МЕЖГОСУДАРСТВЕННОЕ ОБРАЗОВАТЕЛЬНОЕ УЧРЕЖДЕНИЕ
ВЫСШЕГО ОБРАЗОВАНИЯ
«БЕЛОРУССКО-РОССИЙСКИЙ УНИВЕРСИТЕТ»

Кафедра «Гуманитарные дисциплины»

ПРОФЕССИОНАЛЬНЫЙ ИНОСТРАННЫЙ ЯЗЫК

***Методические рекомендации к практическим занятиям
для студентов направления подготовки
23 04 02 «Наземные транспортно-технологические комплексы»
и 38 04 08 «Финансы и кредит»
очной и заочной форм обучения***

Могилев 2023

УДК 37.01:811
ББК 74.58:81.2
П84

Рекомендовано к изданию
учебно-методическим отделом
Белорусско-Российского университета

Одобрено кафедрой «Гуманитарные дисциплины» «11» октября 2023 г., протокол № 3

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Методические рекомендации к практическим занятиям по курсу «Профессиональный иностранный язык» направлены на развитие лексических и грамматических умений и навыков, расширение словарного запаса, выработку необходимых навыков перевода текстов экономической тематики, развитие и совершенствование навыков и умений монологической речи и диалогического общения.

Учебное издание

ПРОФЕССИОНАЛЬНЫЙ ИНОСТРАННЫЙ ЯЗЫК

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Подписано в печать . Формат 60×84/16. Бумага офсетная. Гарнитура Таймс.
Печать трафаретная. Усл. печ. л. . Уч.-изд. л. . Тираж 31 экз. Заказ

Издатель и полиграфическое исполнение:
Межгосударственное образовательное учреждение высшего образования
«Белорусско-Российский университет».
Свидетельство о государственной регистрации издателя,
изготовителя, распространителя печатных изданий
№ 1/156 от 07.03.2019.
Пр-т Мира, 43, 212022, г. Могилев.

Unit 1

What are the Types of Businesses?

Lead-In

1 List five local businesses and five global companies. Are they successful or not? If so, what makes them successful?

2 Read the quotes and discuss whether you agree or disagree with them.

There are five types of companies:
those that make things happen
those that think they make things happen
those that watch things happen
those that wonder what happened
and those that did not know that anything had happened

"A business that makes nothing but money is a poor business."
– Henry Ford, founder of the Ford Motor Company

"Whenever you see a successful business, someone once made a courageous decision."
– Peter F. Drucker

3 Read the text paying attention to the words and phrases in bold.

There are different types of **businesses** to choose from when forming a company, each with its own legal structure and rules. Companies are to be classified on the basis of **liabilities**, members and on the basis of control (figure 1).

Classification of Companies

Companies on the Basis of Liabilities

- Companies Limited by Shares
- Companies Limited by Guarantee
- Unlimited Companies

Companies on the Basis of Members

- One Person Companies
- Private Companies
- Public Companies

Companies on the Basis of Control

- Holding and Subsidiary Companies
- Associate Companies

Figure 1 – Classification of companies

Typically, there are four main types of businesses: Sole Proprietorships, Partnerships, Limited Liability Companies (LLC), and Corporations. Before creating a business, entrepreneurs should carefully consider which type of business structure is best suited to their **enterprise**.

A ***sole proprietorship*** is an unincorporated company that is owned by one individual only. While it is the most simple of the types of businesses, it also offers the least amount of financial and legal protection for the owner. Unlike partnerships or corporations, sole proprietorships do not create a separate legal identity for the business. Essentially, the owner of the business shares the same identity as the company. Therefore, the owner is fully liable for any and all liabilities incurred by the company.

An **entrepreneur** may choose this option if they want to **retain full control** of the company. Additionally, it is a relatively easy and inexpensive process to establish a sole proprietorship. There are also **tax benefits**, as **income** is considered the owner's personal income and therefore only taxed once. Finally, there are relatively few regulation requirements for sole proprietorships.

As the name states, a ***partnership*** is a business owned by two or more people, known as partners. Like sole proprietorships, partnerships are able to take advantage of **flow-through taxation**. This means that the income is treated as the owners' incomes so it is only taxed once. Owners in partnerships are responsible for the liabilities of the firm. However, there are some nuances to this. There are different types of partnerships: general partnerships, limited partnerships, and limited liability partnerships.

General Partnerships: This is the easiest type of partnership to form, with few **upkeep costs**. Every partner is considered as participating in the operations of the business, and there is unlimited liability for every partner. This means that every partner's **personal assets** can be used to repay the liabilities of the partnership. This also means that each partner is responsible for every other partner's actions.

For example, John and Dave are in a general partnership. If John is sued for **malpractice**, Dave's personal assets may also be claimed against in the **lawsuit**.

Limited Partnerships: This type of partnership has at least one general partner. This general partner takes on unlimited liability for the partnership and manages the operations of the company. Additionally, there are also limited partners in limited partnerships. Limited partners only take on as much liability as their financial stake in the business. However, as limited partners, they are not involved in management decisions and do not have any direct control over the company.

Limited Liability Partnerships (LLP): LLPs are similar to general partnerships, where multiple partners are each responsible for the operations of the business. However, partners in LLPs are not personally responsible for the actions of other partners or **the debts of the business**. Unfortunately, not all businesses can be LLPs. This type of business is often restricted to certain professions, such as lawyers or accountants.

In general, as compared to other types of businesses, partnerships offer more **flexibility** but also have greater **exposure to risk**.

Limited liability companies **(*LLCs*)** are one of the most flexible types of businesses. LLCs combine aspects of both partnerships and corporations. They retain the tax benefits of sole proprietorships and the limited liability of corporations. LLCs are able to choose between different tax treatments. As long as the LLC chooses not to be treated as a C corporation, it retains its flow-through **taxation status**.

Additionally, LLCs benefit from limited liability status. In LLCs, the company exists as its own legal entity. This protects the owners of the LLCs from being personally liable for the operations and debts of the business.

Corporations are a separate legal entity created by **shareholders**. Incorporating a business protects owners from being personally liable for the company's debts or **legal disputes**. A corporation is more complicated to create, as compared to the other three types of businesses. Articles of incorporation must be drafted, which include information such as the number of shares to be issued, the name and location of the business, and the purpose of the business.

In sole proprietorships and partnerships, if one of the owners passes away or **declares bankruptcy**, the company is **dissolved**. Corporations exist as a legally separate **entity**. Therefore, they are protected from this situation and will continue to exist even if the owner of the business passes away.

There are three main types of corporations.

C Corporation: This is the most common form of incorporation. The corporation is taxed as a business entity and owners receive profits that are then also taxed individually.

S Corporation: This is similar to a C corporation but may only consist of up to 100 shareholders. S corporations are pass-through entities like partnerships, so profits are not taxed twice.

Non-Profit Corporation: Often used by **charitable organizations**, non-profit corporations are **tax exempt**. All forms of incoming **cash flow** must be utilized to spend on the organization's operations or future plans.

Examples of Types of Businesses

Many businesses begin as sole proprietorships, as this type of business is great for many new, small businesses. As they grow and **expand**, many businesses tend **to convert** to corporations. eBay is a very famous example of a sole proprietorship that eventually converted into a corporation.

Hewlett-Packard (HP) is an example of an incredibly successful and famous partnership. Like eBay, as they grew, they eventually incorporated in 1947. However, the company began as a business partnership between two friends.

Chrysler is one of the largest automobile manufacturers in the United States. Since its **inception**, Chrysler has maintained its status as a limited liability corporation (LLC).

Finally, among the most famous of companies is Apple. Like most large companies that are listed on **stock exchanges**, Apple, otherwise known as Apple Inc., was incorporated soon after the company began its operations. To this day, Apple remains one of the largest companies in the world. It has continued to exist despite one of its co-founders, Steve Jobs, passing away.

4 Organize the information you have just read with any of the following methods: tree diagram, flow chart, headings and notes, spidergram, table, two columns.

5 Using your notes present information briefly.

6 Discuss the questions.

1 Would you rather work for a big company or a small company? What are the pros and cons of each situation?

2 Some children are expected to work in their parents' business. Is it good to give children practical business experience at an early age? Why or why not?

3 What are the world's greatest companies?

4 Which company has the worst reputation? Why?

5 Do you prefer to support local businesses over global corporations? If so, give an example.

6 Are there any brands or companies that you prefer to support? Why?

7 Are there any companies that you choose to not support? Why?

8 Should the government do more to support small businesses and start-ups? What could they do?

9 Do corporations have too much influence over government?

10 Which types of business have the brightest future?

11 Are there any companies you would like to invest in? Why are those companies attractive?

12 Is it easy to start a business in your country?

Unit 2

What is Leadership?

Lead-In

1 Read the quotes and discuss whether you agree or disagree with them.

"Leadership is not a popularity contest."
Ed Bastian, CEO of Delta Air Lines, Inc.

"Leadership is not about necessarily being the loudest in the room, but instead being the bridge, or the thing that is missing in the discussion and trying to build a consensus from there."
Jacinda Ardern, New Zealand Ex-Prime Minister

2 Read the text paying attention to the words in bold.

Leadership can simply be defined as the ability to influence others.

Keith Devis says that leadership is the process of **encouraging** and helping others to work enthusiastically toward **objectives**.

According to Koontz and Donnell, the act of leadership is the process of influencing people so that they will **strive** willingly and enthusiastically toward the achievement of the group goal.

Ideally, people should be encouraged to develop not only a willingness to work but also a willingness to work with confidence and **zeal**. Confidence reflects the experience and technical expertise; zeal is earnestness, and intensity in the execution of work.

A leader acts to help a group achieve objectives through the exploitation of its maximum capabilities.

Nature of leadership

– Leadership and motivation are closely interconnected. By understanding motivation, one can appreciate better what people want and why they act as they do. A leader can encourage or dampen workers' motivation by creating a favorable or unfavorable working environment in the organization.

– The **essence** of leadership is followership. In other words, it is the willingness of people to follow a person that makes that person a leader. Moreover, people tend to follow those whom they see as providing a means of achieving their desires, needs and wants.

– Leadership involves an unequal **distribution of power** between leaders and group members. Group members are not powerless; they can shape group activities in some ways. Still, the leader will usually have more power than the group members.

– Leaders can influence the followers' behavior in some ways. Leaders can influence workers either to do ill or well for the company. The leader must be able **to empower** and motivate the followers to the cause.

– The leader must co-exist with the **subordinates** or followers and must have a clear idea about their demands and ambitions. This creates loyalty and trust in subordinates for their leader.

– Leadership is to be concerned about values. Followers learn ethics and values from their leaders. Leaders are the real teachers of ethics, and they can **reinforce** ideas. Leaders need to make positive statements of ethics if they are not hypocritical.

– Leading is a very demanding job both physically and psychologically. The leader must have the strength, power, and ability to meet the bodily requirements; zeal, energy, and patience to meet the mental requirements for leading.

3 Organize the information you have just read with any of the following methods: tree diagram, flow chart, headings and notes, spidergram, table, two columns.

4 Using your notes present information briefly.

5 Read the list of words that are used to describe leaders and discuss the questions below.

autocrat *demagogue* *facilitator* *instigator of change*
pacesetter *people pleaser* *servant leader* *torchbearer*
unwavering captain *visionary*

1 What do the words mean in the context of leadership? Which of the words represent positive and negative personality traits?

2 In your opinion, what type of leader is the best leader? Why?

3 What is the worst type of leader you can imagine?

6 Read the text about styles of leadership.

Leadership style refers to a leaders' behavior towards group members. Leadership style is the result of the leader's philosophy, personality, value system, and experience.

Likert 4 Management Leadership Styles comes from the famous psychologist Rensis Likert. He and his associates conducted an extensive survey of management and leadership patterns in many organizations. Likert's System of Management has four styles of management or managerial leadership.

In the ***Exploitative-Authoritative Leadership Style***, the manager has no confidence or trust in subordinates. Subordinates feel no freedom to discuss things about the job with their superiors. In solving job problems, the manager seldom gets the ideas and opinions of subordinates.

In the ***Benevolent-Autocratic Leadership Style***, the manager has condescending confidence and trust in subordinates, motivates with rewards and some punishments, permits communication upward, solicits some ideas and opinions from subordinates, and allows some delegation of decision making but with close policy control.

Consultative Leadership Style indicates that Manager has substantial but not complete confidence and trust in subordinates but still wishes to keep control of decisions. Subordinates feel free to discuss things about the job with their superiors. The manager gets ideas and opinions and tries to use them constructively.

In the ***Democratic Leadership Style***, the manager has complete confidence and trust in subordinates, allowing them to participate directly in decision-making.

Subordinates also feel free to discuss things about the job with their superiors. The manager always asks subordinates for their ideas and opinions and uses them constructively.

Likert found styles 3 and 4 as high producing while styling 1 and 2 as low producing. Likert also suggested extensive and intensive leadership training at all management levels to move into style-4 as early as possible.

R. Tannenbaum and W. H. Schmit have displayed the wide range of leadership styles on a continuum that moves from authoritarian to free-rein. It specifies five styles between the two extremes, i. e., boss- and subordinates-centered leadership (figure 2).

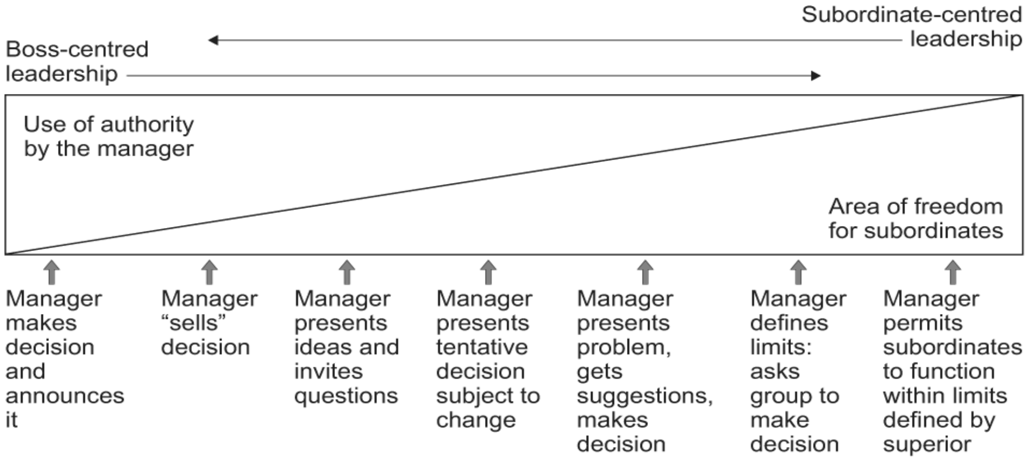

Figure 2 – Tannenbaum and Schmidt's Continuum

They mentioned that a wide range of forces/factors determine whether directive leadership, participative leadership or something in between is the best. These factors fall into three groups.

Forces relating to the manager or leader

These include the manager's personality, experience and value system, his confidence in subordinates, leadership inclination, the feeling of security in an uncertain situation, etc.

Forces relating to the subordinates

These include the readiness of subordinates to assume responsibility for making decisions, need of subordinates for independence, interest in the problem at hand, knowledge to deal with the problem, expectations about sharing in decision making, tolerance for ambiguity, etc.

Forces relating to the situation

These include organization's preferred style, size, and nature of workgroup, group effectiveness, nature of the problem itself, time constraints, etc.

A manager can choose the appropriate leadership style. More often than not, managers lean toward the leadership style preferred by the organization's top bosses.

The **managerial grid model** was developed by **R. R. Blake and J. S. Mouton** in the 1960s. It shows five different types of leadership styles in a grid. Robert Blake and Jane Mouton based the framework of Grid on the sound logic of noted theorists Abraham Maslow and Douglas McGregor. The Grid expanded upon McGregor's and others' theories at the time to provide a richer and more complete design between the manager's concerns for production versus their concern for interpersonal relationships. Although later criticized and subjected to further revision by its creators, the original

Managerial Grid Model remains an important model of managerial behavior that continues to be studied and utilized (figure 3).

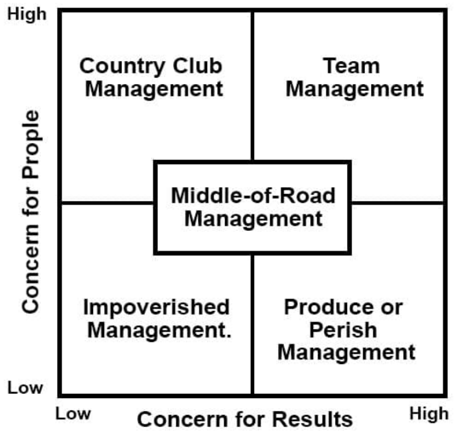

Figure 3 – Managerial Grid Model

(1,9) Country Club Style Leadership – High People and Low Production

In this environment, the relationship-oriented manager has a high concern for people but a low concern for production. He pays much attention to the security and comfort of the employees. He hopes that this will increase performance. He is almost incapable of employing the more punitive, coercive, and legitimate powers. The organization will end up to be a friendly atmosphere but not necessarily very productive. Employees in this type of work environment go about their day working at their own pace on projects they enjoy and with coworkers to whom they are attracted.

(9,1) Produce or Perish Leadership – High Production and Low People

In this style, the manager is authoritarian or compliant. He finds employee needs unimportant and simply a means to an end. He provides his employees with money and expects performance back. There is little or no allowance for cooperation or collaboration. He pressures his employees through rules and punishments to achieve the company's goals. This type of leader is very autocratic, has strict work rules, policies and procedures, and views punishment as the most effective means to motivate employees.

(1,1) Impoverished Leadership – Low Production and Low People

Impoverished Leadership is a delegate-and-disappear management style and a lazy approach. The manager shows a low concern for both people and production. His main concern is not to be held responsible for any mistakes. Managers use this style to preserve jobs and seniority, protecting themselves by avoiding getting into trouble. This leader is mostly ineffective. He or she has neither a high regard for creating systems for getting the job done nor for creating a work environment that is satisfying and motivating. The result is a place of disorganization, dissatisfaction, and disharmony.

(5,5) Middle-Of-The-Road Leadership – Medium Production and Medium People

Middle-Of-The-Road Leadership is a kind of realistic medium without ambition. It is a balanced and compromised style. The manager tries to balance the company's competing goals and the workers' needs. The manager gives some concern to both people and production, hoping to achieve acceptable performance. He believes this is the most anyone can do. Consequently, compromises occur where neither the production nor the people's needs are fully met. When dealing with subordinates, the (5,5) manager prefers relaxed and shared conversations, allowing him to slay popularly.

(9,9) Team Leadership – High Production and High People

In (9,9) Team Leadership, the manager pays high concern to people and production. Motivation is high. This soft style is based on the propositions of Theory Y by Douglas McGregor. The manager encourages teamwork and commitment among employees. This style emphasizes making employees feel part of the company family and involving them in understanding the organizational purpose and determining production needs. This method relies heavily on making employees feel they are constructive parts of the company. And this will result in a team environment based on trust and respect, which leads to high satisfaction and motivation and, as a result, high production. In a (9,9) system, the manager strives for sound and imaginative opinions, letting others partake in the decision-making process. He is not afraid to use ideas that are divergent from his own but rather focuses on the value of the ideas. Emotions and thoughts are used to solve problems through teamwork because this supervisor is concerned with arriving only at the best possible solutions.

Four Leadership Styles Based on Authority

Autocratic leadership relies on coercion, and its style is paternalism, arbitrariness, command, and compliance. The autocratic leader gives orders that the subordinates must obey. He determines policies for the group without consulting them and does not give detailed information about plans but simply tells the group what immediate steps they must take.

Disadvantages of autocratic leadership

– Autocratic leadership does hurt group morale.

– Members may resent how decisions are made and thus support them in only a minimal fashion.

A ***democratic leader*** usually gives instructions only after consulting with the group. He sees to it that policies are worked out in group discussions and with the group's acceptance. That means democratic leadership solicits employees' participation and respects their opinions.

Advantages of democratic leadership

– It often enhances the morale of the employees.
– It increases the acceptance of management's ideas.
– It increases cooperation between management and employees.
– It leads to a reduction in the number of complaints and grievances.

Disadvantages of democratic leadership

– It accounts for slow decisions and diluted accountability for decisions.
– Possible compromises may be designed to please everyone but do not give the best solution.

The leadership style which allows maximum freedom to followers may be called ***free-rein leadership***. It gives employees a high degree of independence in their operations. A free-rein leader completely abdicates his leadership position to give all responsibility for most of the work entrusted to him to the group he is supposed to lead, limiting his authority to maintain the contact of the group with persons outside the group. This is also known as the permissive style of leadership.

Advantages of free-rein leadership

– Opportunity for individual development is offered to group members.
– All persons are given a chance to express themselves and function relatively independently.

Disadvantages of free-rein leadership

– It may result in a lack of group cohesion and unity toward organizational objectives.
– Without a leader, the group may have little direction and a lack of control.
– The result can be inefficiency or, even worse, chaos.

Under ***Paternalistic Leadership***, the leader assumes that his function is paternal or fatherly. His attitude is treating the relationship between the leader and the group as that of a family, with the leader as the head of the family. He works to help, guide, protect, and keep his followers happily working together as family members. He provides them with good working conditions and employee services. This style has been successful in Japan because of its cultural background. It is said that employees under such leadership will work harder out of gratitude. This mode of leadership produces good and quick results if the followers are highly educated and brilliant and have a sincere desire to go ahead and perform with responsibility.

7 Organize the information you have just read with any of the following methods: tree diagram, flow chart, headings and notes, spidergram, table, two columns.

8 Using your notes present information briefly.

9 Complete the sentences with the correct words.

1 He came to the annual meeting armed … all the available data to prove his point.

2 They incline … the view that peace can be achieved.

3 Ramping … humility doesn't equal weakness or insecurity, but rather strength.

4 At a time of major upheaval, you just have to act … urgency and not hide … the shadows.

5 The CEO will lay … the plans for the next year at the upcoming company meeting.

6 The company's future has been … in the air since one of its key shareholders was forced to sell their shares.

7 We need to let go … the past and concentrate on the future.

10 Read the sentences from ex. 9 again and answer the questions.

1 What noun means the need to deal with something quickly?

2 What noun means the quality of being humble?

3 What noun means a significant change that often causes problems?

4 What phrase do we use to say that something should no longer influence you?

5 What phrase do we use to say that something is uncertain and no final decision has been made about it?

6 What verb means to explain something clearly?

7 What verb means to increase?

11 Discuss the questions.

1 How can someone lead efficiently at a time of upheaval?

2 What types of leaders are needed during a crisis?

3 In what ways can leaders support their teams?

4 What is meant by the statement "leadership is everyone's business"? Can this not be true?

5 What are three things that can be done to improve in each leadership practice?

6 How can leaders simultaneously adapt their leadership styles to the development levels of individual group members and to the group as a whole?

7 How can a leader be sure his or her perceptions of followers' competence and commitment are accurate?

8 Study the managerial (leadership) grid and explain the derivation of the five major styles. Define and describe each of these styles.

9 In what types of situations might each of these styles be the best one to use?

10 As a follower, how do you respond to each of these different leadership styles?

11 Is the "Impoverished management" style ever appropriate or desirable for an organization?

12 Why is it difficult to identify a universal "best" style of leadership?

Unit 3

Strategic Planning Process

Lead-In

1 Read the quotes and discuss whether you agree or disagree with them.

"Plans are useless, but planning is indispensable."
– Dwight Eisenhower

Globalization means that business strategy and business ethics cannot be separated from each other. – Ofra Strauss

Failure is the most effective technique to optimize strategic planning, implementation and processes.
– Thomas A. Edison

2 Read the text paying attention to the words and phrases in bold.

Strategic planning is a process that helps an organization allocate its resources **to capitalize on** opportunities in the **marketplace**. Typically, it is a long-term process. The **strategic planning process** includes conducting a situation analysis and developing the organization's mission statement, objectives, value proposition, and strategies.

As part of the strategic planning process, a **situation analysis** must be conducted before a company can decide on specific actions. A situation analysis involves analyzing both the external (macro and micro factors outside the organization) and the internal (company) environments. The firm's internal environment – such as its financial resources, technological resources, and the capabilities of its personnel and their performance – has to be examined. It is also critical to examine the external macro and micro environments the firm faces, such as the economy and its **competitors**. The external environment significantly affects the decisions a firm makes, and thus must be continuously evaluated. While a business cannot control things such as the economy, changes in demographic trends, or what competitors do, it must decide what actions to take to remain competitive – actions that depend in part on their internal environment.

Based on the situation analysis, organizations analyze their **s**trengths, **w**eaknesses, **o**pportunities, and **t**hreats, or conduct what's called a **SWOT analysis**. Strengths and weaknesses are internal factors and are somewhat controllable. For example, an organization's strengths might include its brand name, **efficient distribution network**, reputation for great service, and strong financial position. A firm's weaknesses might include lack of awareness of its products in the marketplace, a lack of human resources talent, and a poor location. Opportunities and threats are factors that are external to the firm and largely uncontrollable. Opportunities might **entail the international demand** for the type of products the firm makes, few competitors, and favorable social trends such as people living longer. Threats might include a bad economy, high interest rates that increase a firm's borrowing costs, and **an aging population** that makes it hard for the business to find workers.

All organizations must consider their competition, whether it is direct or indirect competition vying for the consumer's dollar. Both **nonprofit and for-profit organizations** compete for customers' resources. A group of competitors that provide similar products or services form an industry. Michael Porter, a professor at Harvard University and a leading authority on competitive strategy, developed an approach for analyzing industries. Called the five forces model and shown in figure 4 "Five Forces Model", the framework helps organizations understand their current competitors as well as organizations that could become competitors in the future. As such, firms can find the best way to defend their position in the industry.

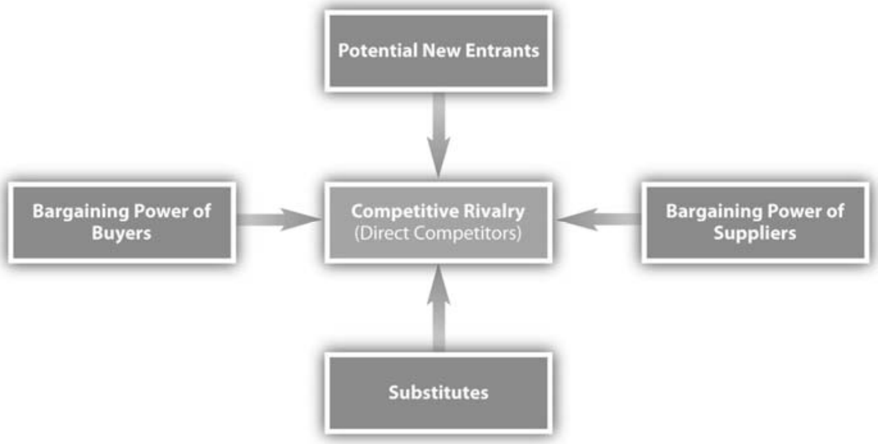

Figure 4 – Five Forces Model

All organizations must **comply with** government regulations and understand the **political and legal environments** in which they do business. Different government agencies enforce the numerous regulations that have been established to protect both consumers and businesses.

The economy has a major impact on spending by both consumers and businesses, which, in turn, affects the goals and strategies of organizations. **Economic factors** include variables such as inflation, unemployment, interest rates, and whether the economy is in a growth period or a **recession**.

The **demographic and social and cultural environments** – including social trends, such as people's attitudes toward fitness and nutrition; demographic characteristics, such as people's age, income, marital status, education, and occupation; and culture, which relates to people's beliefs and values – are constantly changing in the global marketplace. The composition of the population is also constantly changing.

The **technology** available in the world is changing the way people communicate and the way firms do business. Everyone is affected by technological changes. Selfscanners and video displays at stores, ATMs, the Internet, and mobile phones are a few examples of how technology is affecting businesses and consumers. Many consumers get information, read the news, use text messaging, and shop online. Organizations must **adapt to new technologies** in order to succeed.

Natural resources are scarce commodities, and consumers are becoming increasingly aware of this fact. Today, many firms are doing more to engage in **"sustainable" practices** that help protect the environment and conserve natural resources. **Green marketing** involves marketing environmentally safe products and services in a way that is good for the environment. Green marketing not only helps the environment but also saves the company, and ultimately the consumer, money. Sustainability, ethics (doing the right things), and social responsibility (helping society, communities, and other people) influence an organization's planning process and the strategies they implement.

Let's look at the other components of the strategic planning process.

The firm's **mission statement** states the purpose of the organization and why it exists. Both profit and nonprofit organizations have mission statements, which they often publicize.

Objectives are what organizations want to accomplish – the end results they want to achieve – in a given time frame. In addition to being accomplished within a certain time frame, objectives should be realistic (achievable) and be measurable, if possible. Objectives help guide and motivate a company's employees and give its managers reference points for evaluating the firm's marketing actions. A firm's marketing objectives should be **consistent with** the company's objectives at other levels, such as the corporate level and business level.

Strategies are the means to the ends, the game plan, or what a firm is going to do to achieve its objectives. Successful strategies help organizations establish and maintain a competitive advantage that competitors cannot imitate easily. **Tactics** include specific actions, such as coupons, television commercials, banner ads, and so on, taken to execute the strategy. Firms often use multiple strategies to accomplish their objectives and capitalize on marketing opportunities. Many companies develop marketing strategies as part of their general, overall business plans. Other companies prepare separate marketing plans.

A **marketing plan** is a strategic plan at the functional level that provides a firm's marketing group with direction. It is a road map that improves the firm's understanding of its competitive situation. The marketing plan also helps the firm **allocate resources** and **divvy up the tasks** that employees need to do for the company to meet its objectives.

Figure 5 "Strategic Planning Levels in an Organization" shows an example of different strategic planning levels that can exist within an organization's structure. The number of levels can vary, depending on the size and structure of an organization. Not every organization will have every level or have every type of plan.

Most businesses find value in reviewing their Strategic Plan every three years. This allows enough time to pass that you can evaluate the success of previous plans, reflect on the achievement of strategic goals, consider developments outside organization that affect business, and begins formulating new goals that will become the next version of your plans.

Figure 5 – Strategic Planning Levels in an Organization

3 Organize the information you have just read with any of the following methods: tree diagram, flow chart, headings and notes, spidergram, table, two columns.

4 Using your notes present information briefly.

5 Reading comprehension tasks.

1 Explain how a mission statement helps a company with its strategic planning.
2 Describe how a firm analyzes its internal environment.
3 Describe the external environment a firm may face and how it is analyzed.
4 Explain how companies develop the objectives driving their strategies.
5 Describe the different types of product strategies and market entry strategies that companies pursue.
6 Suppose you work for a major hotel chain. Using Porter's five forces model, explain what you need to consider with regard to each force.

6 Do the Quiz.

1 Which one of the following is the best description of strategic planning?

a) Engaging in an internal environmental analysis of your organization in order to develop a long-term vision and strategy for the future;

b) Engaging in an external environmental analysis in order to develop a long-term vision and strategy;

c) Engage in an internal and external analysis of your organization in order to develop a long-term vision and strategy that lays the foundation for implementation and assessment of a strategic plan;

d) A SWOT analysis.

2 What is a SWOT analysis?

a) A strategic world opportunity technique;

b) An analysis that looks at an organization's strengths, weaknesses, opportunities, and teamwork;

c) A strategic work and opportunity technique;

d) An analysis that looks at an organization's strengths, weaknesses, opportunities, and threats.

3 Which of the following is not one of the steps in strategic planning?

a) Analysis of the current state;

b) Implementation and evaluation;

c) Board approval of the plan;

d) Defining the future state.

7 Discussion Questions.

1 How do product development strategies differ from market development strategies?

2 Explain why some strategies work for some companies but not others.

3 What factors do firms entering foreign markets need to consider?

4 What different levels of planning can organizations utilize?

5 Give an example and explain how a corporation that wants to help protect the environment can do so at its corporate, business, and functional levels.

6 Explain how a marketing objective differs from a marketing strategy. How are they related?

7 Discuss how conducting a SWOT (strengths, weaknesses, opportunities, threats) analysis helps a firm (or an individual) develop its strategic plan.

8 Activities.

1 Outline a strategic plan for yourself to begin planning for a job after graduation. Include your value proposition, targeted organizations, objectives, strategies, and the internal and external factors that may affect your plans.

2 Assume you have an interview for an entry-level sales position. Write a value proposition emphasizing why you are the best candidate for the position relative to other recent college graduates.

3 A mission statement outlines an organization's purpose and answers the question of how a company defines its business. Write a mission statement for a campus organization.

4 Select an organization for which you would like to work. Look up its mission statement. What do you think the organization's objectives and strategies are? What macro and micro environmental and internal factors might affect its success?

5 Break up into teams. Come up with as many real-world examples as you can of companies that pursued market penetration, market development, product development, or diversification strategies. Explain what the company did and how successful you think each strategy will be.

Unit 4

Employee Compensation: Salary, Wages, Incentives and Commissions

Lead-In

1 Read the quotes and discuss whether you agree or disagree with them.

"The reason that man is seldom satisfied with his salary is that when it increases, he increases his expenses."
– Mokokoma Mokhonoana

"Earn nicely, spend wisely and you will live happily." – Auliq Ice

A good salary bonus is not just a place to put your hard-earned money. It's a reminder of your value and a reward for the things you do right.

2 Read the text paying attention to the words and phrases in bold.

Compensation describes the **cash rewards** paid to employees in exchange for the services they provide. It may include base salary, wages, **incentives** and/or **commission**. Total compensation includes cash rewards as well as any other company benefits.

Defining a compensation strategy is an important activity for all companies, including startups. The compensation strategy must be **affordable, structured, and reasonably competitive.**

All kinds of companies can adopt **variable compensation**, and many do: 76 % use some form of variable pay. But organizations performing sales and offering services are most suited to the variable compensation model, as it's easier to measure the relationship between **revenue** and employee performance.

For example, the employees at a software company have a lot of potential to **boost** their organization's revenue – the sales team by talking to leads and closing deals, the developers by designing a successful product, and the customer support team by helping customers have a positive experience.

Compensation can be divided into **salary, benefits** and incentives**.** While salary and benefits must be competitive, incentives are the most likely drivers of attracting and retaining the best employees in startups.

A salary (or wage) is a fixed amount paid in exchange for an employee's services. For full-time employees, salary is generally described in annual, monthly, bi-weekly or weekly amounts. For part-time employees, it is generally described as an hourly amount.

To determine an appropriate salary and/or salary range that your company is willing to pay for a position, you must:

– Establish the value of the position based on your organizational requirements;
– Understand what the market is paying for a similar position.

There are three key types of incentives: bonuses, profit sharing and stock options.

Bonuses are **lump-sum payments** that employers use to reward their people's hard work and accomplishments. The main difference between a bonus and commission pay is that bonuses aren't directly proportional to the revenue an employee generates. Employers often decide whether to award employees bonuses (and how much) using performance appraisal forms and individual objectives and key results (OKRs).

But bonuses don't have to be an all-or-nothing situation. Employers can decide on payment bands for different levels of achievement. For example, you could award someone 15 % of their salary for meeting targets and 25 % for exceeding them.

With **profit-sharing**, employers divide a percentage of the organization's annual or quarterly profits between employees. That means each employee's bonus depends on the company reaching its **target revenue** instead of individual performance. Employers can determine how much of their profit they want to share and how much each employee receives. For example, you can base the percentage on role, performance, time with the company, or a combination of those criteria. Some companies even decide to award the same amount to their entire **workforce** as a one-time payment for a remarkable quarter.

Stock options are a form of compensation. Companies can grant them to employees, contractors, consultants and investors. These options, which are contracts, give an employee the right to buy, or exercise, a set number of **shares** of the company stock at a preset price, also known as the grant price. This offer doesn't last forever, though. You have a set amount of time to exercise your options before they expire. Your employer might also require that you exercise your options within a period of time after leaving the company. In general, if the company permits a long period from the date of issue to the last date for exercising the option, it will encourage the employee to stay with the company and be fully committed to its success.

Commissions are a common way **to remunerate** employees (salespeople) for securing the sale of a product or service. The intent is to create a strong incentive for the individual to invest the maximum effort into their work. Commissions are usually calculated as a percentage of the sale of the product or service (for example, 5 % of a computer component's retail selling price).

Payment may be either **straight commission** (no base salary) or a **combination of base salary and commission.** In general, the commission structure is based on reaching specific targets or quotas that have been previously agreed upon by management and the employee. These targets or quotas are typically tied to sales revenue, unit sales or some other volume-based metric.

When your organization only offers a fixed salary, you risk paying your employees to *be at* their jobs – instead of paying them to *do* their jobs. The result may be demotivated and unengaged employees.

Adding variable payments to your compensation plan can solve this problem. Variable compensation rewards employees based on their performance, not on the number of hours they spend in front of their laptops. If well-managed and adapted to your business needs, variable compensation could be the solution you need to give your employees an engagement and performance boost.

3 Organize the information you have just read with any of the following methods: tree diagram, flow chart, headings and notes, spidergram, table, two columns.

4 Using your notes present information briefly.

5 Discuss the questions.

1 Why is talking about pay uncomfortable?
2 How often should employers review salaries?
3 How should employers determine pay?
4 Do you feel that you are rewarded fairly for the work that you do?
5 Are there any benefits that the business could offer which would make working there easier or more valuable?
6 Rank the following types of reward in order of their value to you:
– Monetary Rewards (pay increases, bonuses);
– Edible Gifts (going for lunch, chocolates, snacks);
– Additional Annual Leave;
– Stock Options.
7 Which achievements deserve recognition in your eyes?
8 What type of recognition do you value most?
9 Do you have any recommendations on how the business can recognise hard-working employees more effectively?
10 What is the difference between pay and/or reward system in any company?

Unit 5

Marketing in Business

Lead-In

1 Read the quotes and discuss whether you agree or disagree with them.

“It's not what you sell that matters as much as how you sell it!”
– Brian Halligan, CEO & Co-Founder, HubSpot

“The best marketing doesn't feel like marketing.”
– Tom Fishburne, Founder & CEO, Marketoonist

“Good marketers see consumers as complete human beings with all the dimensions real people have.”
– Jonah Sachs

2 Read the text paying attention to the words and phrases in bold.

Marketing refers to activities a company undertakes **to promote** the buying or selling of a product or service. Marketing includes advertising, selling, and **delivering products** to consumers or other businesses. Some marketing is done by **affiliates** on behalf of a company.

Professionals who work in a corporation's marketing and promotion departments seek to get the attention of **key potential audiences** through advertising. Promotions are targeted to certain audiences and may involve **celebrity endorsements**, catchy phrases or slogans, memorable packaging or graphic designs and overall **media exposure**.

At its most basic level, marketing seeks to match a company's products and services to customers who want access to those products. Matching products to customers ultimately **ensures profitability**.

Product, price, place, and promotion are **the Four Ps of marketing**. The Four Ps collectively make up the essential mix a company needs to market a product or service. Neil Borden popularized the idea of the marketing mix and the concept of the Four Ps in the 1950s.

Marketing is comprised of an incredibly broad and diverse set of strategies. Before technology and the internet, traditional marketing was the primary way companies would market their goods to customers. There are dozens of types of marketing, and the types have proliferated with the introduction and rise of social media, mobile platforms, and technological advancements. Before technology, marketing might have been geared towards mail campaigns, word-of-mouth campaigns, billboards, delivery of sample products, TV commercials, or telemarketing. Now, marketing encompasses social media, targeted ads, e-mail marketing, **inbound marketing** to attract web traffic, and more.

Content marketing entails creating content, whether eBooks, infographics, video seminars, or other downloadable content. The goal is to create a product (often free) to share information about a product, obtain customer information, and encourage customers to continue with the company beyond the content.

In 1978, Gary Thuerk sent a message to roughly 400 people using ARPANET, the first public packet-switched computer network. With that message, the first ever recorded spam e-mail message had been sent.

Benefits of Marketing

Well-defined **marketing strategies** can benefit a company in several ways. It may be challenging in developing the right strategy or executing the plan; when done well, marketing can yield the following results:

Audience Generation. Marketing allows a company **to target specific people** it believes will benefit from its product or service. Sometimes, people know they have the need. Other times, they do not realize it. Marketing enables a company to connect with a cohort of people that fit the demographic of who the company aims to serve.

Inward Education. Marketing is useful for collecting information to be processed internally to drive success. For example, consider **market research** that finds a certain product is primarily purchased by women aged 18–34 years old. By collecting this information, a company can better understand how to cater to this demographic, drive sales, and be more efficient with resources.

Outward Education. Marketing can also be used to communicate with the world what your company does, what products you sell, and how your company can enrich the lives of others. Campaigns can be educational, informing those outside of your company why they need your product. In addition, **marketing campaigns** let a company introduce itself, its history, its owners, and its motivation for being the company it is.

Brand Creation. Marketing allows a company to take an offensive approach to creating a brand. Instead of a customer shaping their opinion of a company based on their interactions, a company can preemptively engage a customer with specific content or media to drive certain emotions or reactions. This allows a company to shape its image before the customer has ever interacted with its products.

Long-lasting. Marketing campaigns done right can have a long-lasting impact on customers.

Financial Performance. The ultimate goal and benefit of marketing is to drive sales. When relationships with customers are stronger, well-defined, and positive, customers are more likely to engage in sales. When marketing is done right, customers turn to your company, and you gain a competitive advantage over your competitors. Even if both products are exactly the same, marketing can create that competitive advantage for why a client picks you over someone else.

According to MarTech, a digital marketing provider, the world will spend $4.7 trillion on marketing by 2025. This estimate includes an increase of $1.1 trillion from 2021 to 2025.

Marketing is composed of four activities centered on customer value: creating, communicating, delivering, and exchanging value.

Value varies from customer to customer based on each customer's needs. The marketing concept, a philosophy underlying all that marketers do, requires that marketers seek to satisfy customer wants and needs. Firms operating with that philosophy are said to be market oriented. At the same time, market-oriented firms recognize that exchange must be profitable for the company to be successful. A marketing orientation is not an excuse to fail **to make profit**.

3 Organize the information you have just read with any of the following methods: tree diagram, flow chart, headings and notes, spidergram, table, two columns.

4 Using your notes present information briefly.

5 Discuss the questions.

1 What images spring to mind when you hear the word ‘marketing’?

2 Would you like to work in marketing?
3 What marketing tactics do you think are very successful?
4 What is the marketing mix?
5 How has marketing changed from the four Ps approach to the more current value-based perspective?
6 Who does marketing?
7 What types of companies engage in marketing?
8 What is the difference between nonprofit marketing and social marketing?
9 What is the best marketing campaign you know of?
10 Can you think of any infamous marketing disasters? What went wrong?

6 Activities.

1 One of your friends is contemplating opening a coffee shop near your university campus. She seeks your advice about size of the prospective customer base and how to market the business according to the four Ps. What strategies can you share with your friend to assist in launching the business?

2 You have decided to open a new fast food restaurant. First decide on what kind of fast food you are going to sell, and then work out what your marketing strategy is going to be. To do this, analyze the market:

a) Threat of new entrants;
b) Supplier power;
c) Buyer power;
d) Threat of substitutes;
e) Industry competitors.

Unit 6

Finance

Lead-In

1 Read the quotes and discuss whether you agree or disagree with them.

"Financial freedom is available to those who learn about it and work for it."
– Robert Kiyosaki

"Make sure to save for the future and keep making money!"
– Jam Master Jay

"Rule No. 1: Never lose money. Rule No. 2: Never forget rule No.1."
– Warren Buffett, businessman

2 Read the text paying attention to the words and phrases in bold.

A **financial system** is a set of institutions, such as banks, insurance companies, and **stock exchanges** that permit the exchange of funds. Financial systems exist on firm, regional, and global levels. **Borrowers, lenders,** and **investors** exchange current funds to finance projects, either for consumption or productive investments, and to pursue **a return on their financial assets**. The financial system also includes sets of rules and practices that borrowers and lenders use to decide which projects get financed, who finances projects, and terms of financial deals.

The financial system is typically organized through central planning, **a market economy**, or a combination of both. A **centrally planned economy** is structured around a central authority, such as a government, which makes economic decisions regarding the manufacturing and distribution of products for a specific country. A market economy is when the pricing of goods and services is dictated by the aggregated decision of citizens and business owners, often resulting in the effects of **supply and demand**.

Financial markets operate within **a government regulatory framework** that filters the sort of **transactions** that can be conducted. Financial systems are heavily regulated due to their influence and facilitation capabilities to contribute to the growth of real assets.

On a global scale, the financial system includes the interactions between financial institutions, investors, central banks, government authorities, the World Bank, and more.

Financing is the process of providing funds for business activities, making purchases, or investing. **Financial institutions**, such as banks, are in the business of providing capital to businesses, consumers, and investors to help them achieve their goals. The use of financing is vital in any economic system, as it allows companies to purchase products out of their immediate reach.

Financing also takes advantage of the fact that some individuals in an economy will have **a surplus of money** that they wish to put to work to generate returns, while others demand money to undertake investment (also with the hope of generating returns), creating a market for money.

There are two main types of financing available for companies: **debt financing** and **equity financing**. Debt is a loan that must be paid back often with interest, but it is typically cheaper than raising capital because of tax deduction considerations. Equity does not need to be paid back, but it relinquishes ownership stakes to the shareholder. Both debt and equity have their advantages and disadvantages. Most companies use a combination of both to finance operations.

New financial technologies can facilitate access to financial services and improve the efficiency of the financial system. **Digital finance** is the term used to describe the impact of new technologies on the financial services industry. It includes a variety of products, applications, processes and business models that have transformed the traditional way of providing banking and financial services.

While technological innovation in finance is not new, **investment** in new technologies has substantially increased in recent years and the pace of innovation is exponential. We now interact with our bank using mobile technology. We make payments, **transfer money** and make investments using a variety of new tools that were not there few years ago. **Artificial intelligence**, social networks, machine learning, **mobile applications**, **distributed ledger technology**, **cloud computing** and big **data analytics** have given rise to new services and business models by established financial institutions and **new market entrants**.

All these technologies can benefit both consumers and companies by enabling greater access to financial services, offering wider choice and increasing efficiency of operations. They can also contribute to bringing down national barriers and spurring competition in areas such as:

– **online banking**, online payment and transfer services;
– peer-to-peer lending;
– personal investment advice and services.

Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often **audited** by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. They include key data on what your company owns and owes and how much money it has made and spent.

Investors and financial analysts rely on financial data to analyze the performance of a company and make predictions about the future direction of the **company's stock price**. One of the most important resources of reliable and audited financial data is the **annual report**, which contains the firm's financial statements.

There are four main financial statements:
– balance sheet;
– income statement;
– cash flow statement;
– statement of changes in equity.

Financial statements may be prepared for different timeframes. Annual financial statements cover the company’s latest **fiscal year**. Companies may also prepare **interim financial statements** on a monthly, quarterly or semi-annual basis.

The **balance sheet** provides an overview of assets, liabilities, and shareholders' equity as a snapshot in time. The **income statement** primarily focuses on a company’s revenues and expenses during a particular period. Once expenses are subtracted from revenues, the statement produces a company's profit figure called net income. The **cash flow statement** (CFS) measures how well a company generates cash to pay its debt obligations, fund its operating expenses, and fund investments. The **statement of changes in equity** records how profits are retained within a company for future growth or distributed to external parties.

3 Organize the information you have just read with any of the following methods: tree diagram, flow chart, headings and notes, spidergram, table, two columns.

4 Using your notes present information briefly.

5 Discuss the questions.

1 What comes to mind when you hear the word 'finance'?
2 Do you think finance has different meanings to different people?
3 Are you happy with the state of your finances?
4 Have you ever risked money in financial markets?
5 What does the area of finance cover?
6 What personal finance decisions have you had to make recently?
7 What are the biggest personal finance decisions you'll have to make?
8 What kinds of decisions do executives have to make regarding finance?
9 Would you like to work in finance?
10 Do you have a head for finance?
11 Do you spend too much time and energy sorting out your finances?

6 Do the quiz.

1 What's the best explanation of financial documents?
a) Business documents created by a business based upon custom needs and formats;
b) A company's balance sheet;
c) Documents about a company's assets and liabilities;
d) A set of standardized documents that are used for communicating financial information about a business.

2 What are the major components of a balance sheet?
a) Assets, liabilities, and income;
b) Assets, liabilities and equity;
c) Assets and liabilities;
d) Income and cash flow.

3 What's another name used for financial documents?
a) Financial statements;
b) Loan documents;
c) Annual report;
d) Accounting documents.

Unit 7

What is a Market?

Lead-In

1 Read the quotes and discuss whether you agree or disagree with them.

"A market economy is to economics what democracy is to government: a decent, if flawed, choice among many bad alternatives."
– Charles Wheelan, Naked Economics: Undressing the Dismay Science

"In a marketplace, perception is more powerful than reality."
– Naved Abdali

"Over the long term, and I mean a very long term, markets are efficient."
– Naved Abdali

2 Read the text paying attention to the words and phrases in bold.

A market is a place where parties can gather **to facilitate the exchange of goods and services**. The parties involved are usually **buyers** and **sellers**. The market may be physical like **a retail outlet**, where people meet face-to-face, or virtual like an **online market**, where there is no direct physical contact between buyers and sellers. A market transaction may involve goods, services, information, currency, or any combination of these that pass from one party to another.

Certain decisions that help shape the market are determined by an economic system known as **the market economy**. In this system, factors like investments and the production, distribution, and pricing of goods and services are led by **supply and demand** from businesses and individuals. As such, a market economy is unplanned and is not part of a planned or **command economy** where the government dictates all of these factors. Examples of market economies include the United States, Canada, the United Kingdom, and Japan.

Whatever the context, a market establishes the prices for goods and other services. These rates are determined by supply and demand. The idea of supply and demand is one of the very basics of economics. Supply is created by the sellers, while demand is generated by buyers.

Aside from the two most common markets – physical and virtual – there are other kinds of markets where parties can gather to execute their transactions.

An underground or black market refers to **an illegal market** where transactions occur without the knowledge of the government or other regulatory agencies. Many illegal markets exist in order **to circumvent existing tax laws**. This is why many involve **cash-only transactions** or non-traceable forms of currency, making them harder to track.

Many illegal markets exist in countries that are economically developing and with planned or command economies where the government controls the production and distribution of goods and services. When there is **a shortage of** certain goods and services in the economy, members of the illegal market step in and **fill the void**.

Illegal markets can also exist in developed economies. These **shadow markets**, as they are also known, become prevalent when prices control the sale of certain products or services, especially when demand is high.

An auction market brings many people together for the sale and purchase of specific lots of goods. The buyers or **bidders** try to top each other for the purchase price. The items up for sale end up going to the highest bidder. The most common auction markets involve livestock, foreclosed homes, and art and antiques. Many operate online now.

The blanket term **financial market** refers to any place where **securities**, currencies, **bonds**, and other securities are traded between two parties. These markets are the basis of capitalist societies, and they provide capital formation and liquidity for businesses. They can be physical or virtual.

The financial market includes the **stock exchanges** such as the New York Stock Exchange (NYSE), Nasdaq, the London Stock Exchange (LSE), and the TMX Group. Other kinds of financial markets include **the bond market** and **the foreign exchange market**, where people trade currencies.

Business markets involve **business-to-business sales**; this can take the form of consulting agencies, **intermediary goods**, transportation companies, and many more. The main differentiator is that the business market is not selling to the individual consumer but rather another business.

Consumer markets are the final point of sale – businesses sell a product to the final consumer. Consumer markets include fast-moving consumer goods, clothes, automobiles, and mini-golf, to name a few.

Global markets occur when sales are made across country borders, cultures, languages, and lifestyles. This includes goods and services that utilise globally sourced production elements; many products have some aspect that was affected in some way by the global market.

Government markets are characterised by the vast public utility they provide, often without any direct cost of use. These products can be experienced nearly anywhere you go, whether it's the construction and maintenance of the road you travel on or the protection you experience provided by public safety enforcement.

Institutional markets involve buying goods and services to use within their own production of goods and services. These markets tend to experience inelastic demand for providing services such as healthcare, education, and prisons.

It has been suggested that **electronic markets**, by lowering search costs, may lead to significantly increased price competition among sellers and hence, lower prices for buyers. Or, by allowing efficient, direct interaction between buyers and sellers, they may eliminate the role of intermediaries. Electronic markets are markets connected through modern communications networks and powered by high-speed computers.

Other than underground markets, most markets are subject to rules and regulations set by a regional or governing body that determines the market's nature. This may be the case when the regulation is as wide-reaching and as widely recognized as an international trade agreement, or as local and temporary as **a pop-up street market** where **vendors** maintain order and rules among themselves.

3 Organize the information you have just read with any of the following methods: tree diagram, flow chart, headings and notes, spidergram, table, two columns.

4 Using your notes present information briefly.

5 Discuss the questions.

1 What are the types of consumer markets?
2 What is a business market?
3 What is a consumer market?
4 What is a government market?
5 What springs to mind when you hear the word 'stock market'?
6 What job do stock markets do?
7 Would you like to work in a stock market?
8 What is the difference between the Dow Jones and the NASDAQ?
9 Do you think it's risky to invest in the stock market?
10 What causes stock market crashes?
11 How important are stock markets to the world economy?
12 What are the differences between a bull market and a bear market?
13 What are the benefits of an online marketplace?

Unit 8

Innovation Product Development

Lead-In

1 Read the quotes and discuss whether you agree or disagree with them.

“Innovation is taking two things that exist and putting them together in a new way.“ – Tom Freston (born 1945), Co-founder of MTV

“Innovation is the unrelenting drive to break the status quo and develop anew where few have dared to go.“
– Steven Jeffes, Marketing & business expert

“Innovation comes from saying NO to 1000 things.“
– Steve Jobs (1955-2011), Co-founder of Apple

2 Read the text paying attention to the words and phrases in bold.

Every year, thousands – if not millions – of products are **unleashed** into the world. These range from brand new products to improvements on things that already exist. Regular pizza to stuffed crust pizza? That’s **product innovation**. Giant brick phone to sleek touchscreen? Innovation.

Product innovation has been around for centuries – since, well…the wheel, which is an innovation in itself. But in today’s society, where we need to be on top of every trend, it can make or break a company. And if one particular type of product isn’t doing so well anymore, companies must quickly change their game plan and come up with something different before they lose out.

The process of creating new products or updating older ones is what we call innovation, and it's a must if you run a business. For companies that put the time into **product research development**, it can be **highly lucrative and rewarding** when successful.

Product innovation refers to changes that improve design, materials, feel, look, capacity, functionality, and overall user experience. An improvement can be **tangible**, such as a physical product, or **intangible**, like software or services.

Product innovation helps companies **stay relevant in their market** and continue growing and improving over time. A company's ability to innovate is considered essential for its **long-term viability**. Product innovation is how brands like Apple and Tesla have achieved huge commercial success.

Companies need to venture out of their comfort zone and get creative when designing new products.

Product innovation is what you design and create, including the quality of the materials used. Process innovation refers to how you manufacture, distribute, and sell it. A real-world example: Google excels at both forms of innovation. The company invested millions in its Android operating system and drove device sales by investing in its site, **creating effective ad campaigns**, and even **partnering with other companies**. The result? Android is **a worthy adversary** to Apple.

Many people think there's no need **to innovate** if you're already running a successful business. But this just isn't true.

Product innovation is good for the bottom line. Businesses that introduce new products earn higher profits than those that don't. Companies in **the top quartile** of new-product introductions generate a median return on sales more than three times greater than those in **the lowest quartile**.

Diversifying brings in new opportunities. Product innovation drives expansion by **opening up new market opportunities**. It also helps firms **diversify their business** and **tap into** totally different customer groups.

Anticipating the needs of your customers boosts retention. If you're constantly innovating, customers will never see you as **irrelevant** or out of date.

Innovation helps you keep up with the market. Whether you innovate or not, other companies will. And those competitors could potentially steal your customers. Innovating helps you differentiate your business and race ahead.

Innovation is good business. The problem is, while most people can spot an improvement, few can develop ideas on their own.

This is because it's hard to spot the opportunity and even harder to get that idea developed, funded, created, and marketed. Innovation also poses a significant risk: 95% of new products fail. When you consider the money that goes into development and release, it's pretty terrifying.

Product innovation has the following benefits.

1 Improved product quality.

All business innovations directly improve product quality and performance. In turn, this increases the efficiency and effectiveness of business processes and makes radical structural and operational reforms possible.

2 Smart expansion to new markets.

Companies can find a way out in **oversaturated markets** by turning to product innovation. It gives them a leeway to expand to new markets and get new customers simultaneously.

3 Business growth.

Successful product innovation and adoption **boosts the growth of business** and industrial enterprises. It allows companies to grow, conquer new markets and turn higher profits.

3 Organize the information you have just read with any of the following methods: tree diagram, flow chart, headings and notes, spidergram, table, two columns.

4 Using your notes present information briefly.

5 Discuss the questions.

1 What is product innovation?
2 Why does innovation matter?
3 Why is innovation so difficult?
4 How can you make innovation a little bit easier?
5 How do you build a process for innovation?
6 What is an innovation strategy and how do you create one?
7 How do you measure innovation?
8 What are some innovation tools and resources?
9 Assume you come up with an idea for a new electronic product you think your fellow students would really like. How would you go through the product development process? How would you accomplish each step within that process?
10 Select a product you are familiar with and explain the stages of the product's life cycle and different ways in which a company can extend its mature stage.
11 Why, given the availability of good research practices, do so many new products fail?

6 Activities.

1 Identify two new consumer products sold in a grocery store or by a mass merchandiser. Explain the strategies used to introduce each of the products and which strategy you feel will be most successful.

2 Identify three products that are sold in international markets and explain any differences in how the products have been changed to meet the needs of consumers in the international markets.

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