



COMPANY OF THE MONTH

<http://www.longman.com/business/company/archive.html>

Company of the Month — McDonalds



We all know those famous golden arches, the Big Mac and the strawberry milkshake. But when did McDonalds begin, how many restaurants does it have, and why is Jim Delligati important? Read more to find out.

McDonald's is the largest and best-known global food service retailer with more than 26,000 restaurants in 119 countries.

The company's vision is to be the world's best fast food restaurant experience - best in quality, service, cleanliness and value - so that every customer in every restaurant smiles.

To achieve this vision McDonald's has three strategies:

- to be the best employer
- to deliver excellence to their customers
- to achieve profitable growth by expanding the brand through innovation and technology

The man behind the idea

Ray Kroc was a 52-year-old American salesman who was the exclusive distributor of a milk-shake maker called the Multimixer.

The story begins...

Ray had heard about Dick and Mac McDonald's hamburger restaurant in California, where they had 8 Multimixers. When he got there Ray was amazed by how so many people were served so quickly. Ray saw an opportunity there and approached the McDonald brothers with the idea of opening a few more restaurants with the same food and service. The idea was that Ray could then sell Multimixers to each one.

So Ray went into partnership with the McDonald brothers and the first new McDonald's restaurant was opened in 1955 in Des Plaines, Illinois, USA. The restaurant is now a McDonald's museum.

In 1965 McDonald's went public on the stock exchange. A hundred shares bought on that day costing \$2,250 would now be worth over \$2.8 million!

The 'Big Mac' was introduced in 1968 by Jim Delligati, a franchisee who operated a dozen restaurants in Pittsburgh.

In 1979 the 'Happy Meal' was created to make children's visits more special, and now there are clubs all over the world that collect the toys and boxes.

In 1994, 15,000 people queued up on the opening day of Kuwait City's McDonald's. The drive-thru line was seven miles long.

For more information on McDonald's visit www.mcdonalds.com

Company of the Month: SokLok



In Company of the Month we have examined many big companies. This month we are examining a very small business. The business has basically one product. The company is controlled by Paul Anderson, the inventor of the product.

First of all, let's examine the information we can find about the product and the business from the web site - [click here](#). Read the home page and look at the links to other pages.

Answer these questions:

- What is the product?
- What is it for?
- How much does it cost? (for 5 SokLoks)
- Is the web site selling the product to customers or to resellers?
- When was the SokLok company started?
- Has SokLok been granted patent approval for the product?
- Is SokLok only a UK company or they have offices in other countries?

Discuss

Have you got any SokLoks at home? Would you buy a packet of SokLoks? Why? It provides a solution to a problem – what is the problem?

Do you think many customers would buy SokLoks from this web site? Why / why not? Would supermarkets, local shops, or wholesalers distribute this product? Why / why not?

Think about the business potential of the product

Would it be better to manufacture SokLoks [a] in small quantities [b] in large quantities? Why / why not?

If it is only cheap to manufacture SokLoks in large quantities, how could you sell them in large quantities?

If you can't sell them quickly, you will have a lot of your money (capital) tied up in unsold stock. Why might this be a problem?

Think about the packaging

Click on ORDER ONLINE NOW! and look at the online catalogue.
Click on MIXED COLOURS. How many different packages do they sell?
Click on SINGLE COLOURS. How many different packages do they sell?

What is the total number of different packages they must keep in their warehouse? Considering the likely profit margin on the sale of each package, is this too many or too few?

What could be the advantage of having packets of mixed colours and packages of single colours?

Larger quantities of SokLoks appear to be packaged in a simple paper roll like sweets. What other types of package could also work for this product?

Is the packaging cost likely to be more than manufacturing cost of the product contained in the package? If so, could this be a problem for the business? Why?

Discuss

If you were a business consultant, how would you suggest that SokLok should change its business? (Remember the product is already more than ten years old.)

A **patent** is a document issued by the Patent Office of a government giving someone the right to make or sell a new invention for a certain number of years. A patent protects the inventor (or the owner of the patent) because it prevents other businesses from copying or imitating the invention.

A patent is the technological equivalent of copyright of words or music which is represented by the © symbol in books, newspapers and magazines.

A patent is always limited to a certain number of years. After the patent has run out (come to the end of the protection period) the original manufacturer can continue to make and sell the product, but other companies can copy the product.

Discuss

Is patent protection good for business? Does it encourage innovation and creativity? Is patent protection good for customers? Does it encourage low prices?

In Africa and other parts of the world infected with AIDS and other serious diseases, treatment is difficult and expensive because important drugs are patented by expensive international drug companies. Should smaller drug companies be allowed to copy these important drugs even though they are protected by patents?

Company of the month: Amazon.com

Read the article below on Amazon.com. Don't forget, just double click on any word and the web dictionary will give you a definition

Before you start reading...

1. How often do you read a book or newspaper? How often do you use the Internet?
2. Which activity do you prefer doing?
3. What are your opinions about shopping online?
4. Do you think people will ever stop reading books completely and will do all their reading via the Internet?

Read this text to find the answers to these comprehension and vocabulary questions. You can use the Longman web dictionary to help you.

Comprehension questions

1. Who started Amazon.com and where and when did he start it?
2. What are the two reasons that investors thought Amazon would fail when it started?

Vocabulary Questions – find the word or phrase from the text to complete these sentences.

3. Fxxxx sxxxxxxxxxxxx pxxxxxx is where the price of a product is definite and does not change when sold in different places.
4. If someone or something has pxxxxxxx, it means it has a natural ability or quality that will make it successful (although it might not be successful yet).
5. Pxxxxxx refers to the way people do a particular task or activity e.g. Bill does business very differently, he has some unusual business pxxxxxxs.
6. Cxxxxxx are people you know who might be able to help or advise you.
7. If you are dxxxxxxxxx, you no longer have the confidence you need to continue doing something.

Introduction

Many people thought that the Internet would cause the death of the Book. For generations, the Book has been the medium for storage and communication of ideas. Many people suggested that the Internet would become the new medium for storage and communication of ideas. All the books produced over the past hundreds of years would be converted to web pages and the traditional paper book would disappear.

It is strange that one of the first successful e-commerce businesses, Amazon.com, should have started by selling books, hundreds of millions of books.

What is e-commerce?

MAIL ORDER

The enormous geographical distances in the USA created the first examples of 'catalogue shopping'. In the 1890s the Sears, Roebuck catalogue sold everything from tin openers to grandfather clocks, from the latest hats to agricultural machinery. Sears, Roebuck introduced the idea of fixed standardised pricing. This was important when the buyer was perhaps 10,000 miles from the seller.

E-COMMERCE

E-commerce can be seen as a development from catalogue shopping. The major difference being the speed of electronic communication and use of debit and credit cards for payment.

A few years ago it seemed unimaginable that people would buy airline tickets, music CDs, books, insurance policies, investments and even houses and perfume through the Internet.

In this month's 'company of the month' we look at one of the first people to recognise and exploit the potential of e-commerce, Jeffrey Preston Bezos of Amazon.com.

The Story of Amazon.com

As we have seen in other companies, very often the company is created by the enthusiasm of a singular individual. We have seen Stelios Haji-Ioannou from easyJet, Masuru Ibuka and Akio Morita in the Sony Corporation, Bill Gates in Microsoft. Amazon.com is the child of Jeffrey Preston Bezos (pronounced bay-zos).

In the early 1990s, most people did not believe in the future of e-commerce. They did not believe that people would change their traditional retail practices. Yet in book selling, one of the oldest and most traditional forms of trade, Amazon.com established its first success.

In the summer of 1994, Bezos left his well-paid job in a New York City investment firm and drove across the USA to Seattle and started what he believed would be a good business. When he left New York he did not have a plan. By the time he arrived in Seattle he had an idea to sell books over the Internet. Investors thought he was crazy.

WHY DID INVESTORS THINK BEZOS WAS CRAZY?

Investors had very good reasons to think that Bezos would fail.

Firstly, he had no experience of book selling – no knowledge, no network of contacts. Secondly, book selling is a very traditional business. Customers like to search the shelves of their local bookshop. They want to ask the opinions of the bookshop staff. They like to be able to touch a book, feel its weight, flick through its pages. Book buyers were frightened of the Internet and particularly frightened of typing their credit card numbers into the Internet.

HOW DID BEZOS RESPOND?

Bezos was not discouraged by the investors' reaction. He was convinced it would work.

One of his great strengths is that he knows what he does not know. Bezos hired people with good knowledge of the book business. He hired excellent computer programmers and web site designers. He hired financial experts who would make online buying a simple and secure process.

Bezos created a web site which was more than a simple catalogue and price list. The web site included reviews of the books written by other customers. The web site suggested alternatives and recommended other books on the same topic. The web site became as 'user-friendly' as a traditional bookshop.

HOW DID BEZOS EXPAND?

As the first orders for books began to arrive, Bezos began to understand that amazon.com was more than just a bookshop, it was a new buying location. Very quickly Bezos added CDs, videos and DVD movies and videogames to his catalogue.

Answer key

1. Amazon.com was started by Jeffrey Preston Bezos in 1994 in Seattle
2. Investors thought Amazon would fail because Bezos had no experience in book selling, and book selling was a very traditional business.
3. Fixed standardised pricing
4. Potential
5. Practice
6. Contacts
7. Discouraged

Company of the month: easyJet

Read the article below on easyJet. Don't forget, just double click on any word and the web dictionary will give you a definition.



Before you start reading...

1. How often do you travel by plane?
2. Do you usually travel domestic, short-haul or long-haul routes?
3. How do you feel about the cost of the ticket?
4. How do you feel about the service you get?

Read this text about easyJet. Use the Longman web Dictionary to help you.

Introduction

easyJet, one of Europe's leading low-cost airlines, has recently bought Go, the low cost airline created by British Airways, for £374 million.

Is this yet another sign of the fundamental changes taking place in European air transport? Is this going to change the 'luxurious' image of air travel which has existed since the 1930s?

Background

LEGAL BACKGROUND

easyJet owes its existence to the development of 'open skies' in Europe. Before 1987 European air travel was effectively carved up by the national flag-carriers which considered the air routes between major European cities to be their own permanent fiefdoms.

Under the old regime flying schedules, fares and even the number of passengers that each national airline could carry were negotiated between governments in highly uncompetitive 'bilateral' agreements. Competition from other airlines was almost unheard of. It is no coincidence that the concept of air travel as the preserve of the rich and famous is a hangover partly from this era.

That was all changed when the European Commission introduced its three-phase ten-year reform process in 1987. Today any airline holding a valid Air Operators Certificate in the European Union cannot be prevented from operating on any route within the European Union, including flights within another country.

Try this exercise before you read on...

Find the word or phrase from the text to complete these sentences.

1. British Airways, Air France, Alitalia and Lufthansa are all nxxxxxxx fxxx-cxxxxxxx.
2. A fxxxxxx is the area of land ruled by lord in ancient times.
3. A rxxxxx is a system of government or control.
4. A pxxxxxxx refers to an activity which is only suitable or allowed for a particular group of people.
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THE BIRTH OF EASYJET

easyJet started in March 1995 with low-cost flights from London's Luton airport to Glasgow and Edinburgh in Scotland supported by an advertising campaign "Making flying as affordable as a pair of jeans - £29 one way". After adding another route to Aberdeen (also in Scotland), easyJet began its first international service to Amsterdam. Routes to Nice and Barcelona were added before the end on 1996.

In April 1997 easyJet launched its website, easyJet.com to provide information about the airline and in the following year to take online bookings. This has been an enormous success. Now nearly 90% of all passenger bookings are made online.

In 1995, the first operating year, easyJet carried 30,000 passengers. In 2001, the passenger numbers had increased to 7,664,000 giving the company £40,100,000 profit on a revenue of nearly £357million. Now easyJet has purchased Go with 4,270,000 passengers. This will give easyJet a total of nearly 12million passengers per year.

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6. A cxxxxxxx is a series of actions intended to achieve a particular result.
7. Something which you have enough money to buy can be described as axxxxxxxxx.
8. Do you know the rxxxx from Aberdeen to London by road?
9. Many people prefer to buy oxxxxx rather than go to shops.
10. The government collects a lot of rxxxxxx through taxes on petrol.

WHO IS BEHIND EASYJET?

easyJet was started by a young 28 year-old entrepreneur. It operates in a relaxed 'no ties', informal, paperless office. But this is not a 'rags-to-riches' story. easyJet was founded by Stelios Haji-Ioannou, the son of a family of Cypriot origin who own Troodos shipping. Stelios, whose first venture was Stelmar Tankers which operates 36 tankers, follows in the tradition of Greek shipping magnates like Aristotle Onassis.

easyJet is largely owned by members of the Haji-Ioannou family. They are reported to be planning to sell shares in the company to raise £100 million but this will still leave them with a controlling interest in the company.

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14. Bill Gates, the co-owner of Microsoft is a software mxxxxxx.
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Business characteristics

The success of easyJet is based on some basic business characteristics which save costs, whilst continuing to appeal to the flying public.

- The use of the internet for online booking and issuing of travel vouchers saves enormous fees normally paid to travel agents. The easyJet.com web site is open for business 24 hours a day, 365 days a year.
- easyJet sells one-price, one-way tickets, giving passengers greater flexibility, not forcing them to spend a 'Saturday night away' in order to get a discount. For an administrative charge of €16 (£10) passengers can change their bookings without any further penalty.
- easyJet focus on the 'short-haul' travel business and only use the 149 seat Boeing 737 aircraft. This specialisation maximises the utilisation of this fleet, whilst reducing maintenance costs.
- easyJet uses smaller, less congested airports where landing charges are lower and turnaround times are faster.
- easyJet does not offer free in-flight food or drinks. Snack food and drinks can be bought before or during the flight.

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The future?

What is the future for short-haul air traffic? Is there a place for the traditional government-backed flag-carriers? Is the easyJet low-cost model going to spread world wide? What do you think?

Key

1 national flag-carriers 2 fiefdom 3 regime 4 preserve 5 phase 6 campaign 7 affordable 8 route 9 online 10 revenue 11 entrepreneur 12 rags-to-riches 13 venture 14 magnate 15 shares 16 voucher 17 fee 18 penalty 19 short-haul 20 congested

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Company of the Month: HMV

HMV is the UK's premier retailer of music, videos and computer games, with over 75 years of trading history and more than a 100 stores around the country.



The HMV brand, made famous by the instantly recognisable dog and trumpet trademark, has also been successfully exported around the rest of the world, with a further 200 stores in the USA, Canada, Australia, Japan, Hong Kong, Singapore, Germany and Ireland.

For the whole period of its trading history HMV had been a part of the EMI Group, but in March 1998 it was sold to form a new retail concern, the HMV Media Group – which also comprised of Waterstones and Dillons bookstores.

In the beginning

The story of HMV as a retail brand began in July 1921, when the renowned British composer, Sir Edward Elgar, officially opened the HMV store at 363 Oxford Street in London. The store was the first to meet the growing demand for recorded music.

The early years

No other record retailer can claim such a significant role in shaping the way music progressed from concert hall to the home. HMV also played an important part in the new youth culture that grew from the rock 'n' roll explosion. For example, when Beatles manager, Brian Epstein, visited the store to have more demo tapes made in its recording studio, it was Jim Foy, one of the HMV technicians, that alerted EMI's George Martin, the Beatles' legendary producer; the rest is history.

In the early years HMV was THE name in music retailing, and the sixties was a period of growth when fifteen new stores were opened in Greater London and the South East, then again, in the seventies, when a further twenty stores were opened around the rest of the UK.

With the arrival of video and, more recently, computer games, the sizes of new HMV stores have been growing, increasing the demand for trading space. In 1998 HMV opened its flagship store at 150 Oxford Street in London. At 50,000 sq. feet of trading space, the Guinness Book of World Records at the time listed it as the world's largest record store.

HMV continues to expand, not only in the UK, but around the rest of the world.

Interesting fact

HMV stands for His Master's Voice – referring to the Jack Russell dog listening to his master's voice coming out of the gramophone trumpet, the symbol of the company.

For more information on HMV, go to the HMV website at www.hmv.co.uk

Company of the Month: Kodak

'Learning from success'

Early business principles

What can we learn from looking at the histories of successful companies? In the case of Kodak (more correctly Eastman Kodak) we can see the value of formulating good business principles from the very beginning. Care for the customer and for employees is not a 'luxury' to be adopted when the company can afford it. These principles are fundamental to the growth and success of the business and need to be established at the beginning.



The story of Eastman Kodak also tells us something about how companies need to react to new technologies. The history of business is littered with stories of companies which have crumbled and failed through changes in technology or in markets. The story of Eastman Kodak is a story in which technological change is not seen as a threat, it is embraced and welcomed because it offers new opportunities.

Today, Eastman Kodak ranks as a premier multinational corporation and one of the 25 largest companies in the United States.

Early beginnings

In 1879, London was the centre of the photographic and business world. Photography had started in France with Nicéphore Niépce's first photograph from nature in 1826.



These ideas were soon taken up by Daguerre with the patenting of the Daguerrotype system of photographs on metal plates. In Britain, Henry Fox Talbot developed a system of producing photographs on glass plates which could then be printed on paper. In 1844, the first photographically illustrated book 'The Pencil of Nature' by Henry Fox Talbot was published by Longman

in London. Lewis Carol, the author of *Alice in Wonderland* was an early photographer.

In 1879, George Eastman travelled to London to patent a machine for making glass photographic plates. Two years later, with a business partner, Henry A Strong, he formed the Eastman Dry Plate Company. In 1883 Eastman startled the photographic world with the first 'rolls' of film. In 1888, he launched the first 'Kodak' camera which was pre-loaded with enough 'film' for 100 exposures.

Today, we think of the 'disposable camera' as being a modern invention, yet the first Kodak was launched with the slogan '*You press the button, we do the rest.*' The Kodak camera cost \$25. When the customer had used the 100 exposures, the whole camera was returned to the company where prints were made and a new film inserted in the camera. The 100 prints and newly preloaded camera were returned to the customer for the price of just \$10!

Eastman had four basic principles for business:

- mass production at low cost
- international distribution
- extensive advertising
- a focus on the customer.



Eastman saw these four principles as being closely related. Mass production could not be justified without international distribution, which, in turn, needed the support of strong advertising. From the beginning, he gave the company the belief that fulfilling the customers' needs and desires is the only road to corporate success.

Eastman added further policies to these business principles:

- foster growth and development through continuing research
- treat employees in a fair and self-respecting way
- reinvest profits to build and extend the business.

By 1896, thirteen years after its launch, the 100,000th Kodak camera was produced, a success which speaks volumes for the power of good advertising when it is supported by a good product and customer service. In 1891, Eastman set up his first overseas factory and distribution centre in Harrow, England – just outside London. In 1900, Eastman had factories and distribution centres in France, Germany, Italy and other European countries. A factory in Japan was under consideration. In the same year, Eastman introduced the first 'Brownie' camera at a price of just one dollar!

Eastman Kodak was largely responsible for popularising the 'hobby' of photography and putting this technology into the hands of ordinary people.

Colour And Moving Pictures

Eastman had collaborated with Thomas Edison on the development of film, cameras and projectors for moving films. In 1923, Eastman made a simple clockwork-powered movie. In 1935 Kodachrome was launched as the first successful colour film for amateurs to make colour slides and 16mm movie films. In 1942, Kodacolor, the first true colour negative film (for making prints) was introduced.

Embracing Change

Traditional photography is based on the science of exposing light-sensitive silver halide salts to light. This basic chemistry remained the only way of producing images for many years. But new technologies started to challenge this basic industry.

The first was video, so Kodak started to produce and market video cassettes in 1984 in 8mm, Betamax and VHS formats. In the same year, they broke into another market which would become an even greater threat. They announced a full range of flexible floppy disks for personal computers.

The Digital Challenge

Today, many of us do not use traditional photographic cameras. We take pictures and video with digital cameras which do not require film or processing. We can print these pictures at home (and get remarkably good quality) and exchange pictures and moving images through the Internet and email attachments.

Kodak recognised and embraced this technological challenge as early as the mid-1970s. In 1985 they produced their first electronic publishing system. Since then, while the traditional photography business has remained strong, Kodak's research and development have produced still video cameras, digital printers, digital still and movie cameras and the Photo CD.

Kodak's 1999 annual report carried two cover slogans – 'Take Pictures Further' and 'You Press the Button. We Do the Rest', combining their current and original marketing messages. As the report said, 'The two statements were composed a century apart, but, taken together, they perfectly sum up Kodak's core philosophy: The promise of innovation. And the guarantee of simplicity.'

Company of the Month: ASA

ASA

Who controls advertising in your country?

In Britain the Advertising Standards Authority controls advertising. It is not a government agency, it is run and paid for by the advertising industry. But why do advertisers want their advertisements controlled?

If advertisements were allowed to tell lies, if, for example a product or service did not live up to the claims made about it in an advertisement, consumers may not buy that product or service again. The experience may also make consumers doubt the trustworthiness of all advertising. However, if people trust what they are told in ads, they will be more willing to buy goods and services being advertised.

In the years before the Advertising Standards Authority many advertisements made false claims and false promises. A famous case was in 1893 with the Carbolic Smoke Ball Company.



Their advertisement claimed that the Carbolic Smoke Ball would prevent you from catching influenza. It supported this promise with an offer of £100 for anyone who caught influenza after using the Carbolic Smoke Ball. In a famous case, Mrs Carhill caught influenza after using the ball and claimed the £100 (a lot of money in those days).

The company then claimed the advertisement was not a serious offer and refused to pay the reward. But Mrs Carhill took the company to court, which decided she was right and said the advertisers had to pay the money.

This case set the precedent for much of the consumer protection law in relation to advertising that exists today.

The ASA is concerned with advertisements which do not tell actual lies, but also with advertisements which are misleading. For example, a company which make a fruit drink called Ribena produced a special low-sugar version which it called Ribena Tooth Kind.



In response to complaints that this ad misleadingly implied the product benefited oral hygiene, the advertisers sent the ASA evidence they said proved the product contained natural fruit sugars, that it was lower than ordinary soft drinks in fruit acids, and that it had been formulated to minimise the impact of acid on dental tissue loss. The advertisers said they added calcium, which combined with fruit acids to help reduce the risk of the acid attacking tooth enamel.

After taking expert advice, the ASA concluded that this poster, and in particular the image of Ribena Tooth Kind instead of tooth brush bristles, without a qualifying statement, wrongly implied Ribena Tooth Kind actively benefited oral health. (Clause 7.1)

There are basically four reasons why people advertise which can be summarised by the acronym "DRIP":

Differentiate a company's products from those of their competitors.

Reassure and remind consumers of the benefits of the products or services.

Inform people about an advertiser's products, services or cause.

Persuade people that they should believe what they see in the advertisement and to take action in light of it.

What happens when advertisers break the rules?

ASA research and statistics show that the vast majority of advertisers produce honest and decent advertisements. If the ASA receives complaints about an advertisement it is usually amended or withdrawn. Those that do not may be subject to sanctions. For example, adverse publicity may result from the ASA's rulings, which are published each week on its website www.asa.org.uk. The media may deny space in their publications, poster sites or cinemas. It is never in a publisher's interest to have their readers misled or offended by something in their publications.

But the Consumers Association in Britain, in their December 2004 magazine *Which?* (www.which.co.uk) complained that the ASA were not powerful enough to ban false advertisements or to impose fines on advertisers who broke the rules.

What do you think?

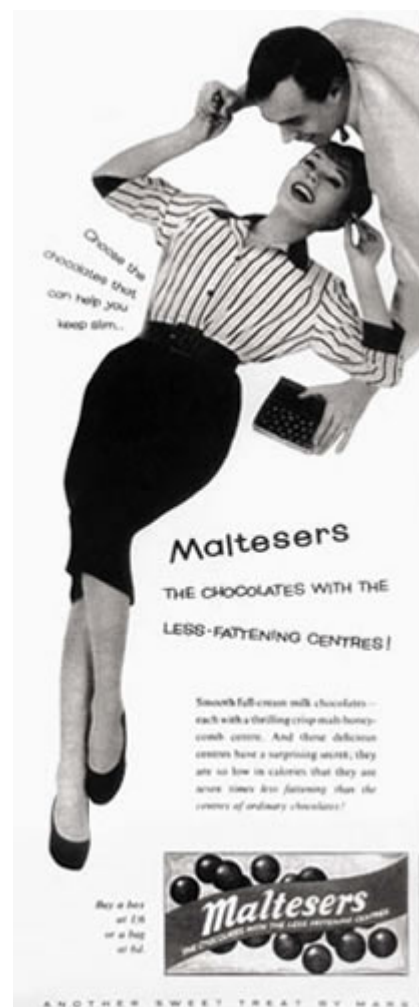
Activity

Look at the advertisement below and answer the questions.

- :: From the design and clothes when do you think this advertisement was published?
- :: Which claims does the advertisement make?
- :: What further ideas does the advertisement suggest?
- :: Do you think the ASA objected to this advertisement?
- :: Would this advertisement be allowed in your country?

Discussion

- :: Does anyone control advertising in your country?
- :: If so, who?
- :: Who pays for these controls?
- :: Who sets the standards?
- :: What happens to advertisers who break the rules?
- :: How well does the system work in your country?



Answers - Check your understanding

Are these statements true or false?

1. The ASA is part of the British Government.

False. It is not a government agency.

2. Advertisers pay for the work of the ASA.

True. It is run and paid for by the advertising industry.

3. The Consumers Association publish a magazine called *Which?*

True. But the Consumers Association in Britain, in their December 2004 magazine *Which?* ...

4. People would stop trusting advertisements if they told lies.

True. If advertisements were allowed to tell lies, if, for example a product or service did not live up to the claims made about it in an advertisement, consumers may not buy that product or service again.

5. The Carbollic Smoke Ball Company said it could cure influenza.

False. The advertisement claimed you would not catch influenza.

6. Mrs Carhill got £100 after her court case.

True.

7. Ribena said their product was good for your teeth.

False. They did not say this. But they suggested that Ribena Toothkind was like using a toothbrush.

8. The ASA objected more to the picture than the words in the Ribena advertisement.

True because the picture contained the suggestion.

9. Advertisements should show that a product is different from other products.

True. Advertisements should differentiate a company's products from their competitors.

10. The Consumers Association thinks that the ASA is too powerful.

False. The Consumers Association thinks the ASA is not powerful enough to ban false advertisements and fine advertisers who break the rules.

Activity

1. From the design and clothes when do you think this advertisement was published?

Late 1950s.

2. Which claims does the advertisement make?

Maltesers are less-fattening.

3. What further ideas does the advertisement suggest?

Maltesers will make you slim, beautiful and attractive.

4. Do you think the ASA objected to this advertisement?

Yes.

Have a look at previous '[Company of the Month](#)' articles.

Company of the month: The MAFIA



The Mafia as a Business Organisation

The Mafia is an unusual choice for 'Company of the Month' since the company does not officially exist. It has no shareholders and is not quoted on the Stock Market. However, no one would deny its power.

The Mafia is a loose name given to many different organisations, some involved in international trade, some operate within national borders. The Mafia is involved in many different industries including many legitimate businesses like building or transport, other semi-legitimate businesses such as banking, gambling and insurance, and many illegitimate businesses such as drug running and prostitution.



Traditionally, Mafia organisations have a very rigid structure. The organogram of a Mafia 'family' places the 'Capo di tutti capi' (Boss of all the bosses) at the top. The next level of management contains four department heads: the Consigliere (advisor or counsellor), the Capo Bastone (underboss or second in command), the Contabile (accountant) and one or more Caporegime (Lieutenants). Below this level are the Sgarristas (foot soldiers) who carry out the day-to-day business of the organisation.

Below the Sgarristas are the Piciotti (lower-ranking soldiers or enforcers).

This apparently rigid structure is held together with strongly enforced bonds of honour and loyalty. This has five key elements:

1. Omerta: The code of silence; a promise not to reveal any Mafia secrets or members even under threat of torture or death.
2. Total obedience to the boss (the 'Don' or 'Godfather'.)
3. Assistance to any person or organisation allied to the Mafia.
4. Revenge for any attack on members of the Family because an attack on one is an attack on everyone.
5. Avoid any contact with civil authorities.

In spite of the relatively old-fashioned and rigid structure of these organisations, they have been highly successful in operating as international corporations or large and small national and local businesses according to the economic opportunities of the time. It is largely this flexibility which has allowed the organisation to endure and prosper.

International links

From very small beginnings on the island of Sicily in the Mediterranean, the Mafia now has important organisations throughout Eastern and Western Europe, in the United States, and it has links to the Yakuza in Japan, the Chinese Triad groups like the Sun Yee On, and Colombian drug cartels such as the Cali.

Although these different criminal organisations have different reporting lines and managements, they trade in much the same way as legitimate businesses.

History: Origins in Sicily

The island of Sicily has been occupied by foreign powers throughout its history. The Mafia was born when Sicily was under French rule. The oppressed Sicilians formed various secret societies whose aim was to protect the people and expel the French rulers. Their battle cry was 'morte alla Francia Italia anelia' (death to the French is Italy's cry) and from the initial letters of these words the name MAFIA was born.

These secret societies in the hills of Sicily were struggling not only to expel the French but also to protect and feed the people of Palermo and surrounding areas. Indeed, we can see similarities between the origins of the Mafia and the birth of mutual insurance companies and trade unions. The Mafia was a benevolent society which needed to remain secret because of the French occupation. This was an honourable society whose members believed totally in the cause and were willing to die to protect each other. But the Mafia did not continue as a purely benevolent group for very long.

By the 19th century the Mafia had become a large crime organisation. At first their major crime was extortion in exchange for 'protection'. The Mafia would send 'Black Hand' notes to wealthy people asking politely for money in exchange for 'protection' of themselves, their property and businesses. Those who did not pay the request 'insurance premiums' would usually become victims of violence such as 'accidental' fires. If they continued to refuse to pay, they, or more frequently members of



their family, were murdered. Although the Mafia used these violent means to collect their 'taxes', they usually tried to avoid destroying the businesses which were feeding them.

In 1876 a Mafia Don, Raffaele Palizzolo, decided to become a member of the Sicilian Parliament. He arranged for his colleague Don Crispi to become Prime Minister and later he made another colleague, Emanuel Nartarbartolo, the director of the Bank of Sicily.

During this same period, the first wave of Sicilians emigrated to the USA and soon the Mafia was operating in many American cities.

During the 1920s and 1930s, Benito Mussolini's Fascist Government attempted to destroy the Mafia in Sicily but this caused the Mafia to spread to other parts of Italy and to the United States. When the American army invaded Sicily in World War II, they worked closely with the Mafia because it was the only effective 'government' in operation.

Today, the Mafia still operates in Sicily despite the work of brave men like Leoluca Orlando, the charismatic Mayor of Palermo. Some Sicilians will privately admit that they still pay 'double taxes'. One tax is paid to the Italian Government in Rome, the second to the Mafia.

History: The Mafia in the USA

Although it is a fictional story, Mario Puzo's 'The Godfather' tells a very accurate story of the Mafia's operations in the USA. Once again, the Mafia grew from humble origins amongst the Italian immigrant communities but became powerful in major industries, trade unions and politics.

The Mafia is always quick to identify a new business opportunity. When in the 1920s, the US Government made illegal the manufacture, transportation and sale of alcohol, the Mafia saw a great business opportunity. Mafia bosses, like Al Capone in Chicago, started complex operations first importing and later manufacturing alcoholic drinks for secret sale in 'speakeasy' bars.

Jimmy Hoffa, the leader of the Teamsters Union (of truck drivers), was said to be a member of the Mafia. He mysteriously disappeared in 1975. Some people claim that he is still working in the transport industry as part of one of New York's bridges!

Conclusions

There are secret societies in most countries of the world. In the past they were run by honourable leaders. Later they fell under the control of poorly educated but violent criminals. Today Mafia bosses need the same business skills as the leaders of major international corporations. The difference is that they do not usually have 'an attractive retirement package'.

Comprehension

1. What is the job of a Consigliere in a Mafia Family?
2. What is 'omerta'?
3. Why does the writer praise the Mafia for their flexibility?
4. What do the letters M.A.F.I.A. stand for?
5. How was the Mafia like a benevolent society?
6. Would you be pleased to receive a 'Black Hand'?
7. Why did the US army work with the Mafia in 1943?
8. Who wrote 'The Godfather'?
9. How did the US Government offer the Mafia a business opportunity in the 1920s and 30s?
10. What happened to Jimmy Hoffa?

Company of the Month: Marks & Spencer



Marks & Spencer has been a leading retail outlet for clothing in Britain for more than 80 years. There is a Marks & Spencer store in nearly every large town in Britain and since 1975, Marks & Spencer stores have opened in major cities around the world.

The Early Days

In 1884, Michael Marks, a refugee from Russia hired a market stall in Leeds selling clothes. Ten years later, in 1894, Michael Marks formed a partnership with Tom Spencer, a cashier with a wholesale company. In the 1920s Marks & Spencer introduced the then revolutionary policy of buying clothes directly from the manufacturers. For the first time, a major retailer commissioned manufacturers to produce specific designs of clothing which were then sold under the retailer's name.

At this time, most families made their own clothes. They could not pay tailors to make their clothes and so wives and daughters were required to sew and knit the clothes for the family. Clothes were expensive, so they were passed from one family member to another. If necessary they were enlarged ('let out') or reduced ('taken in'). If the fashion changed, the clothes would be re-modelled to approximate to the current fashion. If the clothes became damaged or worn, they would be repaired.

Marks & Spencer changed these habits. For the first time they made 'ready-to-wear' clothes which were cheap enough for the average family to buy. But the old ideas do not change quickly. Marks & Spencer's customers valued clothes which were of good quality and would last for many years.

Marks & Spencer do not make clothes. They produce designs and find manufacturers to make them at an agreed price. Marks & Spencer quickly gained a reputation.

In 1926, Marks & Spencer Limited became a public company.

Continued Expansion

In 1928, the company registered their 'St Michael' trademark. The company built a reputation for clothes which were reasonably fashionable, of reasonable quality and at a reasonable price.

In the 1930s the company continued to grow. Their flagship store in Oxford Street opened in 1930 and the following year they introduced their first food department. Through the Second World War, when all clothing was rationed, the government used M&S expertise to supply clothing of reliable quality at good prices.

Worldwide Expansion

In 1975, Marks & Spencer opened stores in Paris and Brussels. Since that time stores have been opened in many other countries in Europe, Asia, the Middle East, Canada, Australia, and last October announced plans to open stores in Russia.

The company has also expanded the range of services it offers to clients. The food department in many stores is particularly popular. In addition they offer insurance and other financial services.

Through their website at <http://www.marksandspencer.com> they now sell goods online.

Recent problems

Recently, the whole retail trade in Britain has been experiencing difficulties. M&S has been hit with dramatic reductions in sales and profits. They are currently restructuring their business and spending money on TV advertising to re-focus their image.

But Marks & Spencer is still at the centre of British life along with Boots, W. H. Smith and other large retail chains.

Company of the Month: Marks & Spencer (2)



When we first looked at Marks and Spencer in 2001, it was a very successful and much-loved British high street retailer, noted for the economically-priced but good quality clothes it sold. The company were expanding into different business areas, such as insurance, and, at the same time, attempting to expand its business outside Britain.

Background

Marks and Spencer plc (known also as **M&S**) is a major British retailer concentrating on clothing and food. They also have international outlets.

Marks and Spencer made their reputation in the 20th century on a policy of only selling British-made goods, relying on quality rather than price to encourage custom. During the 1980s and 1990s, they started buying more clothing from cheaper suppliers outside Britain. *Marks and Spencer* began to lose market share. Financial troubles and their inability to appeal to younger customers did not alter the general trend. However, in 2001, with changes in their business focus such as the introduction of the "Per Una" clothing range designed by George Davies, accompanied by a redesign of their underlying business model, profits rose sharply and *M&S* recovered much of its market share. Other changes to tradition included accepting credit cards and opening their stores on Sunday occasionally.

They attempted to break into the US market, and also into the French market. This latter was particularly unsuccessful, and eventually they were forced to close all their French stores, though because of the legislation set in place by the French government to protect their labour force, this was a costlier exercise than the Marks and Spencer management anticipated.

Developments

As we can see *Marks and Spencer's* success was based on its dominant position in a particular segment of the retail market. In recent years, *BHS* (formerly British Home Stores) has become a major player in this same segment. *Top Shop*, *Next* and *The Gap* started by targeting the young end of the clothing market. As their young customers aged, they remained faithful to these outlets, rather than moving their custom to *Marks and Spencer*.

Tesco, the supermarket chain, started selling clothing for children and adults, and many families started to buy their clothes in the same store where they bought milk, eggs and pizza. They stopped making special journeys to *Marks and Spencer*.

M&S failed to respond adequately to this increased competition. As a result, its market image became middle-aged. Customers perceived that wearing *M&S* clothing would mark them as being old-fashioned, unimaginative and unambitious.

M&S still have 10 million customers every week but these customers are buying less. The *M&S* customer profile is getting older and older, and, as we all know, older customers spend less money on new clothes than the young.

The Take-over battle

Philip Green has been the leading figure in the British retail sector in recent years. He was the architect of development of BHS. Arcadia, Philip Green's retail group also includes *Top Shop*, *Dorothy Perkins* and *Miss Selfridge*.. During the summer of 2004, Philip Green, one of the richest men in Britain, attempted a 9 billion pound take-over of *Marks and Spencer*. This attempt failed. *M&S* appointed Stuart Rose (previously Chief Executive of the Arcadia Group) as the new Chief Executive of *Marks and Spencer*.

What happens now?

At the same time as Marks and Spencer announce a continuing decline in sales, Philip Green announces a 30% increase in profits. The most exciting battle in the British High Street continues.

Exercises

1 Check your understanding of the following words and expressions.

retailer	market share	legislation	segment
dominant position	major player	competition	customer profile

2 Read the following extracts from the text. Which developments were good for Marks and Spencer and which developments were bad?

- a. noted for the economically-priced but good quality clothes
- b. relying on quality rather than price to encourage custom
- c. began to lose market share
- d. inability to appeal to younger customers
- e. profits rose sharply
- f. this was a costlier exercise than the Marks and Spencer management anticipated
- g. dominant position in a particular segment of the retail market
- h. they remained faithful to these outlets
- i. started to buy their clothes in the same store where they bought milk, eggs and pizza
- j. market image became middle-aged
- k. would mark them as being old-fashioned, unimaginative and unambitious
- l. The *M&S* customer profile is getting older and older
- m. older customers spend less money on new clothes than the young
- n. attempted a 9 billion pound take-over
- o. a continuing decline in sales

Groupwork

What would you advise Stuart Rose, the Chief Executive of Marks and Spencer to tell the Board of Directors?

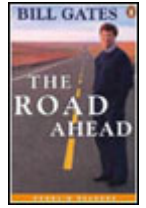
- a. They should sell M&S to Philip Green?
- b. They should try to sell M&S to someone else (e.g. Tesco)?
- c. They should abandon their older customers and attempt to get younger customers?
- d. They should reduce all their prices by 25% to get back their market share?
- e. They should increase their prices by 9% to get more profits?
- f. Another idea?

Have a look at previous '[Company of the Month](#)' articles.

Company of the Month: Microsoft

It is fitting to choose Microsoft as our company of the month because it is celebrating its 25th anniversary. It is strange to think that one of the richest and most powerful businesses in the world is only 25 years old.

But the story of Microsoft is not just unusual for its rapid success. In the past great fortunes have been made by making things which people wanted to buy. Microsoft does not make things – well not things which you can touch and see. Microsoft makes and sells ideas.



The beginning

Early in 1975 Bill Gates and his friend Paul Allen, both undergraduates at Harvard University, ordered a 'personal computer' called the MITS Altair 600 from Popular Electronics magazine. When it arrived they had to assemble the different parts and try to make it work.

In less than one month, Bill and Paul had written their first computer language, BASIC, and sold it to the manufacturer MITS. One month later, Paul Allen was appointed Director of Software at MITS.

Bill Gates and Paul Allen formed a partnership under the name Microsoft.

By July 1975, they had already developed version 2.0 of their BASIC software.

Two years later, Microsoft published its second computer language, which was called FORTRAN-80, and by the end of 1978 Microsoft's annual sales were more than \$1 million US dollars.

MS DOS

For the next few years, Microsoft produced further computer languages including COBOL and Pascal, but their big breakthrough came in 1981 with Microsoft MS-DOS, the disk operating system used by the new IBM PCs (personal computers). In 1983, we saw the first Microsoft word processing program, Microsoft Word. In the same year Microsoft announced Windows, an extension of MS-DOS which provided a graphical 'point and click' operating environment similar to the one developed by Steve Jobs for the Apple Macintosh computers.

Even though the early version of Windows did not work very well, most computer users were happy with MS-DOS. By 1985, Microsoft was celebrating its tenth anniversary and annual sales of \$140 million.

When shares in Microsoft became publicly available in March 1986 they raised \$61 million.

The following year, Microsoft Excel, a spreadsheet package for Windows was published. However, the basic Windows software was still having problems. These were not resolved until 1990 when Microsoft Windows 3.0 became available. In the same year Microsoft sales reached \$1.18 billion.

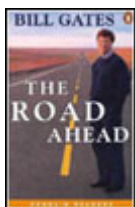
Over the following years, Microsoft continued to grow. By 1993 10 million people around the world were using Microsoft Word in its various versions.

In 1993 we saw the first Multimedia Encyclopaedia, Microsoft Encarta, produced on CD ROM.

Microsoft continued to develop new applications software including the internet browser called Internet Explorer.

Microsoft's critics

Many people in the computer world have pointed out that Microsoft have never been great innovators in software. Most of their best products have been developed from ideas created by others. The success of the company, they say, has been based on the public's need to use common software and Microsoft has frequently had to defend its business practices in the US courts.



Read more about Bill Gates and the ideas behind the Microsoft story in two books by Bill Gates [**The Road Ahead**](#) and [**Business @ the Speed of Thought**](#) which are available in simplified English from [Penguin Readers](#).



Company of the month: Nike

Read the article below on Nike. Don't forget, just double click on any word and the web dictionary will give you a definition.

There must be few people in the world who are not aware of the athletic footwear company, Nike. Since 1972, it has earned billions of dollars in the USA and around the world, selling footwear and later other items of clothing. Now the brand has been extended to watches and many other products.

Nike's success suggests that everybody loves Nike, but if you type the name into the search engine on your computer, you will find many sites protesting against Nike and calling for a boycott on Nike products. Most of these focus on the employment conditions in the factories where the footwear is made.

How does a company react to organised negative publicity? What would you do? What has Nike done?



Before you read on answer these questions:

- 1 What does Nike produce?
- 2 What do you associate with the 'brand' Nike?
- 3 Why do some people not love Nike?

The History of Nike

The origins of the company grew from the University of Oregon in the United States. American universities are fiercely proud of their achievements on the sports field. Promising athletes can win 'sports scholarships' which fund their university education whilst they represent the university teams. Universities hire the best sports coaches and build the best stadiums.

Bill Bowerman was one of the athletics coaches at the University of Oregon. With an ex-student athlete Phil Knight, he set up, in 1963, 'Blue Ribbon Sports' to import and market high quality / low cost running shoes from Japan.

A year later, Phil Knight had sold \$8,000 worth of shoes. By 1971 they had \$1million sales. They introduced the Nike name and the famous Nike 'swoosh' in 1972.

Nike is the winged goddess of victory according to Greek mythology. The 'swoosh' represents one of the wings of the goddess. The designer Caroline Davidson received \$35 for her work.

By the end of the 1970s Nike's sales reached \$270million and Nike was at the centre of the fitness revolution.

By 1996 sales were \$6.74billion and growing year by year.

Before you read on answer the following questions.

- 4 What is the position of sport in American universities?
- 5 Where did Blue Ribbon Sports import shoes from?
- 6 When did Blue Ribbon Sports become Nike?
- 7 What was Nike?
- 8 What does the Nike 'swoosh' represent?

What is the secret of Nike's success?

'The idea of exercise and game-playing ceased to be something the average American did for fun. Instead Americans turned to working out (exercising) as a cultural signifier of status.'

Nike shoes not only made you run faster, they made you look good, they made you a person of importance.

Nike is associated with success. It pays millions of dollars to the best athletes to endorse their products. From Michael Jordan to Tiger Woods, the world's top athletes promote Nike's products and millions of people buy Nike's products in order to share the success of their favourite stars.

Before you read on answer these questions.

- 9 How had the idea of exercise changed for Americans?
10 How did celebrities help Nike?

Why do the protesters say you should boycott Nike?

The manufacture of clothing and in particular footwear requires a large amount of low-skilled and semi-skilled human labour. This means that large squads of workers labour on production lines in factories.

Oxfam Community Aid Abroad claims that 'Nike has consistently moved production of its sneakers to wherever the wages are lowest and workers' human rights are most brutally repressed.' The production of Nike footwear began in Japan but soon the labour costs grew too high and the work was switched to South Korea . As South Korean workers fought for wage increases production moved again, this time to Indonesia and China . According to Nike's 2001 Annual Report 40% of the shoes were made in China , 31% in Indonesia , 13% in Thailand and 13% in Vietnam . The remaining 3% were made in Italy , South Korea and Taiwan .

The website 'Boycott Nike' says that 'Nike continues to treat its labour problem as a matter of public relations.' In Indonesia in July 2001, entry-level workers earned slightly more than the legal minimum of \$2 per day.

People choose to work in Nike factories because the alternatives are even worse. Most of Nike's contract factories are located in countries marked by extreme poverty, high unemployment and extensive malnutrition.

Protesters would like some of the millions of dollars Nike spends on advertising, marketing, and sponsorship of celebrity athletes spent on the workers who actually make the products.

Before you read on answer these questions.

- 11 Where do Nike produce their shoes now?
12 Why have they chosen those places?
13 What would protesters like Nike to do?

How have Nike reacted?

Nike have tried to draw attention to their sponsorship of sports events, education and community projects in their main market - the USA . They have also begun to promote themselves as ecologically friendly by producing a shoe with no PVC. Nike proudly presents itself as a member of the Fair Labor Association but this organisation does not monitor the conditions in factories.

Before you read on answer these questions.

- 14 How have Nike reacted to these protests?

Is there a solution?

Some economists argue that these bad working conditions are a normal stage at the beginning of industrialisation of any country. They point to the working conditions in Britain at the beginning of the industrial revolution and similar practices in the USA , Mexico , Japan and other countries. Wages and working conditions improved in those countries because workers formed unions to push for improvements. Nike, the protesters say, is increasing locating its production in areas where genuinely democratic unions are illegal.

Conclusions

Is there an easy answer to this problem? Is the better health and greater fitness of Nike users paid for by the ill-health and poverty of Nike workers?

Discuss

1 Do you accept the arguments of the economists?

2 Can you think of other companies who have faced public protest? How have they reacted?

Company of the month: Sony

A major world corporation

The Sony Corporation is, today, one of the world's major corporations. Sony does everything. It makes Hollywood films, records and sells the music of the finest artists and manufactures everything electronic from computer games to video projectors.

Today, the Sony Corporation is rich and powerful, but it grew from small beginnings in the rubble and ashes of post-war Japan.

From Radio to Rice

In September 1945, Masuru Ibuka returned to Tokyo and began work on the third floor of a cracked bomb-damaged building. He set up the Tokyo Tsushin Kenkyujo, the Tokyo Telecommunications Research Institute, known as Totsuko. Soon Akio Morita (‘Mr Walkman’) joined the group.

After the war, the Japanese were hungry for news from around the world. Masura Ibuko and his group of young engineers repaired broken radios and manufactured shortwave converters. When connected to a standard medium wave radio, this converter made it possible to listen to the full range of short wave broadcasts.

In post-war Japan money was very short, and the radio engineers often received part payment in rice. This was welcomed because of the serious food shortages. Later Totsuko started to make an electric rice cooker. This was one of Ibuka's few technical failures as it usually produced either overcooked or undercooked rice.



In post-war Japan, imports were very expensive, so many companies produced ‘copies’ of imported goods. Ibuka was keen to go further than merely copying imported technology, he wanted to improve on it. At that time, primitive sound recorders made their recordings on metal wire. Totsuko developed one of the early recorders which used magnetic tape.

By 1956 the company's capital had grown from 190,000 yen to 100 million and the staff had grown to 483 employees. At this time, the company almost exclusively served the domestic market in Japan. A major customer was NHK, the Japanese National Radio broadcaster.

Gradually, new products began to be sold outside Japan. Amongst the first of these was the transistor radio. The ‘pocketable radio’, the TR-63, became popular in Japan and for export.

In 1961 Ibuka said ‘The days of radio are over. The future lies in television.’ Their first television sets were black and white, but Sony engineers were soon researching with colour televisions. As Ibuka said, ‘Sony is an innovator. We do things that no one has done.’

Their first success was with professional video tape recorders and later the development of the Sony Trinitron television tube. Later they developed the first (black and white) domestic reel-to-reel video recorders.

The Secret of Sony's Success

The continued success of the Sony Corporation has not been without failures, some of them expensive failures. But the senior management have consistently shown both vision and courage. The story of the Walkman illustrates these qualities.

After developing the compact tape cassette with Philips, Akio Morita had the idea that people would like a very small cassette player which played through headphones. The product was first released in Japan. It was called the ‘Walkman’ in Japan. The company planned different names in the export market; ‘Soundabout’ in the US, ‘Stowaway’ in Britain and ‘Freestyle’ in Sweden.



The immediate popularity of the product overtook the company's marketing plans. Tourists visiting Japan brought home Walkman players and as a result, the ‘Walkman’ name was known around the world before the other names could be launched.

The 'Walkman' was not the result of market research. Nobody knew if it would be successful. Many people were worried that the first Walkman could not record. Others said people would never be prepared to wear headphones. But despite all the criticisms, Akio Morita believed in his vision.

Soon 'Walkman' became a standard word in the English language. It first appeared in the second edition of the Longman Dictionary of Contemporary English in 1987.

The development of the digital Compact Disc showed the same story of courage and vision. Again the technical development was shared between Philips and Sony. Philips was the world leader in optical videodiscs and Sony had considerable expertise in digital audio processing. One reason for the success of the audio CD was that both Sony and Philips controlled record companies. Sony had CBS/Sony Records and Philips had the Polygram group.



The Future

Sony's success was based on developing and manufacturing hardware. But, like Microsoft (see Business World archive), they see the future as being in software to be used on their hardware. For this reason, Sony's most recent investments have been software; music, films and television programmes.

Sony has been successful by breaking many of the 'safe' business rules. They have succeeded by taking risks and believing in their own vision. They have not merely asked 'What do customers want?' They asked 'What might customers want in the future?'



Company of the Month: Which?

Which?

Which? and the Consumers' Association

You want to buy a vacuum cleaner, but which one should you buy? Are upright vacuum cleaners better than cylinder vacuum cleaners? What about the new bag-less vacuum cleaners I've heard about? Now we have robot-controlled vacuum cleaners which roam around your house whilst you are at work finding dust and cleaning it up. But what shall I buy? Are the most expensive vacuum cleaners better than the cheap ones? You need to read *Which?* magazine!

Every month the members of the Consumers' Association in Britain receive a colourful magazine called *Which?* Each issue of the magazine reports on tests of 9 or 10 ranges of products. The articles explain the differences between each product and the relative advantages and disadvantages of the products before selecting one or more 'best buy'.

The Consumers' Association started in 1957. Ten thousand members registered in the first month. Two years later the membership was 150,000. Now 700,000 members of the Consumers' Association subscribe to *Which?* magazine.

Which? exists to tackle the issues which that matter to all consumers. They are fiercely independent and don't take funding from government or manufacturers. There is no advertising in their magazines or on their website. Everything is paid for through the subscriptions to the magazines and the sales of books.

These publications help consumers to make the right choices when buying products and services. They tell consumers their rights and expose wrongdoing by companies. *Which?* also campaigns to stop businesses ripping off or endangering customers.

What has the Consumers' Association achieved?

- encouraged consumers to switch their accounts away from the big high street banks towards on-line banking services and banks started by building societies.
- promoted the use of lead-free paints on children's toys.
- promoted the use of safer electric blankets.
- persuaded the government to introduce a law making seat belts obligatory in all vehicles carrying children.
- exposed the over-priced UK car market and campaigned for cheaper car prices.
- encouraged users to change their suppliers of gas and electricity to find cheaper prices.

But is the Consumers' Association really successful? In a country with a population of nearly 60 million people is a magazine with sales of less than a million really help consumers to make the right choice?

There are Consumers' Associations in many countries around the world. For example, the China Consumers' Association campaigned last year about the charges for bank debit cards. The Consumers' Association of Canada's magazine *Aware* reported on buying vegetables. The Australian Consumers' Association's magazine *Choice* reported on Barbecues, Digital Cameras, and Washing Machines. In Ireland, the Consumers' Association's magazine *Consumer Choice* reported on the impact of adopting the Euro.

Consumers' Associations are not restricted to the rich countries of the world. The Consumers' Association of Penang, Malaysia, states its objectives as: *To ensure the right of every consumer to basic needs such as food, housing, health care, sanitation, public transport, education and a clean environment.* They organise many educational programmes in schools and rural areas, teaching children and adult consumers about their rights and helping them to spend their money wisely.

There is a global association of Consumers' Associations called *Consumers International*. It has more than 250 member associations in 115 countries. It was founded in 1960 as the International Organisation of Consumers Unions (IOCU). Its head office is in London and it has regional offices in Malaysia, Chile, and Zimbabwe.

Consumers International campaigns to protect consumers' rights at an international level. They define consumers' rights as:

- the right to satisfaction of basic needs
- the right to safety
- the right to be informed
- the right to choose
- the right to be heard
- the right to redress
- the right to consumer education
- the right to a healthy environment

They recognise that consumers also have responsibilities. Consumers should use their power in the market to drive out abuses, to encourage ethical practices and support sustainable consumption and production.

Websites

Australian Consumers' Association: www.choice.com.au

Consumers' Association of Canada: www.consumer.ca

Consumers' Association of Ireland: www.consumerassociation.ie

Consumers' Association of Iceland: www.ns.is/ns/english/

Finnish Consumers' Association: www.kuluttajaliitto.fi/english.htm

Consumers Association of Penang: www.jeef.or.jp/EAST_ASIA/malasia/CAP.htm

Consumers International: www.consumersinternational.org

Consumers Association in Britain: www.which.net/

Activities

Check your understanding

Are the following statements true or false? Find evidence in the article.

1. *Which?* magazine started in 1957.
2. Advertising in *Which?* magazine is very expensive.
3. You can buy *Which* magazine in newspaper shops.
4. The Consumers' Association campaigned against the introduction of seat belts in vehicles carrying children.
5. The Australian Consumers' Association has a magazine called *Aware*.
6. The head office of *Consumers International* is in London.

Check your answers

Check you understand the meaning of the underlined words and phrases in these sentences. Use your dictionary and your teacher to help you.

1. Now we have robot-controlled vacuum cleaners which roam around your house whilst you are at work finding dust and cleaning it up.
2. *Which?* also campaigns to stop businesses ripping off or endangering customers.
3. promoted the use of lead-free paints on children's toys.
4. the right to redress
5. Consumers should use their power in the market to drive out abuses, to encourage ethical practices and support sustainable consumption and production.

Discussion

1. Have you got a Consumers' Association in your country?

2. What does it do?
3. Is it effective?
4. Are consumers' rights good for business or bad for business?
5. Consumers International say consumers have the responsibility 'to encourage ethical practices'. What does this mean?

Read and discuss

It is ridiculous to say that businesses have responsibilities. Their only responsibility is to make money for their owners and investors. Businesses have no responsibility to their consumers or even their employees.

If you disagree with this statement, write a short statement saying what you think are the responsibilities of business.

Company of the Month: The Music Industry - Part One

This month we examine the business of the music industry. In this first part we examine the early years of the industry from the beginning to the 1950s. The second part will be the Company of the month next month.

Introduction

It was a bright sunny afternoon on April 11th 1902 when a young tenor from the southern Italian city of Naples walked in the Grand Hotel in Milan to meet Fred Gaisberg from the Gramophone Company. Two hours and ten songs later, Enrico Caruso walked out of the hotel with £100 in his pocket.

Amongst the songs he had recorded was the aria *Vesti la giubba* from the opera I Pagliacci by Leoncavallo. This record became the first to sell a million copies around the world. This was the first 'hit record' for the recorded music industry.

£100 was a lot of money in 1902 (About \$10,000 in today's money). But Enrico Caruso was only paid this 'fee' for his performance. He did not get any royalties on the million records which were sold. Of course, we can say that because of this record Caruso became famous all over the world. He was paid to travel and perform in theatres and opera houses all over Europe and in both north and south America.

The music industry is currently in crisis. Incomes from record sales are falling drastically while costs are rising. But, as the following history will show, the music industry has constantly been moving in and out of crisis.

Early beginnings

Since 1806 scientists had been able to record the vibrations created by sound on paper, but they could not play back the sound which they had recorded. In 1877, a self-taught inventor, Thomas Edison, produced the first working phonograph which could record and play back the human voice using Alexander Graham Bell's recently invented telephone mouthpiece both as a microphone and as a loudspeaker. The voice was originally recorded on a thin sheet of tin foil which was wrapped around a solid cylinder. This was quickly replaced with a wax cylinder. During recording and playback this cylinder was turned by hand while a stylus either recorded or played back the voice.

Edison thought his invention would be useful as an answerphone and dictating machine. Edison did not see the entertainment potential of his invention. Early Edison recordings were very noisy and indistinct but soon he had improved the original machine using a battery driven motor to turn the cylinder.

Edison's cylinders could record only a two minute message. Edison experimented with short musical performances but there was no system of reproducing the cylinders to make multiple copies of the original recording. If a singer wanted to make eight cylinder recordings, he had to sing the song eight times!

Edison's cylinder was doomed to failure.

Recorded Discs

In 1888 Emile Berliner a German immigrant to the USA developed a system for recording sound on to flat discs. Originally these discs were made of a soft metal, zinc. Berliner's disks did not produce very good recordings but they had one great advantage. From his original zinc 'master disc' he could make multiple copies of the original recording. Berliner called his invention the Gramophone.

Between 1890 and 1900 Edison's cylinders and Berliner's discs were being used to reproduce voices and music as a curiosity in travelling fair grounds. The record industry as it later became known had not started.

Famous voices were recorded including Queen Victoria and the poet Robert Browning. Florence Nightingale also recorded a message.

Berliner's Gramophone Company started pressing disks using an organic lacquer called 'shellac'. Shellac is collected from a large insect called *Coccus lacca* which lives on trees in India and Southern Asia.

1 Read the descriptions of Edison's cylinder player and Berliner's disk player and match them to the pictures below.



2 Why was Alexander Graham Bell's telephone important for Edison 's player?

1900-1914

The beginning of the 20th century saw the birth of the music industry. The three major companies were the Columbia Gramophone Company, Edison 's National Phonograph Company and the Victor Talking Machine Company. There were still important and expensive battles about copyrights and patents. Mass production of records had started. In 1904 the first 'double-sided' discs with recordings on both sides became available. A ten inch disc increased the possible duration of recordings.

Fred Gaisberg worked for the Phonograph Company in London . He was travelling in Italy when he heard Enrico Caruso singing at the La Scala Opera House in Milan . He approached Enrico Caruso and asked him to make some recordings. Caruso asked for £100. Gaisberg sent a telegram to his head office in London and received the reply "FEE EXORBITANT STOP FORBID YOU TO RECORD STOP". Gaisberg decided to ignore the telegram and used his own money to record Caruso's voice on new 10 inch discs.

Caruso became the most famous operatic tenor in the world and the Phonograph company became rich from by selling more than a million records.

Opera stars such as Caruso, Adelina Patti and Francesco Tamagno were very successful and popular with record buyers. This allowed the Victor Talking Machine Company to consolidate their place as market leader. With new recording contracts, the Victor Company (later HMV) could guarantee famous names singing and playing in your living room. Classical music had produced the recording industries' first stars. People thought that disks had better sound quality because they were louder. In fact, the sound quality from the new cylinder players was technically much better.

People began to see the many problems with cylinders. There were many different designs of cylinders and players. Each player would only play one specific type of cylinder. Also cylinders were far too bulky. for storage.

The "Victrola", a player made by the Victor company was made to look like a fine piece of furniture which people were happy to have in their homes.

Over the next ten years Edison continued to develop his cylinders and players but these new developments could stop the decline in sales.

When the First World War started in 1914, theatres and music halls closed. Many people bought gramophones and discs for their entertainment. A new 'portable' player called the Decca was introduced so even soldiers fighting in the trenches could enjoy music.

2 In what way were cylinder recordings superior to disk recordings?

3 What were the disadvantages of cylinders?

4 Why did people think that disks sounded better?

5 How did the First World War help the music industry?

6 Radio – the first crisis

After the end of the First World War, radio was developed in America and other countries. Now people could get music in their homes without paying for gramophones and discs. The record industry had spent the first 20 years of the century

convincing people that they needed a source of music in their homes, but now they could get live music at home through the radio – and it was free! So, people stopped buying records and players. The music industry had its first big crisis.

In 1928, the first sound movie “The Jazz Singer” was made. It was quickly followed by many more movies with sound. The movies became the ‘talkies’ and the music industry faced another important rival in the entertainment world.

In the business world, the new rich companies were the radio and movie companies. They started to eat up the record companies. The Radio Company of America (RCA) bought the Victor Company to become RCA Victor.

7 Why did the radio cause a fall in sales of records?

The Wall Street Crash

In 1929 there was the Wall Street Crash, - the collapse of the stock market and the beginning of the Great Depression in the USA . Few people had money to spend on entertainment. Larger corporations survived by buying up smaller rivals. In America , Herbert Yates started the American Record Company (ARC) and in Europe , Louis Sterling started EMI (Electrical and Musical Industries).

These business developments and mass production reduced the price of records and record companies started to make more ‘popular’ types of recordings such as jazz and dance music. This was the start of the ‘Jazz Age’ celebrated by writers such as F. Scott Fitzgerald. The traditionally wealthy aristocratic business owners were being replaced by young aggressive businesses in the ‘new’ industries – radio, movies and oil.

8 How did the Wall Street Crash change the faces at the top of big businesses?

1939-1949

At the start of the war in Europe there was an important strike by musicians in America . They felt they had lost money from live performances because so many people were buying recorded music and records were being played on the radio. They demanded ‘royalties’ from the record industry. These royalties would mean that the musicians would receive a small amount of money for each record which was sold.

When the Japanese occupied many areas of South Asia , supplies of shellac became very difficult. Record companies had to search for a new material for making their records. They started making records from a plastic material derived from oil which was called Polyvinyl Chloride (PVC).

In 1948 CBS announced the invention of the ‘long playing’ record (later called the LP). This 12 inch disc was made of PVC and was played at 33½ r. p. m. (revolutions per minute). This new LP could have as much as 30 minutes of music on each side.

Quickly, RCA Victor, the rival company of CBS announced a new style of disc. This was a 7 inch disc which turned at 45 r. p. m. and could play about 3½ minutes of music on each side. The RCA Victor format became known as the ‘single’ because it usually contained one song on each side.

These new disc formats meant that in the post war period people had to buy new ‘record players’ (the word gramophone had become old fashioned). These new record players could play the old 78 r.p.m. records as well as LPs and singles. Some of the new LPs were in stereo so people needed two loudspeakers instead of one.

The industry was ready for the sales explosion in the late 1950s and 1960s.

- ***Why did the musicians in America go on strike?***
- ***How did the Second World war lead to the production of PVC vinyl records?***

Discuss

The early years of the music industry were dominated by expensive legal battles about patents between Edison , Bell , Berliner and other inventors. Do you think innovation is better when inventors collaborate or when they compete?

When the record industry started their first successes were with opera and classical music. Later their profits came from popular jazz or dance music. Can you suggest a socio-economic reason for this change?

Tune in next month for the second part of our in-depth look at the music industry ...

You can learn more about the history and hear some wonderful early recordings at: www.edisonnj.org/menlopark/birthplace/johnson.asp and www.bbc.co.uk/music/features/vinyl

Company of the Month: The Music Industry - Part Two

Last month we looked at the early years of the music industry. This month we bring the story up to date.

Elvis and the Beatles

In 1954 a band leader called Bill Hailey recorded a song called "Rock Around the Clock". The song was developed into a popular film and rock and roll had arrived. From the southern states of the USA the dramatic singing voice of Elvis Presley arrived.

In England, a young group of four musicians from Liverpool called the Beatles signed a contract with EMI in London. Their first record *Love Me Do* was an immediate success. The combination of the recording genius of record producer George Martin and the song writing partnership of John Lennon and Paul McCartney made the Beatles into the biggest success in the history of the music industry.

In America, the Beach Boys and in Britain, the Beatles explored the possibilities of recording on magnetic tape in the studio before delivering their music on LPs and singles.

1967 was the summer of love. The Beatles released an LP called *Sergeant Pepper's Lonely Hearts Club Band*. The summer was warm and people were happy.

1 How does the success of the Bill Hailey, Elvis and the Beatles suggest changes in the profile of the typical record buyer? (older or younger?)

2 What was happening in your country in 1967 during the summer of love? Did you see similar socio-economic changes?

The Magnetic Menace

The same magnetic tape which was being used in recording studios became available in a plastic cassette. For the first time, people were able to copy and 'share' their records. In Japan, the Sony corporation developed the Walkman, a small battery powered cassette player which could be carried around while the user listened to high quality stereo sound on headphones.

The invention of the cassette was the beginning of another crisis for the music industry. People could record songs from records, the radio or television and sales of records which had been very high in the 1960s and 70s began to decline.

- **The Walkman was the first of many popular technological developments from Japan. A later one was the Sony Betamax video system. Do you know or remember why it failed even though it was technically superior to the successful VHS system?**

Digital sound – another technology

The music industry always welcomes a new format. New formats are a chance to sell new music players. New formats are an opportunity to re-issue old recordings from the library in the new format.

Up to this time all recording systems had been analogue. This means they had tried to copy the vibrations made by sounds on to the grooves of a cylinder or disc, or record them as magnetic pulses on a recording tape.

The new format converted sounds into a series of numbers so it was called 'digital'. The first popular digital format was the CD.

The CD was developed by Phillips in Europe working with the Sony Corporation in Japan . The CD was a small plastic disc which was 'read' by a laser light and converted into sound. The CD produced 'pure sound'. There were no crackles from imperfections in the record. There was no hiss from the tape.

For a few years, the music industry was happy. People bought millions of CDs of new music and also bought millions of CDs to replace their old LPs – their vinyl library.

Another reason for the music industry to be happy was that the public could not record on to the CD discs. They were forced to buy CDs produced by the music industry.

4 What was the first CD you bought? Tell your friends about it.

Recordable CDs, the Internet and a new crisis

CDs were also useful in the computer industry because they could be used for delivering enormous amounts of data in a convenient format. The CD player became an important addition to many home and office computers.

With the invention of the recordable CD computer users were quick to realise that they could not only use these to record computer data, they could also be used to copy published CDs of music.

At the same time, the development of high speed internet connections made it possible to 'send' music in a digital format to all your friends.

Sharing music

When you buy a record of music, you purchase the right to listen to that music as many times as you like. But you do not have the right to copy that music on to a tape recorder, cassette, CD or computer hard disk. The music industry is protected by copyright and as we have seen, musicians have fought for the protection of the copyright laws which allow them to earn royalties from their recordings.

When you copy a CD, you are stealing money from the performers, composers, engineers and the record company which produced the CD.

Many people believe that they have the legal right to convert recorded music from one format to another. This started when people started copying their LPs on to cassettes. Later many people copied their music collection from CDs on to the hard disk memories of their computers.

Using the internet, people could connect their computer to another person's computer. Soon 'music sharing groups started. Sandra tells the group she has the new CD by Robbie Williams which she has copied on to her hard disk. Another member of the group, Peter wants this music. He connects his computer to Sandra's computer and copies the recording. If there are 5,000 members of the group, Robbie Williams, his musicians, engineers and his record company lose 5,000 possible sales of his new CD.

One of the groups, Napster claimed to have 28 million registered users.

The music industry attacked these music sharing groups with major court cases. The courts decided in favour of the music industry and said the music sharing groups were breaking the law.

Licensed music sharing

Now Napster and many other groups have become 'licensed' music distributors. Users pay a nominal fee of about 99 cents (US) for each song they record from the group.

The music industry have now started their own websites where people can download music for a small fee.

Has the record finished?

It is too early to say whether the record (cylinder, 78 disc, LP, single or CD) has finished. Millions of people work in the music industry as engineers, composers, song writers, producers, musicians, designers, manufacturers, publicists, distributors, or shop assistants in record stores.

The music industry is changing while you are reading this article. Who knows what form it will have in ten years from now?

- **What are your predictions for changes in the music industry?**
- **Some people have suggested that the music industry's court case against Napster and other sharing groups was an attempt to stop the natural development of the market through normal market forces? Do you think the music industry was trying to retain old-fashioned ways of doing business or were they correct?**

Company of the Month: Craze Marketing and the Crazy Frog

Britain has been invaded by frogs, or, to be precise, Britain has been invaded by the Crazy Frog. The crazy frog is a digital animation, a ring tone for mobile telephones and also a hit record. Many people find the image and the sound very annoying. The catchy tune gets into your head and you can't get rid of it. The Crazy Frog is everywhere!



In the first three weeks of May, the Crazy Frog appeared on television 36,382 times, an unprecedented level of exposure. The frog appeared in advertisements for the Crazy Frog ringtone and when the record was played on music shows. The music, which is a remixed version of the theme from the Eddie Murphy film, *Beverly Hills Cop*.

Music lovers complain that the Crazy Frog has dominated the Top Ten, pushing groups like Coldplay off the number one position.

The Crazy Frog advertisements started on satellite television channels but soon moved to mainstream terrestrial television channels.

Many adults really hate the Crazy Frog. Articles in newspapers have called him 'the ugly amphibian which is driving the nation mad with irritation', but they have admitted that he is 'insanely popular'. Lots of people have complained to the Advertising Standards Authority that they cannot escape from the Crazy Frog. *Marketing Weekly* says that after more than 1,200 complaints to the A.S.A., it is the most unpopular advertising campaign.

A company called Mobile 9 has had great success with a little downloadable video which shows the Crazy Frog being destroyed.



The Advertising Standards Authority has responded that it can do nothing. The A.S.A. regulates the truth, honesty and legality of advertisements; it does not regulate the frequency of advertisements, even if they are very irritating. The advertising industry, which has been going through a very bad period, is very happy that a client is spending so much money on buying advertising spots.

One report suggests that Jamster, the creator of Crazy Frog, has spent more than £10 million on television advertising. At the same time, music programmes playing the Crazy Frog record are giving even more free publicity.

Of course, Jamster is very happy with all these complaints from adults. There is an old rule that 'There is no such thing as bad publicity'. Every newspaper or magazine article, every television discussion of the phenomenon gives more publicity to the ugly amphibian. Jamster is rubbing its hands all the way to the bank.

It is not hard to figure out why the Crazy Frog is successful. The more he irritates the grown-ups, the more the teens in the target market are going to love it. The Crazy Frog is loved by teenagers and they love anything which irritates their parents and teachers.

How is Jamster making money?

We all know that mobile telephones are popular with young teenagers. The advanced technology of the latest mobile phones means they can play polyphonic music, take still photographs and even record and show short video clips on their tiny screens. For a long time the mobile phone industry have been searching for a 'killer app.' an application of this technology which will bring in a lot of money.

A number of companies have developed which sell ringtones. Ringtones are the noises your telephone makes to alert you that there is a call for you. Popular ringtones have been developed from pop records, television and film themes, football chants and even emasculated classical music. A considerable industry has developed through the sale of these short musical compositions.

The unit price of an individual ringtone is quite cheap – about £3. The industry has recognised that it can make more money by creating a fashion craze for particular ringtones. The beauty of any fashion craze is

that its period of popularity is very short. While it is popular, the industry makes a lot of money. When it becomes unpopular, the industry makes even more money by selling the next fashionable ringtone.

Brands and Crazes: brands

In the olden days, when we lived in agricultural communities, there were no brands. We produced a lot of the food we ate, and we bought the things we didn't produce from our friends and the neighbours we trusted. Brands began after the industrial revolution, when large populations moved from the country to large urban conurbations. These people no longer produced their own food. They bought things in shops. The goods were usually not packaged or branded.

A lot of shops started to sell 'poor quality' products. Customers began to distrust the quality of the products they were buying. The first brands were invented as a 'guarantee of quality'. Customers could feel safe that if they bought *Sunlight* soap, they were buying a safe and reliable product.

Today, brands have a similar function as a guarantee of quality. But brands have become more than just a simple guarantee. The brands you buy define who you are. Your preferred brand is an indication of your status. Talk to any user of an Apple computer. Secretly or openly, they believe that they are different and slightly superior to Windows users.

Apple, in their advertising, have reinforced this distinctive image. Apple are not the mainstream computers. When you buy an Apple computer, you are saying that you are not an 'ordinary', mainstream person.

The motor industry discovered, many years ago, that they were not selling metal boxes on wheels, they were selling status, they were selling dreams. Brands became very important. In Britain, Rolls Royce became associated with luxury and success. If you owned a Rolls Royce, everyone would know you were successful. If you were successful, you were almost 'obliged' to buy a Rolls Royce.

A good brand should have a long life. Think of the major brands which surround you. Most of them are old, long-established brands. The value associated with the brand is worth a lot of money to the company which owns it. A brand is not a product. A brand is an idea.

Brands and Crazes: crazes

The idea of craze marketing is as old as marketing itself. Craze marketing is very different from brand marketing. When we establish a brand, it is a deliberately pitched concept that is, by its very nature, a one-hit-wonder or one-season-wonder.

A craze is a short attractive (or in the case of the Crazy Frog, an irritating) idea which is designed to have a short but successful life. Craze marketers are not planting a forest of oak trees which will mature in 500 years. They are planting a Leylandii hedge which will grow six feet tall in one year.

FutureBrand European chief executive, Patrick Smith, says: "I think that a craze has to be planned. Twenty years ago you could rely on guerrilla marketing and word-of-mouth to launch a product, but I don't think you can do that any more. Jamster is a perfect example of a deliberately planned campaign.

Last year, Jamster took more ad spots each month than any other advertiser; although this was only across niche cable and satellite channels (such as MTV). Then earlier this year Jamster changed its tactics and started to buy advertising spots on mainstream ITV1, taking 3,000 spots on the channel in the first two weeks of May. In the same period, Jamster carpet-bombed us with a total of 42,000 advertisements on all the different channels.

This policy has clearly been very successful. They have sold lots of ringtones and millions of records. But as we shall see in next month's 'Company of the month', this success has led to a backlash, a negative reaction which may lead to legal problems for Jamster.

Activities:

1 Before you read the text

What noise does your mobile telephone make to alert you when you have a call? Would you consider buying a different noise? How much would you be willing to spend?

2 Vocabulary

Look at these extracts from the text. Check that you understand the meanings of the words and expressions underlined.

- The catchy tune gets into your head and you can't get rid of it.
- but soon moved to mainstream terrestrial television channels.
- the ugly amphibian
- discussion of the phenomenon
- Jamster is rubbing its hands all the way to the bank.
- The more he irritates the grown-ups, the more the teens in the target market are going to love it.
- they can play polyphonic music
- the mobile phone industry have been searching for a 'killer app.'
- and even emasculated classical music
- when large populations moved from the country to large urban conurbations
- they were buying a safe and reliable product
- Most of them are old, long-established brands.
- It is a deliberately pitched concept
- They are planting a Leylandii hedge
- Twenty years ago you could rely on guerrilla marketing and word-of-mouth
- Jamster carpet-bombed us

3 Discussion:

"A brand is not a product. A brand is an idea."

How true is this statement? Think of the international brands below. What ideas do you associate with them? Write adjectives beside each brand name.

- Volvo – safe, reliable, expensive, conservative, comfortable
- Virgin
- Marlboro
- Bacardi
- Gucci
- Disney
- Xerox
- Lufthansa
- Sony

4 Case study

Think of successful and unsuccessful examples of craze marketing in your region. What are the characteristics of these campaigns?

Company of the Month: Penguin Books

In this month's Company of the month we are going to look at Penguin Books. Penguin is one of the most recognized brands in the world of publishing. Penguin started as part of the Bodley Head publishing company in 1935, so this year Penguin celebrates its 70 th birthday.



In 1935, if you wanted to read a good book, you had to have either a lot of money or a library card. Cheap paperbacks were available but they were of very poor quality – the paper and printing were poor and the quality of the text was poor.

“Allen Lane did not invent the paperback, but he did realise its potential.”

One weekend in 1935, Allen Lane travelled from London to Exeter where he would have a meeting with Agatha Christie, the writer of crime stories. In 1935 the train journey to Exeter took more than four hours. When Allen Lane was at Exeter Station for his return journey, he was looking for something to read on the train. All he could find were popular magazines and reprints of Victorian novels.

With nothing to read during the journey, Allen Lane thought about the publishing business and his problems at Exeter station. He decided to produce a series of cheap, modern books which might be suitable for travellers.

Back in his office he explained his idea to his secretary Joan Coles and asked her to suggest a name for the series. He said he wanted something ‘dignified but flippant’, perhaps the name of an animal or bird. Joan Coles suggested a penguin. An artist was sent to London Zoo to do some sketches of penguins. Soon one of the most popular logos was created.

The first Penguin books were a risky business venture. In 1935 most serious books cost about 8 shillings. Allen Lane wanted to sell his books for sixpence – one sixteenth of the price of a normal hard cover book.

Allen Lane told the *Bookseller* magazine in 1938.: “I would be the first to admit that there is no fortune in this series for anyone concerned. ... These Penguins are a means of converting book borrowers into book buyers.”

Allen Lane was referring to the fact that many readers borrowed their books from public libraries. They did not buy books for themselves.

The reactions from authors varied.

If a book is any good, the cheaper, the better . George Bernard Shaw.

The Penguin books are splendid value for sixpence, so splendid that if other publishers had any sense they would combine together and suppress them .
George Orwell.

These Penguin Books are amazingly good value for money. If you can make the series pay for itself, you will have performed a great publishing feat . J. B. Priestly

Well, the first Penguins were a great success. Within twelve months Penguin had sold a staggering 3 million paperback books.

Allen Lane claimed he was not surprised by the success. “*There are many who despair at what they regard as the low level of people's intelligence. We, however, believed in the existence in this country of a vast reading public for intelligent books at a low price.*”

In 1937 Penguin Books moved to new offices and a warehouse at Harmondsworth, near what is now Heathrow Airport . From this enormous warehouse, they could distribute books to railways stations and shops around Britain .

As World War II drew closer Penguin published special books to inform and educate the public. *Searchlight on Spain* and *What Hitler wants* achieved record-breaking sales. After the war started *Aircraft Recognition*

was a popular handbook for both the military and civilians. Through the war, despite shortages of paper, Penguin continued to publish.

A Penguin could fit into a soldier's pocket or kitbag. It was especially prized in prison camps.
Martin Bell.

Penguin books made up for the shortage of entertainment during the war years.

In the years after the war had ended Penguin continued to publish controversial books. In 1960 Penguin Books was charged under the Obscene Publications for publishing *Lady Chatterley's Lover*, a novel by D. H. Lawrence. This novel contains detailed descriptions of sexual games between Lady Chatterley and her gamekeeper Mellors. In the court, the prosecuting lawyer asked the jury 'if this is a book you would let your wife, your daughter or even your servants to read.' The jury (who probably had no servants) clearly thought the prosecution was out-of-date and decided in favour of Penguin Books. In six weeks, Penguin sold 2 million copies of *Lady Chatterley's Lover*.

Penguin has continued to be one of the most successful publishers in Britain . As it celebrates its 70 th birthday, tributes have come from many parts of the world.

"Penguin has done more for the education and cultural uplift of the country than all the universities and their teachers combined. "

"Penguin paperbacks offer high culture at low cost."

"I went to a good school and two good universities, but I learnt more from Penguin than from any teacher or lecturer."

Activities

- **Read the text as quickly as you can and find the answers to these questions.**
 - How old is Penguin this year?
 - 20
 - 50
 - 70
 - Who did Allen Lane go to Exeter to see?
 - Agatha Christie
 - Joan Coles
 - George Orwell
 - What did he want to buy at Exeter station?
 - Something to drink.
 - Something to eat.
 - Something to read.
 - Who thought of using a penguin for the series?
 - Agatha Christie
 - Allen Lane
 - Allen Lane 's secretary
 - How much were the first Penguin Books?
 - one sixteenth
 - six pence
 - 8 shillings
 - Did Allen Lane expect to make a fortune?
 - Yes
 - No
 - Who said Penguin Books were "amazingly good value"?
 - George Bernard Shaw
 - Allen Lane
 - J. B. Priestly.
 - How many books did they sell in the first year?
 - 25
 - one million
 - three million
 - Where is Harmondsworth?
 - in London

- near Exeter
 - near Heathrow
- Who was Lady Chatterley's lover?
 - Mellors, her gamekeeper
 - George Bernard Shaw
 - D. H Lawrence
- ***Now read the text again more carefully and answer these questions.***
 - How did most people who had little money manage to read good books in 1935?
 - Why were Penguin books 'a risky business'?
 - Why do you think George Orwell said publishers should suppress Penguin Books?
 - How did Allen Lane want to expand the market for books?
 - Why did Allen Lane think he would succeed?
 - Why did Penguin sell so many copies of Lady Chatterley's Lover?
- Discuss:
 - One of the normal principles of business is that you should charge the highest price the market will bear whilst giving you the turnover and profits you require. Did Penguin follow this principle? If not, why was it successful?
 - Some people say the book is dead. In future all text will be distributed on line digitally. People will download and print their own books. Do you think this will happen?
 - It was said that the technological invention which has changed the world in the invention of the book – cheap, portable, easily accessible knowledge. Do you agree?

Company of the month: Supermarkets

Introduction

One of the secrets of a successful business is to understand your customers' needs, personalities and purchasing habits. If you can predict what your customers will want to buy, you will have time to supply the goods when the customers want to purchase.

Supermarkets have turned understanding their customers into a science.

Secrets of layout

The goods in supermarkets are on open shelves rather than being behind a counter as in traditional shops. The temptation for customers to steal goods is much greater. For this reason, supermarkets were the first type of shop to install closed circuit television cameras [CCTV] to watch the customers.

The CCTV reduced theft from supermarket shelves but also provided fascinating evidence about customer behaviour. By studying hours of video tapes of customers moving around the shops, supermarkets were able to gain insights into customer behaviour. These insights have influenced the design and layout of supermarkets.

Decompression zone

The experience begins when you first enter the supermarket. You enter what they call the 'decompression zone'. This area is warmer than outside and is designed to make you feel comfortable and unstressed. There may be relaxing music playing quietly on the public address system. The entrance is a dead zone in commercial terms because customers are not yet ready to purchase. Customers enter a supermarket at normal walking speed and do not slow down until they are through the decompression zone.

Look right

75% of customers look towards the right after entering a supermarket. This is a good reason to place the most attractive offers on the right rather than the left.

Dwell zone

Often you will find an area selling newspapers, magazines close to the entrance. This 'dwell zone' encourages you to browse the shelves and make some impulse purchases before your real shopping begins. This zone may also contain DVDs, CDs and books.

Music, books and films for adults are placed on higher shelves. Things which children will like are placed on lower shelves where children can easily pick them up. This is not just to 'protect' children from the temptations of adult content magazines on the top shelf, it means that while the adult's eyes are on the higher shelves selecting a CD, the children are putting their favourite items into the shopping trolley.

Fruit and vegetables

Making 'fruit and vegetables' the first food department is not designed for the convenience of customers. If you put soft fruit or vegetables into the bottom of your shopping trolley, they will be crushed by your later purchases. But supermarkets have realised that the psychological attraction of good health, freshness and quality which is associated with this section is very strong. It is so strong that it influences your purchases in that department and continues as you move through the store.

Gondola Ends

As we reach the end of an aisle we have to slow down to direct our trolley around the corner. As we make the turn our eyes fall on the items displayed at the end of the 'gondolas'. A gondola is a free-standing shelving unit. These are 'hot spots' for supermarkets. They are the most profitable shelves for the supermarket. A great place for impulse purchase items or 'something special' which will make your family happy.

Themed aisles

Supermarkets exploit seasonal purchases by having aisles which are themed to seasonal items. "It's barbecue time" the aisles will tell you, and you will find barbecues, firelighters, picnic plates, kebab skewers, aprons and gloves all in the same place. You will have to resist the temptation to purchase for the barbecue which was not in your mind before you entered.

In the same way, we are prompted to purchase items for Christmas, Easter, 'Back-to-school', Father's Day and so on, by the supermarket's themed displays.

Essentials

You will always need to purchase bread, eggs, and milk. These essential items are displayed deep into the supermarket so you even if you only intended to purchase these essentials you will have to pass many temptations before you reach the shelves where they are sold.

Shelf positioning

The positioning of items on a shelf has been studied in great detail. We read shelves in the same way as we read books, from left to right. Our eyes remain longest on items on the right, so the most expensive brands are always on the right. The cheapest brands are often hard to see on low shelves because the supermarket wants you to purchase the expensive brands at eye-level.

Soap, detergents and cleaning products

These are important items in any shopping trolley and they make an important contribution to supermarket profits, but they must always be placed near hardware, toilet paper or other non-food items. This is because the artificial perfumes added to these products can very easily contaminate the taste of food.

Alcohol

Alcohol is always the last aisle before the checkouts. Supermarkets try to communicate a fresh, healthy image. When you have filled your trolley with fresh healthy food, you can feel less guilty about indulging yourself with some alcohol.

At the checkout

Supermarkets know their customers don't like queuing at the checkout (in fact some supermarkets monitor the number of customers at the entrance and adjust the number of checkouts open). But the customer standing in a queue at the checkout is stationary and therefore a tempting prospect for any supermarket. Can the customers be tempted with car insurance, holiday offers, savings plans, internet connections or mobile phone cards? It is more difficult to sell these items to a moving customer, but a bored, stationary customer might pick up a leaflet and make a purchase.

And of course, while the adult is reading about a cheap holiday in the sun, the children are grabbing sweets from low level displays and adding them to the trolley.

Bar-coding and stocking

Since every item in the supermarket carries a unique barcode, and that barcode is scanned at the checkout, at any moment in the day, the supermarket can know precisely how many tins of Heinz Baked Beans it has on its shelves. All businesses lose money through goods which are tied up in stock. The computer-checked bar coding used by supermarkets means that they can keep very strict controls of their stock levels and therefore control their overheads whilst providing a reliable guarantee of availability to their customers.

Pricing

'Pile it high, sell it cheap' used to be the motto of the first supermarkets. Today, their attitude to pricing is much more sophisticated.

If we accept that the main function of supermarkets is to collect the largest amount of money from customers as possible we can begin to understand the pricing policy.

Again, if we accept that there is no significant difference between products in different price bands, we would naturally prefer our customers to buy the more expensive brands.

Supermarkets have realised that they should always make it easy for customers to 'trade up' and buy a product which is slightly more expensive than their normal purchase. For this reason, supermarkets very often offer four brands of a single product ranging from the cheapest to the most expensive. Each brand is priced carefully so that it is a small pricing step away from the higher priced brand. Customers are discouraged by big differences in prices, but a small pricing step encourages them to trade up.

KVIs and pricing

With the thousands of items available in a large supermarket, it is impossible for customers to keep track of what is a reasonable market price for every type of product. Supermarkets have discovered that there are a limited number of KVIs – known value items such as bananas, milk, bread, baked beans. Supermarkets are happy to offer the lowest prices for these KVIs to bring customers into the shop where they can then sell them products which produce better profits.

BOGOFs and special offers

BOGOF is the acronym for 'buy one get one free'. A BOGOF is an attractive type of special offer which tempt customers to buy more than they need whilst believing the supermarket is their 'friend'. It is also good for shifting stock quickly.

Supermarkets use special offers to bring focus on to a product and drive profits through increased sales.

The customer should be wary of special offers and carry a pocket calculator to assess the actual value of the offer.

We are offered £1 off the price of mushrooms. Is that a bargain? Yes, it would seem to be a good offer until we realise that it is £1 off the price of a kilo of mushrooms. Few customers would buy more than 200 grams, so the reduction has very little meaning.

Beware of shrinking products. The *Mars* chocolate bar used to be a KVI amongst children. The only way the manufacturer could increase profits was by gradually reducing the size of the product. After doing this over a period of years, they could return with a higher priced 'monster' Mars bar which was only slightly larger than the original product.

Loyalty cards and data collection

Supermarkets love 'loyal', returning customers who do not stray to inspect other supermarkets. Loyalty cards are a great way to give your customers the incentive to return. Every pound you spend with a supermarket gives you some 'points' on your loyalty card. These 'points' are converted into discount vouchers and special offers which are mailed to the customers at home.

Customers feel it would be a criminal waste of money to throw away these vouchers and offers, so they are kept at home where they shout at the customer to go out and spend more money while using their vouchers.

The loyalty cards look like credit cards and they are scanned at the checkout. In fact, they are just a subtle way to collect information about the customers. Your purchases are your personality. Your loyalty card is the doorway into your brain for the supermarket.

Time management tip

Since you have given your time to reading this article, let me reward you (for your loyalty) with a time management tip. Always make a shopping list before you go to a supermarket. Make a map of the layout of the supermarket aisles and list the items on your shopping list in the order you will purchase them. This means you can rush past all the other products saving time and the money you would spend on unnecessary purchases.

And finally...

Never ever go to a supermarket when you are hungry!

Activities

A Check your understanding of these abbreviations.

BOGOF	KVI	DVD	CD	CCTV
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B

- Where, in a supermarket will you find:
- Gondola ends
- Checkouts
- Essentials
- Soap and detergents
- Newspapers and magazines
- Offers for car insurance
- Alcohol
- Decompression zone
- Fruit and vegetables

C Draw a plan of a supermarket you know well and check how far the rules of supermarket layout apply.

D Supermarkets have used new technology – CCTV, bar codes, electronic loyalty cards to improve their profits. How could new technology benefit your business?

E Supermarkets have invested time and money in learning about their customers and their behaviour. What would like to know about your customers? How could you obtain that information? How would you use the information?

Global or Local food, which is better?

Globalisation in the food industry has brought many benefits. Our food is cheaper, tastier and more varied. In the past our diet was governed by the seasons of the local climate. Green vegetables were cheaper and more abundant in the spring and early summer. Root vegetables and fruits arrived later in the late summer and autumn.

People say that in the past our diet was healthier but before the globalisation of the food industry, winter was always a time when people were thinner and less well-nourished. It was much more difficult to find good food during the darker, colder months.

Since the globalisation of the food industry our diet is not controlled by our local climate. Strawberries may be more expensive in the winter than they are in the summer, but they are in the shops and we can buy them. Our winter strawberries have come from countries where the weather is warmer. Our winter strawberries are expensive but not too expensive because they come from countries where farm workers earn less money.

Globalisation has made life better in the richer, colder parts of the world. The poorer, hotter parts have developed their farms, plantations and food production industries. This has reduced unemployment and given people larger incomes than they had before. The globalisation of the food industry seems to have made life better for everyone.

Many people are not very happy that food travels so far from the field to the plate. They have started to measure the 'food miles' in our diet. Nearly half of the vegetables we buy in Britain have come from other countries. When we look at fruit the percentage is even greater. 95% of our fruit is imported. Nearly one third of the goods travelling on British roads are vehicles transporting food.

The opposite of globalisation is localisation. Consumers are asking for more locally produced food products. They say that local food products are fresher and healthier. Local food products are better for the environment because they have travelled fewer food miles. People who buy local food products feel they are getting premium products and supporting local employment.

1) Read the text and write the correct comparative forms of these adjectives.

- | | |
|--------------|----------------|
| a) cheap | <u>cheaper</u> |
| b) tasty | _____ |
| c) varied | _____ |
| d) abundant | _____ |
| e) late | _____ |
| f) healthy | _____ |
| g) thin | _____ |
| h) difficult | _____ |
| i) dark | _____ |



- j) cold _____
- k) expensive _____
- l) warm _____
- m) good _____
- n) rich _____
- o) poor _____
- p) hot _____
- q) large _____
- r) great _____
- s) fresh _____

2) thinner = less fat. Make comparative adjectives with *less*.

- a) cheaper less expensive
- b) thinner _____
- c) more difficult _____
- d) darker _____
- e) colder _____
- f) more expensive _____
- g) better _____
- h) richer _____
- i) poorer _____
- j) larger _____

3) too expensive = not cheap enough. Make opposite using *not ADJECTIVE enough*.

- a) too poor not rich enough
- b) too cold _____
- c) too far _____
- d) too dark _____
- e) too bad _____
- f) too hot _____



4) Read the text again carefully. Mark the statement true or false according to the ideas in the text.

- | | |
|--|-----|
| a) Since the globalisation of the food industry food is less expensive. | T/F |
| b) Our diet is more varied thanks to globalisation. | T/F |
| c) Our diet is more seasonal since globalisation. | T/F |
| d) Green vegetables were not scarce in spring and summer. | T/F |
| e) Fruit and root vegetables arrived later than green vegetables. | T/F |
| f) In the past, people were better-nourished during the winter. | T/F |
| g) Winter strawberries are grown in places where the climate is less cold. | T/F |
| h) In poorer, hotter countries farm workers earn more money. | T/F |
| i) Globalisation has improved life in the richer, colder parts of the world. | T/F |
| j) Globalisation means that food does not travel as far as before. | T/F |
| k) More than 50% of the vegetables eaten in Britain are imported. | T/F |
| l) Local food does less damage to the environment. | T/F |

