control the business do not own it and do not see a profit. This is not an incentive (necessarily) to rational management.

Slow Decisions

If the company is public, it must have a board of directors representing the main and most powerful stockholders.

This means, in turn, that major decisions must go through the board, with debates and voting. In reality, this entails that decisions will be slow and often painful. Sometimes, they might not be made at all.

Q.3 What is a business layout? Explain.

The layout of a business plan is not an area where great imagination and creativity is needed or recommended. It should be a more or less straightforward task to design your plan, using industry standard practices which funders have become familiar with through thousands of plans. Use the following steps to implement this standard layout and save creativity for your business ideas within the plan.

Start by getting your hands on a business plan template. This will speed your time to completing your plan. Business plans generally start with an executive summary and company overview, move through background research and analysis on the industry, customers, and competition, describe the company's intended methods in the marketing plan and operation plan, show who's on the management team, and conclude with the financial plan and appendices featuring full financial statements.

Use the business plan template to guide your understanding of each section and to see how they relate to each other. Don't assume that any one example should dominate your understanding unless it comes from an extremely trusted source with a reputation for business plan expertise and success.

Business Page Layout Tips

Section headings, page headers and footers, the cover sheet and other layout decisions offer some room for you to make aesthetic decisions. The most important directive to remember is to keep the look of the plan formal and professional. This means to have consistent layout and fonts throughout the document and to use no distracting headings, graphics, or typefaces. In terms of formality, the business plan should be considered on the

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level of a PhD dissertation, rather than a middle school paper or essay where teachers will let you get away with (or encourage) decorative and creative elements which show your personality.

Key Business Plan Sections

Your business plan layout should include the following elements:

1. Executive Summary

Your executive summary is the most important part of your plan. It comes at the beginning and is the first thing investors or lenders will read. If they aren't excited by what they see, they'll unfortunately stop reading. So make sure your executive summary gives a quick overview of what your company does and explains, in an exciting tone, why your company will be successful.

2. Company Analysis

In your Company Analysis provide background on your company. When did you incorporate? What have you accomplished to date? Here you will let readers know the history of your business.

3. Industry Analysis

In the Industry Analysis section of your business plan provide background on the industry in which you operate. Conduct market research to make this section concrete and compelling. Answer questions such as: how big is your industry? what trends are effecting it?

4. Customer Analysis

Here you will document your target customers. How are they? How many are there? What are their likes and dislikes? Ideally you can provide comprehensive demographic and psychographic profiles of your target customers and show how your company's products and services are ideally suited to their needs.

5. Competitor Analysis

In this section of your business plan, document your key competitors. Explain their strengths and their weaknesses. Remember that investors and lenders expect you to have direct competitors. They just want to feel confident that despite them, you can still achieve lasting success.

6. Marketing Plan

Your marketing plan should primarily focus on the promotional methods you will use to attract new customers. Will you use search engine marketing? Will you employ radio ads? Document each of the promotional methods you will use.

7. Operations Plan

This section of your plan should discuss the key roles that your company must expertly perform and your strategies for operational excellence. You must also layout the long-term milestones your company plans to accomplish and the key dates for each.

8. Management Team

In your Management Team section, detail the key members of your team. Document their backgrounds and how their past experiences make them well suited to succeed in your organization.

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9. Financial Plan

Here you will layout the key assumptions used in creating your financial model and then provide topline results from your income statement, balance sheet and cash flow projections. If you are seeking funding, document the amount of funding you seek and the key uses for it.

10. Appendix

In your Appendix, you will provide supporting information such as employee or customer agreements, store layouts, etc. You must also include your full, five-year income statement, balance sheet and cash flow projections.

By following the above business plan layout, you will ensure your plan is in the format investors and lenders expect. If you would like to quickly and easily finish your business plan, read and click on our suggested resource below.

Q.4 In spite of a good designed product, a business has to undertake advertisement on TV and newspapers to convince customers to buy their products. What specific factors need to consider in designing such advertisement? Is there any benefit of advertising? If yes, then explain briefly.

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Advertising is any paid form of communication from an identified sponsor or source that draws attention to ideas, goods, services or the sponsor itself. Most advertising is directed toward groups rather than individuals, and advertising is usually delivered through media such as television, radio, newspapers and, increasingly, the Internet. Ads are often measured in impressions (the number of times a consumer is exposed to an advertisement).

Advertising is a very old form of promotion with roots that go back even to ancient times. In recent decades, the practices of advertising have changed enormously as new technology and media have allowed consumers to bypass traditional advertising venues. From the invention of the remote control, which allows people to ignore advertising on TV without leaving the couch, to recording devices that let people watch TV programs but skip the ads, conventional advertising is on the wane. Across the board, television viewership has fragmented, and ratings have fallen.

Print media are also in decline, with fewer people subscribing to newspapers and other print media and more people favoring digital sources for news and entertainment. Newspaper advertising revenue has declined steadily since 2000.[1] Advertising revenue in television is also soft, and it is split across a growing number of broadcast and cable networks. Clearly companies need to move beyond traditional advertising channels to reach consumers. Digital media outlets have happily stepped in to fill this gap. Despite this changing landscape, for many companies advertising remains at the forefront of how they deliver the proper message to customers and prospective customers.

The Purpose of Advertising

Advertising has three primary objectives: to inform, to persuade, and to remind.

- **Informative Advertising** creates awareness of brands, products, services, and ideas. It announces new products and programs and can educate people about the attributes and benefits of new or established products.
- **Persuasive Advertising** tries to convince customers that a company's services or products are the best, and it works to alter perceptions and enhance the image of a company or product. Its goal is to influence consumers to take action and switch brands, try a new product, or remain loyal to a current brand.
- **Reminder Advertising** reminds people about the need for a product or service, or the features and benefits it will provide when they purchase promptly.

Advantages and Disadvantages of Advertising

As a method of marketing communication, advertising has both advantages and disadvantages. In terms of advantages, advertising creates a sense of credibility or legitimacy when an organization invests in presenting itself and its products in a public forum. Ads can convey a sense of quality and permanence, the idea that a company isn't some fly-by-night venture. Advertising allows marketers to repeat a message at intervals selected strategically. Repetition makes it more likely that the target audience will see and recall a message, which improves awareness-building results. Advertising can generate drama and human interest by featuring people and situations that are exciting or engaging. It can introduce emotions, images, and symbols that stimulate desire, and it can show how a product or brand compares favorably to competitors. Finally, advertising is an excellent vehicle for brand building, as it can create rational and emotional connections with a company or offering that translate into goodwill. As advertising becomes more sophisticated with digital media, it is a powerful tool for tracking consumer behaviors, interests, and preferences, allowing advertisers to better tailor content and offers to individual consumers. Through the power of digital media, memorable or entertaining advertising can be shared between friends and go viral—and viewer impressions skyrocket.

The primary disadvantage of advertising is cost. Marketers question whether this communication method is really cost-effective at reaching large groups. Of course, costs vary depending on the medium, with television ads being very expensive to produce and place. In contrast, print and digital ads tend to be much less expensive. Along with cost is the question of how many people an advertisement actually reaches. Ads are easily tuned out in today's crowded media marketplace. Even ads that initially grab attention can grow stale over time. While digital ads are clickable and interactive, traditional advertising media are not. In the bricks-and-mortar world, it is difficult for marketers to measure the success of advertising and link it directly to changes in consumer perceptions or behavior. Because advertising is a one-way medium, there is usually little direct opportunity for consumer feedback and interaction, particularly from consumers who often feel overwhelmed by competing market messages.

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Developing Effective Ads: The Creative Strategy

Effective advertising starts with the same foundational components as any other IMC campaign: identifying the target audience and the objectives for the campaign. When advertising is part of a broader IMC effort, it is important to consider the strategic role advertising will play relative to other marketing communication tools. With clarity around the target audience, campaign strategy, and budget, the next step is to develop the **creative strategy** for developing compelling advertising. The creative strategy has two primary components: the message and the appeal.

The **message** comes from the messaging framework discussed earlier in this module: what message elements should the advertising convey to consumers? What should the key message be? What is the call to action? How should the brand promise be manifested in the ad? How will it position and differentiate the offering? With advertising, it's important to remember that the ad can communicate the message not only with words but also potentially with images, sound, tone, and style.

Marketers also need to consider existing public perceptions and other advertising and messages the company has placed in the market. Has the prior marketing activity resonated well with target audiences? Should the next round of advertising reinforce what went before, or is it time for a fresh new message, look, or tone?

Along with message, the creative strategy also identifies the **appeal**, or how the advertising will attract attention and influence a person's perceptions or behavior. Advertising appeals can take many forms, but they tend to fall into one of two categories: informational appeal and emotional appeal.

The **informational appeal** offers facts and information to help the target audience make a purchasing decision. It tries to generate attention using rational arguments and evidence to convince consumers to select a product, service, or brand. For example:

- More or better product or service features: Ajax "Stronger Than Dirt"
- Cost savings: Wal-Mart "Always Low Prices"
- Quality: John Deere "Nothing runs like a Deere"
- Customer service: Holiday Inn "Pleasing people the world over"
- New, improved: Verizon "Can you hear me now? Good."

The following Black+Decker commercial relies on an informational appeal to promote its product:

he **emotional appeal** targets consumers' emotional wants and needs rather than rational logic and facts. It plays on conscious or subconscious desires, beliefs, fears, and insecurities to persuade consumers and influence their behavior. The emotional appeal is linked to the features and benefits provided by the product, but it creates a connection with consumers at an emotional level rather than a rational level. Most marketers agree that emotional appeals are more powerful and differentiating than informational appeals. However, they must be executed well to seem authentic and credible to the the target audience. A poorly executed emotional appeal can come across as trite or manipulative. Examples of emotional appeals include:

- Self-esteem: L'Oreal "Because I'm worth it"

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- Happiness: Coca-Cola “Open happiness”
- Anxiety and fear: World Health Organization “Smoking Kills”
- Achievement: Nike “Just Do It”
- Attitude: Apple “Think Different”
- Freedom: Southwest “You are now free to move about the country”
- Peace of Mind: Allstate “Are you in good hands?”
- Popularity: NBC “Must-see TV”
- Germophobia: Chlorox “For life’s bleachable moments, there’s Chlorox”

Q.5 The Government of Khyber Pakhtunkhwa has announced certain incentives for establishing business in its backward areas to provide employment to its population. As a businessman, what factors you will consider for establishing a factory in a backward area in Khyber Pakhtunkhwa.

Starting your own business can be both exciting and scary since you don’t know what to expect, or how the company will fair in the market.

While many companies are quite easy to start, the manufacturing industry is challenging. This is because, the costs involved, the processes and the nature of the goods produced are all expected to be of the best standards.

Once you have addressed each of these factors and put the correct plans in place, you will increase the likelihood of your new business becoming a successful venture. Below are some of the most important factors you should consider before starting a manufacturing business.

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Demand for your product

First of all, there has to be a demand for the product or products you intend to manufacture. This requires extensive market research and an understanding of the customers who will buy your products. Once you identify a need for your product, you can begin to investigate other factors that will have an impact on your business.

Setup costs

Unlike many other types of startups, starting a manufacturing company can be quite expensive as a factory or appropriate workplace will be required. Setting up a manufacturing business also involves the purchase of specialized equipment and machinery. As well as this, you need to hire and pay experts who specialize in the area you are manufacturing in.

Competition from other manufacturers

When you are researching a market, identifying a demand for your products is only half the battle. This demand may already be catered for by other manufacturers so you need to find out as much as possible about your competition, what their market share is and how much of the market will be available to you.

Previous experience, knowledge and qualifications

It's important to build a team of experienced, qualified professionals when you start any business. The direction the business takes will be the key to your success. You or staff members should have the relevant business qualifications and knowledge to do this.

This can be achieved by completing an online MBA degree or other accredited business qualification such as the AACSB online MBA which can be put to good use by you or your management team. Once you or the members of your management team complete one of these online MBA programs, you will be able to make more informed and confident decisions about the future of your business.

Finance available and finance options

In order meet the financial costs associated with a manufacturing business, you should have access to an adequate amount of capital. If this is not the case, you may need to rethink your plans and wait until you can afford to begin your new venture.

Business location

The location of your business could decide how successful it becomes. Initially you may need to find a business premises that is situated in a more affordable location. However, you don't want to be too far away from your market or business associates either.

Rules and regulations

Different businesses have different rules and regulations that they must follow. There are usually more rules and regulations associated with manufacturing businesses, so you should be aware of the ones that apply to your type of business. The most common rules and regulations include health and safety and environmental regulations.

As you can see, you need to take into account many more factors when you start a manufacturing business, than you do with other types of businesses. Each of the factors above should be carefully considered so that your new business gets off to the best possible start.

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